WOODWARD



FISCAL YEAR 2023 THIRD QUARTER RESULTS

July 31, 2023

Q3 FISCAL YEAR 2023 AGENDA

INTRODUCTION

Dan Provaznik

STRATEGIES & MARKET REVIEW

Chip Blankenship

FINANCIAL RESULTS & OUTLOOK

Bill Lacey

PROPRIETARY

CAUTIONARY STATEMENT

Information in this press release 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, our expectations of continued strong end market demand, the continued improving performance of our Aerospace and Industrial businesses and increasing output; our improving ability to deliver for our customers; our operational improvements and efficiency gains; the achievement of our price realization target; raw material delivery risks and associated actions we are taking; anticipated increases in worldwide defense procurement and research and development activity; and statements regarding our business and financial outlook for the remainder of fiscal year 2023, including our guidance for sales, adjusted earnings, adjusted earnings per share, segment sales growth, segment earnings as a percent of sales, adjusted effective tax rate, adjusted free cash flow, and capital expenditures as well as our assumptions regarding our outlook. 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) global economic uncertainty and instability, including in the financial markets that affect Woodward, its customers, and its supply chain; (2) risks related to continued constraints and disruptions in the global supply chain and labor markets; (3) Woodward’s long sales cycle; (4) risks related to Woodward’s concentration of revenue among a relatively small number of customers; (5) Woodward’s ability to implement and realize the intended effects of any restructuring efforts; (6) Woodward’s ability to successfully manage competitive factors including expenses and fluctuations in sales; (7) changes and consolidations in the aerospace market; (8) uncertainties related to the COVID-19 pandemic; (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 and risks 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, 2022, 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, 2023, which we expect to file shortly, and other risks described in Woodward’s filings with the Securities and Exchange Commission.

