SARO Earnings Call Transcript

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Quarter: 2

Operator: Greetings, and welcome to the StandardAero Second Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Rama Bondada, Vice President, Investor Relations. Rama, please go ahead.
R. Rama Bondada: Thank you, and good afternoon, everyone. Welcome to StandardAero Second Quarter 2025 Earnings Call. I'm joined today by Russell Ford, our Chairman and Chief Executive Officer; Dan Satterfield, our Chief Financial Officer; and Alex Trapp, our Chief Strategy Officer. Along with today's call, you can find our earnings release as well as the accompanying presentation on our website at ir.standardaero.com. An audio replay of this call will also be made available, which you can access on our website or by phone. The phone number for the audio replay is included in the press release announcing this call. Before we begin, as always, I would like to remind everyone that statements made during this call include forward-looking statements under federal securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. Such risks and uncertainties include the factors set forth in the earnings release and in our filings with the Securities and Exchange Commission, including in the Risk Factors section of our annual report on Form 10-K for the year ended December 31, 2024. We assume no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Additionally, during today's call, we will discuss certain non-GAAP financial measures such as adjusted EBITDA, adjusted EBITDA margin, free cash flow, net debt to adjusted EBITDA leverage ratio and organic revenue growth. A definition and reconciliation of these measures to the most directly comparable GAAP measures can be found in our earnings release and in the appendix to the earnings slide presentation on our website. Non-GAAP financial measures should be considered in addition to and not as a substitute for GAAP measures. With that out of the way, I'd like to now turn the call over to our Chairman and CEO, Russell Ford. Russ, over to you.
Russell W. Ford: Thank you, Rama, and thanks to everyone for joining our earnings call today. Let's begin on Slide 3. For the second quarter, we again delivered robust results, increasing revenue 13.5% and adjusted EBITDA increased by 20% compared to the prior year period. Our performance was underpinned by robust demand across our key end markets as well as disciplined operational execution within both of our segments, engine services and component repair services. We continue to expand our margins while also advancing our ramp in new growth platforms, which are a near-term headwind to margins. Our diversified portfolio spans more than 40 engine platforms across all major OEMs and end markets including commercial aerospace, business aviation, military and helicopters. This breadth not only provides multiple avenues for growth, but also creates built-in resilience across market cycles. Now looking more closely at our end markets. Our commercial aerospace sales grew 14% year-over-year, driven by CF34, LEAP, CFM56 and our Turboprop platforms. Our backlog of MRO work here remains strong with demand for engine aftermarket services outpacing MRO supply globally. We expect this favorable supply-demand environment to continue for the foreseeable future. Our business aviation sales increased 9% versus Q2 last year. Solid demand for engine platforms that power midsize and super midsized business jets drove strong revenue growth this quarter. Our military sales grew 12% year-over-year due to the contribution from our Aero Turbine acquisition, which closed