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Q3 FISCAL YEAR 2023 SUMMARY

SALES UP 30%

- STRONG END MARKET DEMAND
- INCREASED OUTPUT
- PRICE REALIZATION

EARNINGS IMPROVEMENT DRIVEN BY

- HIGHER VOLUMES
- PRICE REALIZATION
- PARTIALLY OFFSET BY ANNUAL INCENTIVE COMPENSATION

ADJUSTED FREE CASH FLOW[1] OF $103M IN FY23 YTD

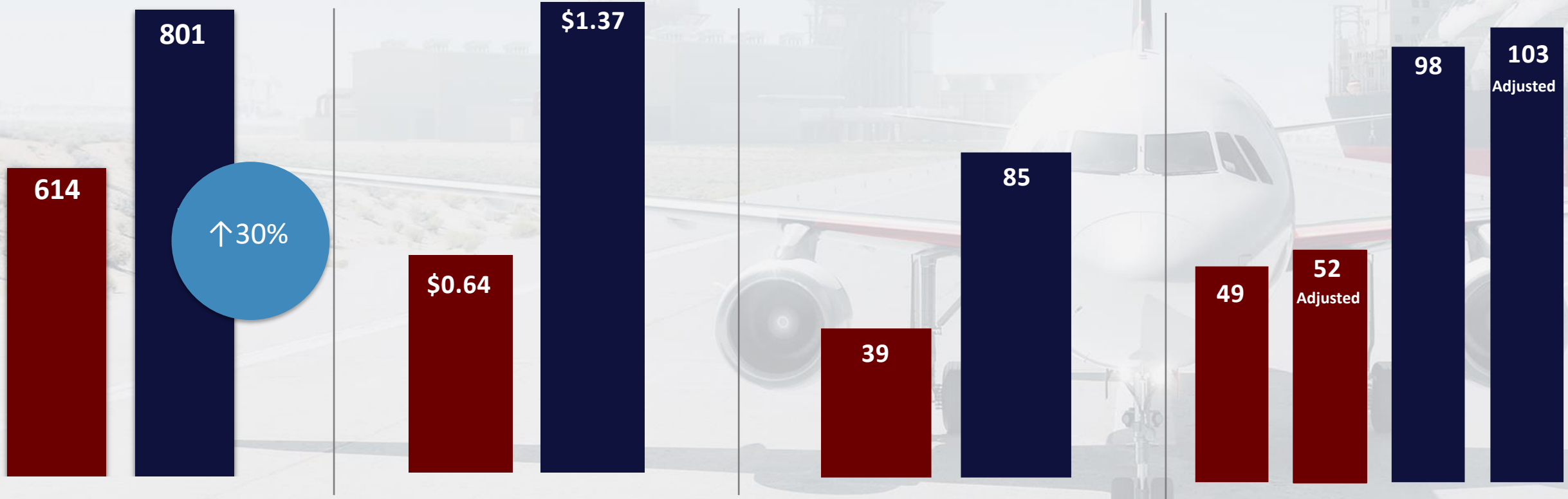
1.7 TIMES LEVERAGE

RETURNED $64M TO SHAREHOLDERS IN FY23 YTD

- $26M IN SHARE REPURCHASES
- $38M IN DIVIDENDS

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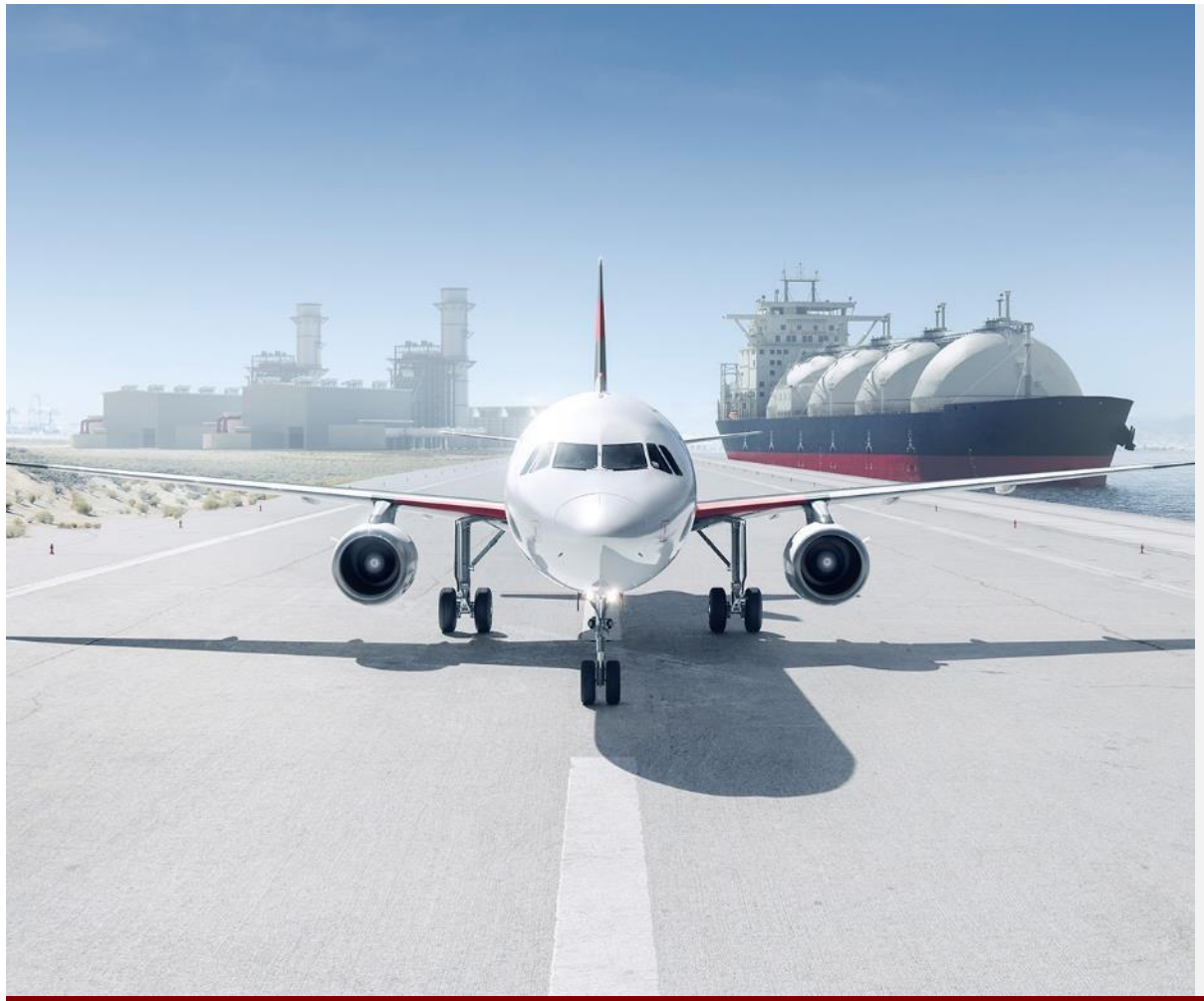
Q3 FISCAL YEAR 2023 CONSOLIDATED RESULTS



FY22 FY23

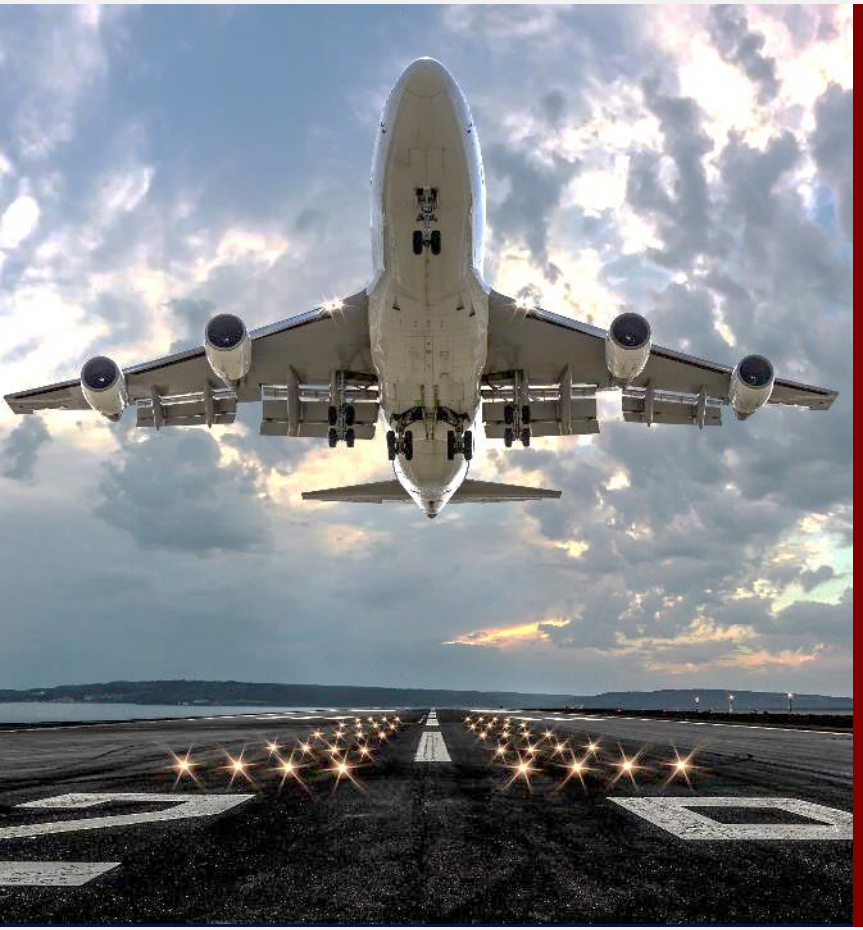
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AEROSPACE OVERVIEW

AEROSPACE - COMMERCIAL



COMMERCIAL OEM

- 41% sales increase over the prior year quarter
- Higher OEM build rates
- Price realization

COMMERCIAL AFTERMARKET

- 28% sales increase over the prior year quarter
- Continuing passenger traffic recovery in all regions - both domestic and international
- Increased fleet utilization
- Price realization

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AEROSPACE - DEFENSE



DEFENSE OEM

- 12% sales decrease over the prior year quarter
- Decline in guided weapons
- Other programs are steady

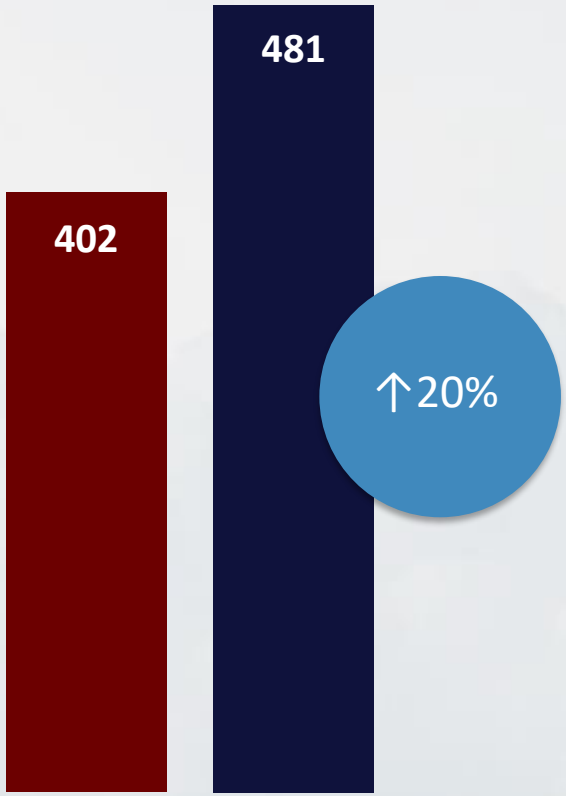
DEFENSE AFTERMARKET

- 17% sales increase over the prior year quarter

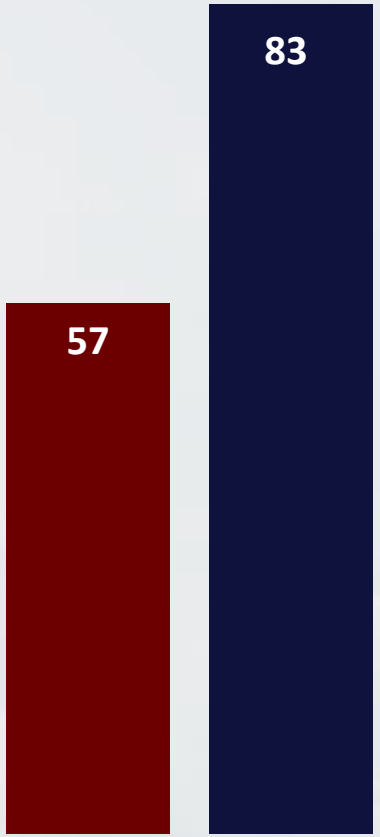
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AEROSPACE Q3 FISCAL YEAR 2023