in August of 2024 as well as from growth on our AE1107 and J85 programs that more than offset some lighter work scopes on other military platforms that we service. Moving on to adjusted EBITDA. Margins continued to expand in Q2, increasing 80 basis points year-over-year to 13.4%. This improvement was driven by strong sales growth, favorable mix, pricing and productivity initiatives within both of our segments. Additionally, our higher-margin component repair services segment delivered a record margin this quarter and continues to represent a greater share of our overall business, consistent with our strategic direction. Turning to Slide 4. As a result of our continuing top line growth, expanding margin performance and robust end market demand in the quarter, we are again increasing our 2025 guidance with a continued outlook for double-digit revenue performance and adjusted EBITDA margin expansion year-over-year in both of our segments. Now relative to our operational and commercial highlights in the second quarter. We remain focused on executing across our strategic priority areas, which we think will drive long-term value for our shareholders. These initiatives include accelerating the ramp-up of our LEAP program, expanding our CFM56 and CF34 capacity and enhancing our capabilities in component repair services. Let me begin by providing more detail on our progress on the LEAP program. In the second quarter, we completed our first LEAP shop visits and began deliveries from our facility in San Antonio. LEAP sales tripled sequentially. And while volumes are still modest, the momentum has been exceptional. We remain in the early stages of this program's ramp with continuing acceleration expected through the second half of 2025. Our technicians and leadership team are focused on completing final industrialization steps this year, delivering our first performance restoration shop visit or PRSV, in the second half and continuing to scale. Demand for LEAP MRO services continues to grow with our pipeline and win rates strengthening each quarter. StandardAero's total LEAP bookings now exceed $1.5 billion up from $1 billion we mentioned at the end of last year, supported by strong wins year-to- date. We continue to expect LEAP revenues to reach $1 billion annually by the end of the decade. Turning to CF34 and CFM56, we continue to capitalize on the organic investments we've made in these platforms. On CF34, we again achieved robust year-over-year growth following the expansion of our GE relationship at the end of 2024. Given our growing market position, we expect the CF34 platform to drive growth well into the next decade. On CFM56, recall that we are 1 of the only independent MRO businesses in the world that is adding meaningful overhaul capacity. This engine platform currently has the largest installed base in the history of commercial aviation, and we are well positioned to keep gaining share. We continue to make progress on the industrialization of our CFM 56 Dallas-Fort Worth facility and are simultaneously winning sales campaigns to build out our backlog with a diverse top-tier customer base. In the second quarter, we inducted our first PRSV full performance restoration shop visit at the facility. In addition to our PRSV capabilities, we have continued to grow our menu of service offerings for this platform from quick turn events to green time and lease assets and now into engine exchanges while staying consistent with our strategy of offering OEM aligned solutions. These service offerings, which are synergistic across our enterprise have been a cornerstone of many of our mature program offerings on other platforms, and we're pleased to be able to support the CFM56 in the same way while also maintaining our asset-light structure. Moving on to another area of organic investment. We are approaching the grand opening of our newly expanded business aviation facility in Augusta, Georgia. This expansion, which we announced in April of 2024 adds 60% capacity to this facility and is on track to come online in the third quarter of 2025. This is very timely given that we had a new record in HTF7000 sales in Q2. The expansion in Augusta will increase our HTF7000 capacity and the facility performs the complete suite of MRO work scopes. In addition, the expanded footprint will be capable of performing airframe services on large cabin business jets. We are the exclusive, independent, heavy overhaul provider on the HTF7000 and with this additional capacity, coupled with growing demand, we see this platform as an important element of our continued growth in business aviation. This expansion came about in close collaboration with the Augusta Regional Airport, the Augusta Economic Development Authority and the State of Georgia. It's expected to generate about 100 new jobs for the area. Turning to growth initiatives for our Component Repair Services segment, we continue expanding our portfolio of OEM authorized leap repairs. This is expected to drive increased third-party sales and greater in-sourcing of addressable repairs from our engine services business as we strengthen integration between our 2 segments. Now pivoting to capital allocation. We think we are exceptionally

well positioned to deliver strong returns through a multipronged approach, combining organic investments in platforms where we hold strong market positions, strategic M&A;, additional platforms and additional repair capability. With respect to organic investments, you just heard about our expansion initiatives with CFM56, CF34 and HTF7000. There are more opportunities such as these in the near and medium term that will allow us to continue this pattern of disciplined organic investments that we expect will generate a high return on invested capital for our shareholders. On the M&A; front, we're staying close to the market. We have a growing pipeline of targets and ample balance sheet capacity. We will remain disciplined and focused on allocating capital to areas where we see strong strategic and synergistic alignment such as Aero Turbine. That now concludes my comments, and I'll ask Dan Satterfield, our CFO, to walk through our financial results and outlook with additional detail. Dan?