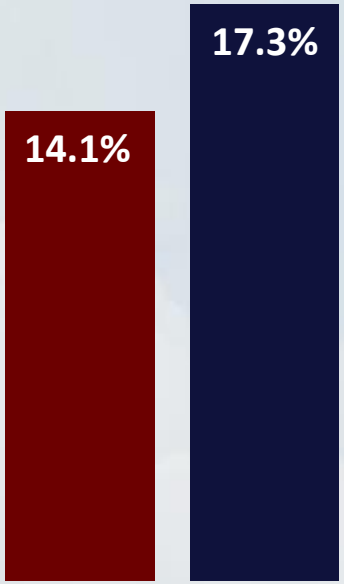




Segment Sales (mil $)



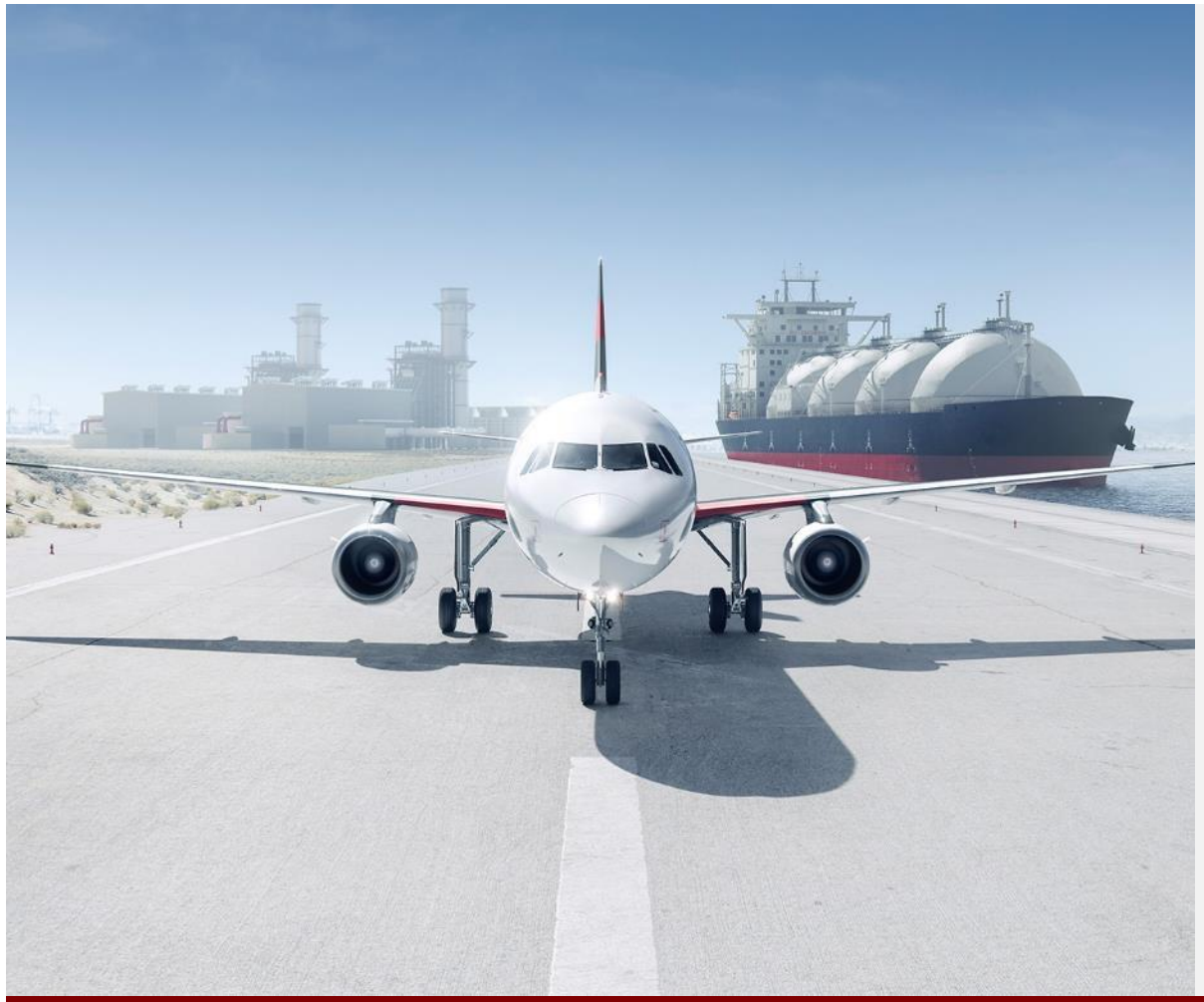
Segment Earnings (mil $)



Segment Margin

FY22 FY23

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INDUSTRIAL OVERVIEW

INDUSTRIAL





POWER GENERATION

- Strong demand for power generation on growth in Asia
- Global aftermarket activity increasing
- Ongoing demand for backup power for data centers

TRANSPORTATION

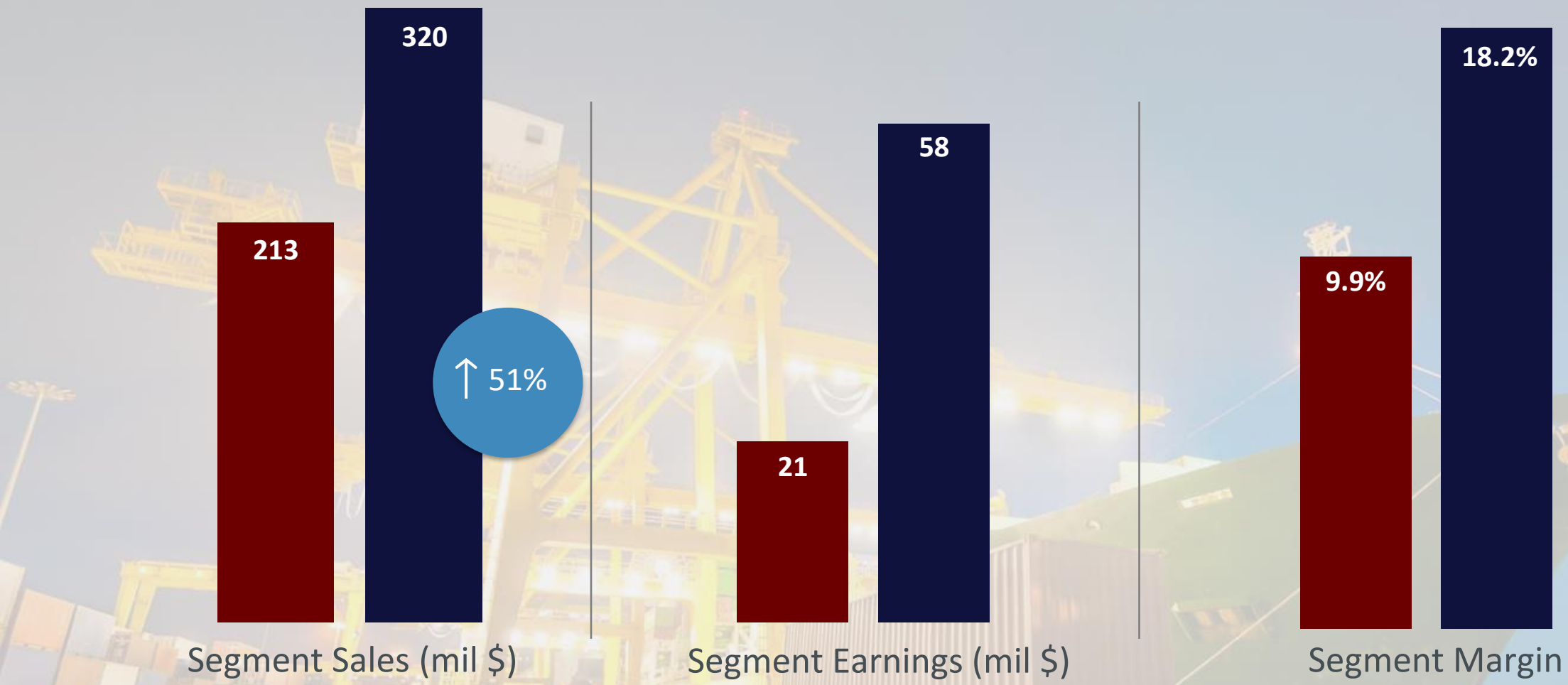
- Healthy global marine market on increased ship build rates and higher fleet utilization
- Increase in China natural gas truck production, although future demand remains uncertain

OIL AND GAS

- Continued global investment in LNG infrastructure development
- Rig counts increased globally, though US activity has declined year-over-year

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INDUSTRIAL Q3 FISCAL YEAR 2023