Daniel Satterfield: Thank you, Russ. I will begin on Slide 5 with some highlights from our second quarter results. For the second quarter ended June 30, 2025, we generated revenue of $1.53 billion as compared to $1.35 billion for the second quarter last year, representing 13.5% growth, of which 11.5% was organic. We saw strong growth at both our engine services and component repair services segments. Adjusted EBITDA increased to $205 million for the second quarter of 2025 compared to $170 million for the prior year period, representing 20% growth, as adjusted EBITDA margins expanded 80 basis points year-on-year, inclusive of our growth platforms, which are dilutive to margins as they ramp. This was driven by continued top line growth and margin expansion in our key MRO programs and continued strong growth and expansion in our higher-margin component repair services segment, including the acquisition of Aero Turbine last year. Net income increased to $68 million for the second quarter of 2021 compared to $5 million for the prior year, driven by increased sales and expanding margins, paired with our reduced interest expense from our debt paydown and subsequent refinancing events. Free cash flow was a $31 million use in the quarter, which was in line with our expectations given our ongoing growth investments. Higher earnings and lower interest from refinancing actions were offset by higher working capital and CapEx, driven by growth for the LEAP, CFM56 and CF34 platforms. I'll dive a little deeper into cash flow on a later slide. Now moving into our 2 segments, starting with Engine Services on Slide 6. Engine Services revenue increased by $139 million to $1.35 billion in the second quarter, representing 11.5% growth compared to the prior year period. Notable drivers included robust aftermarket activity across key established platforms and accelerating production ramp on growth programs in commercial aerospace as well as strong performance in business aviation. On the commercial side of the segment, we said at the beginning of the year that our 4 big growth platforms would be LEAP, CFM56, CF34 and turboprops, and those again this quarter drove our top line growth. We also saw continued strength in our mid- and super midsized business jet engine platforms. And as Russ mentioned earlier, our HTF7000 business saw record levels in the quarter. On the military side, a strong rebound in AE1107 work and strength of the J85 engine were partly offset by lower-than-expected work scopes on the military transport side of the business. On the earnings front, Engine Services adjusted EBITDA grew 16% in the second quarter and represented a 50 basis point margin expansion year-on-year to 13.2%. The increase reflects strong performance across our core commercial and business aviation segments, driven by favorable product mix, volume growth and productivity improvements. Once again, margin expansion in CF34 and our turboprop business continued to more than offset the dilutive margins on our growth platforms, namely LEAP and CFM56 Dallas-Fort Worth. On the business aviation side, mix and pricing drove the margin expansion. And in military, the higher volumes in AE1107 paired with continued strong margins in J85 and offset the above-mentioned lower work scopes in the military transport business. On Slide 7, Component Repair Services second quarter revenue increased 31% compared to the prior year period to $178 million. Notable drivers included continued growth in our Land & Marine business, the contribution of $27.3 million in revenue from the Aero Turbine acquisition and robust underlying demand across our served platforms. This was somewhat offset by slower timing of inputs from certain commercial customers. As we stated last quarter, we expect the inputs from these customers to rebound in the second half of this year, and we are already seeing early signs of this. In the quarter, Component Repair Services adjusted EBITDA grew 50% year-on-year, which was the result of our revenue growth and over 360 basis points year-on-year margin expansion to 29%. This is a record adjusted EBITDA

margin quarter in CRS. This increase reflects strong volume, pricing and favorable mix as well as the impact of the Aero Turbine acquisition. Now moving to Slide 8, I'll discuss our free cash flow for the quarter. Free cash flow for the quarter was a $31 million use. We saw a $108 million build of working capital in Q2. Nearly half of this increase was driven by our growth ramp for the LEAP and CFM56 Dallas-Fort Worth programs. We expect working capital activity to turn to a meaningful tailwind in the second half of 2025 driven by the timing of receivables and as our supply chain activity improves, which we expect to more than offset increased working capital from ramping growth programs. Maintenance CapEx in the quarter was $9 million, which is less than 1% of revenue. Major platform investments in 2Q were $30 million. We paid the remaining $15 million for our CF34 license expansion in the quarter. For LEAP, we spent $7 million, which brings year-to-date investment for that platform to $26 million. For our CFM56 expansion in Dallas-Fort Worth, we spent $8 million, which brings that investment year-to-date to $10 million. We continue to expect $90 million in major platform investments for the full year, of which year-to-date, we have completed $66 million. Our cash taxes in the quarter included our full year estimated 2025 tax payment for the U.S. We continue to expect free cash flow for 2025 to be in the range of $155 million to $175 million. Turning to Slide 9. Our leverage at the end of the quarter improved to 2.99x net debt to EBITDA. This compares to 5.4x at the end of Q2 '24 and 3.14x at the end of fiscal 2024. While we are pleased with where we sit from a leverage perspective, we are also focused on continuing to delever the business through organic earnings and cash flow growth and continue to target long-term net leverage between 2 and 3x. At our current level, we already have ample balance sheet capacity to conduct accretive and strategic M&A.; Now to our guidance on Slide 10. We had a strong first half to the year despite continued supply chain issues throughout the aerospace industry and the ever-changing tariff landscape. Irrespective of these issues, both of our segments continue to deliver on both top line growth and adjusted EBITDA margin expansion. This is a reflection of our strong operating culture, our focused workforce, diversified portfolio and strong demand across our end markets. As Russ mentioned earlier, we are increasing our revenue and adjusted EBITDA guidance ranges from our May earnings call. We now expect revenue in 2025 to be between $5.875 billion and $6.025 billion. This increase in sales expectation is from our Engine Services segment and driven by the CF34 and Turboprop business. This means we now expect sales to grow about 13.5% year-over- year at the midpoint of our guidance or about a 100 basis point increase versus our previous guidance. Adjusted EBITDA is now expected in the range of $790 million and $810 million. This increase is primarily driven by our higher sales guidance and better-than-expected margins in both of our segments and is inclusive of our estimated net tariff impact of $10 million to $15 million. In Engine Services, we now expect about 13.3% adjusted EBITDA margins or a 30 basis point increase from our previous guidance. This is the result of better-than-expected performance in our core engine platforms outstripping the weight of our ramping LEAP and CFM56 programs. The Engine Services segment will see year-on-year margin expansion in 2025 inclusive of these currently margin- dilutive growth programs. For the Component Repair Services segment, we now expect segment adjusted EBITDA margins of about 28.3%, a 130 basis point increase from our previous guidance, a 220 basis point year-on-year expansion. Driving the increase in our expectations are the productivity gains in this segment, along with the contribution from Aero Turbine. For the company as a whole, we now expect an adjusted EBITDA margin of around 13.4%, up from 13.3%. Offsetting some of the segment level gains in the year are higher corporate expenses, primarily due to upgrades to key operational roles to implement supply chain centralization and working capital optimization, as well as some additional public company-related expenses and tariff-related service fees. The increase to our full year 2025 guidance reflects continued strong demand in our core end markets. We had been expecting a low double-digit to mid-teens growth in our commercial aerospace end market this year, but we now expect that to be at the top end of that range in the mid-teens. We continue to estimate high single-digit growth in the business aviation end market and in the military and helicopter end market. With that, I'll turn it back over to Russ to wrap things up.

Russell W. Ford: Thank you, Dan. Now to summarize, StandardAero has delivered a strong first half in 2025 as promised, and we're not done yet. We continue to operate in a difficult supply chain environment and in uncertain macroeconomic times. However, we remain focused on the responsibility that our shareholders place on us. We continue to see a strong demand environment for our business

and remain well positioned to take advantage of this by deploying capital in both a disciplined and strategic manner. Additionally, we remain committed and on track to deliver high-quality and predictable results this year and well into the future. That concludes our remarks for the second quarter. And with that, operator, we're now ready to move to the Q&A; session.

Operator: [Operator Instructions] Our first question is coming from Seth Seifman from JPMorgan.

Seth Michael Seifman: I wanted to start off just in thinking about the cadence of the year in Engine Services have kind of been thinking about revenues kind of growing sequentially through the year as there was incremental work on LEAP and CFM. Revenues were higher than I had expected in the second quarter. And then when I look at the rest of the year, it looks like the run rate kind of comes down from the second quarter level. Should we be thinking differently about that cadence now?

Daniel Satterfield: Not really. I mean we've guided up on revenue on the strength of the ES segment, and we called out, in particular, the CF34 program, Seth. That continues to be a strong driver of growth. The top 4 drivers of growth remain the same. And the expectations there are in line with our earlier expectations, in particular, LEAP, really, really pleased to see LEAP triple their growth quarter-over-quarter. And Dallas-Fort Worth is also coming online. So we feel good about the second half of the guidance that we've given you there.

Seth Michael Seifman: Okay. Okay. Great. And then maybe following up a similar topic, which is the margin dilution that resulted from the new programs. I don't know if there's a way to kind of kind of quantify what that was? And maybe talk about how it evolves going forward.

Daniel Satterfield: Yes. So the company expanded margins 80 basis points in the quarter. That would have been significantly more, excluding the ramp programs, which shows the underlying growth and margin accretion in our core programs. And I think you can kind of do the math there. It's a lot of the several basis points -- of multiple basis points higher than the 80 basis points, and all that's happening within ES. So those -- if you look at the -- how those programs are developing in total, the losses on those programs, which we add back to adjusted EBITDA that are within cash flow are narrowing significantly. So it's really great to see that. So the same drivers of margin accretion on those programs are what we expected. Higher revenue to absorb the industrialization costs as well as the learning curve. So you're going to see those programs cracking into profitability sometime late this year or early next year. And then, yes, that drag on margins is known and is exactly the way we expected. So it's great to see the 80 basis points, including those strong revenue growth on 0 margin platforms.