FY22 FY23

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SELECTED FINANCIAL RESULTS

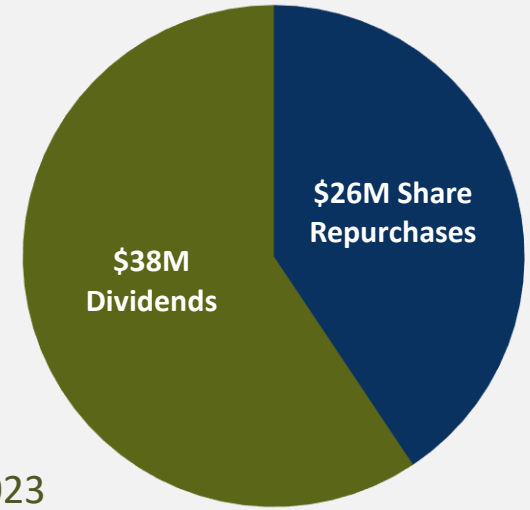
Quarter and Year-to-Date Comparatives				
	Q3 FY 22	Q3 FY 23	YTD FY 22	YTD FY 23
Gross Margin *	21.8%	25.5%	22.4%	22.8%
SG&A Expenses - % of Sales	7.6%	8.1%	8.8%	9.5%
R&D Expenses - % of Sales	5.2%	4.4%	5.2%	4.7%
Effective Tax Rate	21.6%	20.0%	17.6%	17.3%
EBITDA[1] (mils)	$ 88	$ 147	$ 257	$ 302
Adjusted EBITDA[1] (mils)	$ 88	$ 147	$ 263	$ 337
Cash from Operations (mils)			$ 86	$ 156
Capital Expenditures (mils)			$ 37	$ 57
Free Cash Flow[1] (mils)			$ 49	$ 98
Adjusted Free Cash Flow[1] (mils)			$ 52	$ 103

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

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CAPITAL DEPLOYMENT TO SHAREHOLDERS

$64M RETURNED TO SHAREHOLDERS YTD FY23



RETURN TO SHAREHOLDERS

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

- Dividends
- Share Repurchases

DIVIDENDS

- $38M in fiscal 2023 YTD

SHARE REPURCHASES

- $26M of shares repurchased in fiscal 2023 YTD
- $800M share repurchase program authorized in January 2022
  - $328M remaining under the authorization

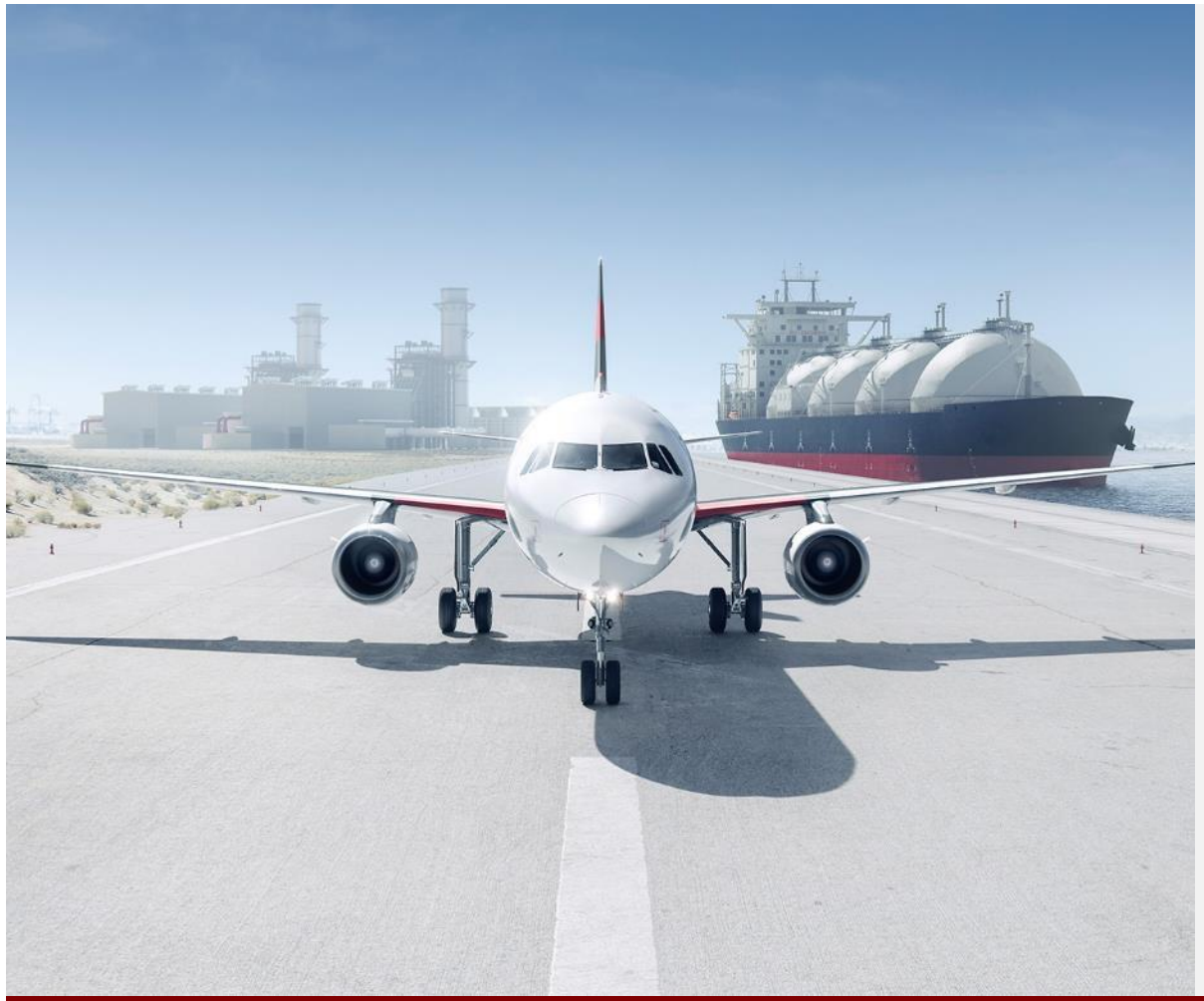
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FISCAL YEAR 2023 REVISED OUTLOOK