Operator: Next question today is coming from Doug Harned from Bernstein.

Douglas Stuart Harned: On the growth on particularly those 3 programs, the LEAP, CFM56 and CF34. How should we look at this? Because your -- you've got a certain amount of capacity at DFW and in San Antonio that you're looking to fill is -- are you seeing the work come in at a faster rate than you had expected? And on CF34, how are you getting that growth there? Is that just faster throughput through the shops.

Russell W. Ford: Thanks, Doug, for the question. It depends on the program that you're talking about. So I'll try and walk through the different dynamics on some of the programs. If you start, first of all, with LEAP, recognizing that this is a brand-new engine, not only for us, but for the world in general. We're very carefully expanding our throughput at San Antonio because at this stage of the program, we want to make sure that precision and process creation takes the front and center stage. It's more important to get the processes rolled in correctly or precisely than it is for speed. The bookings are very robust. That's not the issue. But again, we're going to be building these engines for the next 40 years. We want to make sure that we get the processes tightly controlled as we start to ramp up. CFM56 is a little bit different case because it's an engine that we know well. We've done more than 1,000 of these engines at our facility in Winnipeg. So as we continue to build the pipeline there, what we're doing is we do have a new facility here for CFM56, but we can transport a lot of the process knowledge by using some of our people in Winnipeg to accelerate the industrialization of CFM56, which is why we believe we're going to be able to see pretty strong throughput capacity on full, heavy work scopes in the second half of the year on CFM56. And then CF34 is a different situation because of the maturity of that program. If you look at the number of engines that were put into service for CF34, there was a surge of deliveries of those programs in the 2015 to 2019 time frame. So that means that 10 years in between now and 2029, you're going to see a lot of those engines then coming due for their first major overhauls. And then as

you move into the 2030 time frame, the early 2030s, they'll be coming in for second, third overhauls because there really is no replacement engine or alternative for the CF34 and the applications in which it works. So we're kind of at the beginning of an increased flow of CF34 work over the next 4 to 5 years, just based upon the age at which those engines were introduced into service.

Douglas Stuart Harned: Okay. And then as a follow-up, you mentioned the engine exchange approach. Can you describe what you're trying to do with the engine exchange strategy? Does this involve keeping an inventory at all of engines or modules? How are you approaching this?

Daniel Satterfield: Yes. Great question, and thanks for asking. We're pretty excited about it. It's -- it really underlies our asset-light structure. So no, we're not stocking up a ton of parts. What it really represents is a onetime investment for an exchange engine, which gets swapped out for a returned engine that falls in then to our MRO process. We overhauled that engine, and we swap it again, and swap it again and swap it again. So it's a pretty light -- asset-light investment on an initial CFM56 engine that we then offer to customers. What we really like about the program is the natural synergies that we have within StandardAero. So that exchange engine comes into our shops. And because of our CRS, component repair opportunities and capability, we're able to do that at low cost and at high tack time, high speed. So this agent exchange program can really accelerate as those engines pass through our system. So no, it's not a big investment. It is another menu item that makes our CFM56 capabilities that much more exciting for customers. And as this ball rolls, you're able to compound the investment and the exchange program engines, they will compound over time.

Operator: Next question is coming from Myles Walton from Wolfe Research.

Myles Alexander Walton: I just wanted to clarify on that last point, if I could, Dan. I think that you're leasing and then subleasing and you're not actually owning those assets. Are you able to do the maintenance of those assets from a controlled perspective? Or are those owned assets and managed by someone else and you're just a party to the lease.

Daniel Satterfield: Yes. No, thanks for the follow-up. No, we are buying this initial engine. This is an owned engine by StandardAero. That we will then resell back to the customer in exchange for his or her exchange asset. We do have that -- the leasing option. It's 1 of the menu items that we provide. We can connect customers with preferred lessors. But this engine exchange program, our owned assets by StandardAero.

Myles Alexander Walton: Okay. Should we expect that pool to be a drag on investment of cash flow into next year and the following year, those CFM56 and these programs...

Daniel Satterfield: No, as a matter of fact, sorry, I did make that clear. It's a onetime investment in really single-digit millions of dollars to get the ball rolling. And as it is -- as we move these engines through the system, we're able to get more and more of them, but it's not a significant drag on working capital. It will be for the first time. It's just a single engine and then the program kind of feeds itself, funds itself. So it's not tens of millions of dollars in a big investment and a big rollout. It is a self-funding engine exchange program that can gain over time.

Russell W. Ford: Yes. Just to be clear, we're talking about top-tier customers that bring us an engine that they may want to trade in because it has an vent or a section of the engine that may be approaching an exploration on its maintenance limits. So many times, these engines have been OEM maintained. They don't have PMA parts in them. They're coming off of some type of power by the hour program. they have parts and materials in them that have aerospace grade traceability, but for various reasons, they don't want to spend the money on that engine to provide a full performance restoration to give it another 18,000 to 20,000 cycles. They may only need 4,000 or 5,000 cycles. So they can bring that engine to us, we will purchase another engine. We will rebuild that engine to the specs that they need, swap it out for the engine that they bring us and then we can take that engine and we have options for that. We can rebuild it or we can reduce it to parts. So we are not building a pool of rotatable engines.

Myles Alexander Walton: Got it. I think that's crystal clear. And then, Dan, on the cash flow, second half implied to be $250 million of free cash flow. EBITDA looks about the same. So obviously, it's all working capital taxes and CapEx. Can you sort of give us the walk on working capital, in particular, I get the taxes...

Daniel Satterfield: In the second half?

Myles Alexander Walton: Yes. To make the guidance.
Daniel Satterfield: Yes, we do see an unwinding of our working capital position in the second half. It really has to do with our cash conversion cycle. So first of all, the $108 million build of working capital in the second quarter, half of that is funding LEAP. Very happy to do that, get that program off the ground. And then the rest is these CF34 engines and others where we have huge backlog, huge demand. These engines are moving through our MRO process. They wind up in contract assets and what we expect to see in the second half is that the constrained parts come in and these engines will be shipped and liberated out of working capital. And these are pretty much known, a block of engines coming through some of our significant facilities that will unwind. So I'm pretty confident about the second half on working capital. And then, of course, the -- we spent $66 million of our $90 million capital investment. So there's only a little bit more to go on the platform expansion programs. So that will be a lower overall spend. Cash taxes will be somewhat lower in the second half. So we feel really good about the second half guidance. And by the way, it's -- I think it's $260 million of applied second half cash flows.
Operator: Next question today is coming from Ken Herbert from RBC Capital Markets.
Kenneth George Herbert: Good afternoon, everybody. You called out $1.5 billion is the backlog on the LEAP in terms of bookings. Can you specifically say what was that in the second quarter? And of these bookings, what's the time frame we should expect that to sort of convert to revenues?
Russell W. Ford: Thanks, Ken, for the question. The bookings, in fact, continue to be very strong for the second quarter. In our last earnings call, for first quarter, we said that the bookings were approaching $1 billion. So we are now at about $1.5 billion subsequent to that call. And we're happy with the win rates that we're seeing. We're happy with the implied returns that we're seeing on these programs coming to it. We're happy to see the diversity of the customer base. We're not dependent on just 1 program or just 1 region. So it's materializing as we expect. The range of those engine programs, some of them are their light work scope CTEM types of events that we're going to be working on initially for the first couple of years, that will make up the bulk of the work. And then the heavier work scopes, you'll start seeing that 2 years down the road as we enter into some of the bigger, longer-term contracts. There will be some PRSVs that will flow through. But again, the bulk for the first 2 years are likely to be CTEM events as we move into then the longer contract at 5- and 10-year kind of periods for some of the airlines.
Kenneth George Herbert: Great. Thanks, Dan -- I'm sorry, Russ. And as we look at the really strong CRS margins in the second quarter, was there anything unusual or sort of onetime that impacted segment margins in the CRS business?
Daniel Satterfield: No, no. We called out the contribution from ATI that continues to be a great investment for the company and having a good impact on the business. And the Land & Marine growth is quite accretive to the segment as well. The commercial narrow-body engines that we grew on, which include the V2500, GTF, CF34. That's all great business. Nothing unusual in there, just a great mix in CRS.
Russell W. Ford: Yes. Despite the ATI contribution, if you look at the underlying part of the business, it was a very healthy 25% organic growth that includes some of the insourcing activities that we have going on to make a broader use of our growing repair catalog. So that's a continuing element.
Operator: Next question is coming from Sheila Kahyaoglu from Jefferies.
Sheila Karin Kahyaoglu: I want to maybe start off with a follow-up on Myles' and Doug's question about the CFM56 exchange program. Can you maybe talk about how many modules you have capacity for, how you think about the engine margin contribution of those versus your standard work? And do you do that on any other engine type?
Daniel Satterfield: So this is standard work. What we're doing is providing an exchange program for somebody who wants to turn on their engine to get -- in exchange for an engine with greater green time, right? And then that exchange engine comes into our -- so we sell it to them at a margin, good margins. And then we bring that engine into our shop, and it's good old StandardAero MRO. So we'll run that through the shop. We'll deploy USM, and you'll have normal expected margins on CFM56 on the MRO side. What's different is that at a very low investment on starting off with an exchange engine