We continue to expect year-over-year improvements in the fourth quarter of fiscal 2023. Due to continued strong end market demand and our improved ability to deliver for our customers, we are raising certain aspects of our full-year guidance.

	Prior Fiscal Year 2023 Guidance	Current Fiscal Year 2023 Guidance
Total Company		
Sales	$2.7B - $2.8B	$2.85B - $2.9B
Adjusted Effective Tax Rate	~16%	~18%
Adjusted Free Cash Flow	$200M - $250M	No Change
Capital Expenditures	~$80M	No Change
Adjusted EPS	$3.50 – $3.75	$4.05 - $4.25
Aerospace		
Sales Growth	14% - 19%	16% - 18%
Segment Earnings (% of Sales)	Up 150bps – 200bps	No Change
Industrial		
Sales Growth	14% – 19%	28% - 30%
Segment Earnings (% of Sales)	Flat	Up 340bps – 440bps

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APPENDIX

APPENDIX

NON-U.S. GAAP RECONCILIATIONS

Woodward, Inc. and Subsidiaries

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS[1]

(Unaudited - in thousands, except per share amounts)

	Three Months Ended June 30, 2023			*Three Months Ended June 30, 2022*		
	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*
Net Earnings (U.S. GAAP)	$ 105,738	$ 84,599	$ 1.37	$ 50,287	$ 39,446	$ 0.64
Non-U.S. GAAP adjustments:						
Specific charge for excess and obsolete inventory	-	-	-	-	-	-
Product rationalization	-	-	-	-	-	-
Restructuring charge	-	-	-	-	-	-
Non-recurring charge related to customer collections	-	-	-	-	-	-
Certain non-restructuring separation costs	-	-	-	-	-	-
Non-recurring matter unrelated to the ongoing operations of the business	-	-	-	-	-	-
Business development activities	-	-	-	-	-	-
Total non-U.S. GAAP adjustments	-	-	-	-	-	-
Adjusted net earnings (Non-U.S. GAAP)	$ 105,738	$ 84,599	$ 1.37	$ 50,287	$ 39,446	$ 0.64

Woodward, Inc. and Subsidiaries

RECONCILIATION OF NET EARNINGS TO ADJUSTED NET EARNINGS[1]

(Unaudited - in thousands, except per share amounts)

	Nine-Months Ended June 30, 2023			*Nine-Months Ended June 30, 2022*		
	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*
Net Earnings (U.S. GAAP)	$ 177,728	$ 149,716	$ 2.44	$ 142,129	$ 117,657	$ 1.84
Non-U.S. GAAP adjustments:						
Specific charge for excess and obsolete inventory[2]	11,995	9,016	0.15	-	-	-
Product rationalization[3]	10,504	7,896	0.13	-	-	-
Restructuring charge	5,172	3,874	0.06	-	-	-
Non-recurring charge related to customer collections[4]	4,997	3,761	0.06	-	-	-
Certain non-restructuring separation costs[4]	2,208	1,661	0.03	-	-	-
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	34,876	26,208	0.43	6,254	4,690	0.07
Adjusted net earnings (Non-U.S. GAAP)	$ 212,604	$ 175,924	$ 2.87	$ 148,383	$ 122,347	$ 1.91

2) Presented in the line item "Cost of goods sold" in Woodward's Condensed Consolidated Statement of Earnings.

3) On a pre-tax basis, $5,822 is presented in the line item "Cost of goods sold" and $4,682 is presented in the line item " Selling, general and administrative" expenses in Woodward's Condensed Consolidated Statement of Earnings. On an after-tax basis, $4,374 is presented in the line item "Cost of goods sold" and $3,522 is presented in the line item " Selling, general and administrative" expenses in Woodward's Condensed Consolidated Statement of Earnings.

4) Presented in the line item "Selling, general and administrative" expenses in Woodward's Condensed Consolidated Statement of Earnings.

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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,*	
	2023	*2022*	*2023*	*2022*
Net earnings (U.S. GAAP)	$ 84,599	$ 39,446	$ 149,716	$ 117,657
Income tax expense	21,139	10,841	28,012	24,472
Interest expense	12,175	8,533	36,162	25,036
Interest income	(516)	(353)	(1,390)	(1,494)
EBIT (Non-U.S. GAAP)	117,397	58,467	212,500	165,671
Total non-U.S. GAAP adjustments*	-	-	34,876	6,254
Adjusted EBIT (Non-U.S. GAAP)	$ 117,397	$ 58,467	$ 247,376	$ 171,925

*See Reconciliation of Net Earnings to Adjusted Net 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,*	
	2023	*2022*	*2023*	*2022*
Net earnings (U.S. GAAP)	$ 84,599	$ 39,446	$ 149,716	$ 117,657
Income tax expense	21,139	10,841	28,012	24,472
Interest expense	12,175	8,533	36,162	25,036
Interest income	(516)	(353)	(1,390)	(1,494)
Amortization of intangible assets	9,493	9,309	28,089	28,584
Depreciation expense	20,551	20,618	61,212	62,674
EBITDA (Non-U.S. GAAP)	147,441	88,394	301,801	256,929
Total non-U.S. GAAP adjustments*	-	-	34,876	6,254
Adjusted EBITDA (Non-U.S. GAAP)	$ 147,441	$ 88,394	$ 336,677	$ 263,183

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

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APPENDIX

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,	
	2023	*2022*
Net cash provided by operating activities (U.S. GAAP)	$ 155,630	$ 86,016
Payments for property, plant, and equipment	(57,142)	(37,105)
Free cash flow (Non-U.S. GAAP)	98,488	48,911
Cash paid for business development activities	-	2,982
Cash paid for restructuring charges	3,594	505
Cash paid for certain non-restructuring separation costs	977	-
Adjusted free cash flow (Non-U.S. GAAP)	$ 103,059	$ 52,398

Woodward, Inc. and Subsidiaries

RECONCILIATION OF NONSEGMENT EXPENSES TO ADJUSTED NONSEGMENT EXPENSES[1]

(Unaudited - in thousands)

	Three-Months Ended June 30,		*Nine-Months Ended June 30,*	
	2023	*2022*	*2023*	*2022*
Nonsegment expenses (U.S. GAAP)	$ 23,875	$ 19,201	$ 106,493	$ 63,816
Specific charge for excess and obsolete inventory	-	-	(11,995)	-
Product rationalization	-	-	(10,504)	-
Restructuring charge	-	-	(5,172)	-
Non-recurring charge related to customer collections	-	-	(4,997)	-
Non-restructuring separation costs	-	-	(2,208)	-
Non-recurring matter unrelated to the ongoing operations of the business	-	-	-	(3,272)
Business development activities	-	-	-	(2,982)
Adjusted nonsegment expenses (Non-U.S. GAAP)	$ 23,875	$ 19,201	$ 71,617	$ 57,562

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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) a specific charge for excess and obsolete inventory, (ii) product rationalization, (iii) a restructuring charge, (iv) a non-recurring charge related to customer collections, (v) certain non-restructuring separation costs, (vi) a charge in connection with a non-recurring matter unrelated to the ongoing operations of the business, and a partial reversal of such charge in a subsequent period, and (vii) costs related to business development activities. The product rationalization adjustment pertains to a non-recurring write-off of inventory and assets related to the elimination of certain product lines. The specific charge for excess and obsolete inventory pertains to a non-recurring write down of other excess inventory that are not related to product rationalization. The non-recurring charge related to customer collections pertains to a discrete process issue that was identified and corrected. The Company believes that these excluded items are short-term in nature, not directly related to the ongoing operations of the business, and therefore, the exclusion of them illustrates 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, restructuring activities, and certain non-restructuring costs. Management believes these adjustments to free cash flow better portray Woodward's operating performance. Our full-year guidance with respect to non-U.S. GAAP measures as provided in this release excludes, as applicable, costs, charges and payments related to (i) a specific charge for excess and obsolete inventory, (ii) product rationalization, (iii) restructuring activities, (iv) a non-recurring charge related to customer collections, and (v) certain non-restructuring separation costs.

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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