that engine that comes into my shop. I overhaul, and then I offer that to the next guy, to the next customer and I sell that to him or her at good margins. And then their engine comes in, it gets overhauled. So there's nothing unusual about this and it just fits into the -- our normal capacity for engine exchanges and engine overhaul work in Dallas-Fort Worth and Winnipeg.
Alexander Trapp: Sorry, Sheila, this is Alex. We do this on other engine programs at similar points in their product life cycle, just to confirm the last part of your question. So we're pretty...
Sheila Karin Kahyaoglu: And then maybe another question on the $120 million investment that MTU announced in the lease facility in Dallas-Fort Worth. How do you think about the $1 billion annual target for lease by 2030? And what your capacity is? And does MTU -- I don't think it impacts you at all. But how do you think about them being added as a CBSA partner?
Russell W. Ford: It's goodness actually because the market needs it. The amount of installed base there, the growing number of events, this is right in line with what CFM intended both GE and Safran as they developed this engine, right? Over time, they want to -- they said they want to double the amount of work that's going into the MRO network and then double it again. So that means you've got to have additional capacity and capability. So I think this is good news for the industry. It's goodness for the airlines that there will be capacity to be able to respond, especially as the engine goes through its initial robustness growing pains over the first few years.
Operator: Next question is coming from Jordan Lyonnais from Bank of America.
Jordan J Lyonnais: On the M&A; pipeline, being full. Could you guys give us any more color on what you're looking at right now, anything that's actionable? And if the engine exchange program that you'll set up opens aperture at all?
Alexander Trapp: Jordan, it's Alex. So the M&A; pipeline is a similar story, very robust pipeline and we continue to look at things that make sense. We're kind of -- our goal is to be patient and disciplined in the way that we are deploying capital in general, and M&A; is just 1 of those ways that we deploy capital. So a very similar story as it's been the last couple of quarters, just close to the action, studying the market in processes and just waiting for the right thing to go after.
Operator: Next question is coming from Krista Friesen from CIBC.
Krista Friesen: Maybe if I can just follow on that last question there. As you think about the organic growth opportunities versus M&A;, are you prioritizing 1 over the other at this time?
Daniel Satterfield: Yes, great question. Listen, we've got a lot of outstanding opportunities for capital allocation. And if you look at them, they are well defined by what we've done. So on the organic side, a lot of excitement and a lot of opportunity with the Dallas-Fort Worth expansion. We consider that a great organic investment. The Augusta facility that Russ mentioned earlier, really excited about that. We're going to be cutting the ribbon on that in August. That provides not only a fantastic airframe work on the larger airframes, but also additional capacity for our engine shops on the HTF7000 program, for example, which is a wonderful program. And another organic investment that we talked about as part of our platform investments was that expanded relationship we have with General Electric. That's showing up on our CF34 program, expanding the commercial agreements with them, and it's really turning into a great margin enhancement. Another opportunity for capital allocation, of course, are new platforms. The best example of that is the LEAP platform that has a $60 billion entitlement over the next 30 years. So platforms are also another type of investment, sort of quasi organic and then M&A;, right? ATI has been a great acquisition, really contributing to growth and margin expansion in CRS, which we love to do. And all of this really -- they're all return-based reviews. All of these opportunities of which there are many are all return based. Look at the engine exchange program that we're putting in place that we're really excited about. Very low investment and a really great opportunity not only for our customers, but also improved margins and flow through our factories. So we're really excited about deploying our strong free cash flow in our asset-light business. We have lots of opportunities to do that.
Krista Friesen: Okay. Great. And if I can just follow up on 1 of the earlier questions around the free cash flow. Is there anything that we should be mindful of just as we're thinking about the cadence of free cash flow through Q3 and Q4 this year?
Daniel Satterfield: Yes, also a great question. So clearly, as we discussed earlier today, we've got strong free cash flow, implied free cash flow of $260 million in the second half. So 2 factors underlie that. There is some seasonality in our business. So if you look at our quarterly results in prior periods,

there's stronger cash flow in the back half of the year. What's happening this year, again, is this really outstanding demand we've seen in the first half on CF34, LEAP, CFM56, our Turboprop suite of engines, strong demand. That requires working capital, right, to satisfy that demand. And we see these engines, a lot of them, an outsized piece of them, really getting liberated from working capital and shipping in the second half, which is going to generate that really strong free cash flow that we're excited about. So I'm quite confident in our free cash flow guidance for the second half, and it is driven by that cash conversion cycle. Feed the machine with inventory, work in process, they become contract assets through our percentage of completion method of accounting. They accrue on the balance sheet and as the engines are completed and tested and shipped, then they are released. By the way, collections have been great. We recently centralized our collections team, and we're seeing really strong performance out of that. So all of that is going to contribute to the good cash flow in the second half.

Operator: Your next question is coming from Kristine Liwag from Morgan Stanley.

Kristine T. Liwag: I want to follow up on the engine exchange for the CFM56. I mean, no surprise. This is a topic of the conversation. The question I have is when you look at the duration in which customers would have to wait for their engines. Does this exchange program lower the duration wait or what's the value add for the customer to do this? And the question is really stemming from -- you've got a competitor who built a CFM56 engine module, where they do have a pool of inventoried assets ready to go with a shorter duration time. I'm just trying to understand how similar or different your approach is on the business, because it seems like that kind of inventory pull model to get you 35% to 40% EBITDA margin. So trying to understand what your approach is, how similar or different it is to what they're doing.

Russell W. Ford: Thanks, Kristine. Look, there's a couple of advantages that you might get on CFM56 as with other engines platforms that we do this type of work on. The first that you mentioned is, in fact, a lot of times you're talking about smaller work scopes, faster work scope, so the turn time should be increased. You have the ability to apply USM in many cases. So there could be a cost advantage as well as a timing advantage. But the difference between us and, for instance, and [FTI] is much broader than that. And we have the ability, I also should say, we have the ability to provide an engine solution that is more closely matched to what the customer actually needs in their particular operating environment, right? Because not everyone needs an engine for a full PRSV. They may be operating in an environment where they have other considerations that they need something less than that. So we can do it faster, we can match what they need and give them a more cost-effective maintenance solution than just, hey, your only choice is a brand-new engine. Now relative to [FTI], again, we offer a much broader suite of actions other than just swapping modules. Many times, what you need to do is get down inside the module and do work which we have the ability and the authorizations to do. And then you also have for us, you have economies of scale, breadth of knowledge because we do this work on multiple engine platforms, and we also have the ability to work across different end customers, different market segments, different OEMs. We're not limited to just 1 engine from essentially 1 customer.

Kristine T. Liwag: That's super helpful. And then regarding the economics of this for us, I mean this engine exchange program seems to be pretty interesting. What kind of margin could you earn on a program like this versus a regular restoration visit where a customer comes in the regular way without the exchange?

Daniel Satterfield: I mean the normal margins that we have on CFM56 work are also evident in this program. Of course, where we have the ability to deploy USM, right? That's an adder to margin. Where we're able to do more work in-house with our CRS capabilities that accretes margin. These are all levers that we already have. The engine exchange program is really a great option for customers who wants an immediate engine in exchange for the 1 they're turning in.

Russell W. Ford: The other thing that this should do is it should increase our access to a broader pool of USM.

Kristine T. Liwag: Sorry. And another follow-up on this. You guys mentioned that you don't expect to have a pool of inventory of this. So in order to have an engine ready for a customer, are you just planning to do like a one-for-one type event? Or will you have multiples of the CFM56s in various work

scopes ready to go? I just want to understand and match that with the inventory comment you had mentioned.
Daniel Satterfield: Yes. So it's a onetime investment in mid-single-digit millions of dollars to get the program started. Then as that continues, the program becomes self-funding. So it's -- we're not doing a big suite of pool of engine investments. Otherwise, my cash flow forecast would probably look different and it doesn't, right? So no, it's a modest investment to get the program rolling. And once it rolls, it generates additional margins that we can do it again and do it again and do it again.
Russell W. Ford: It's more of a one-for-one, Kristine.
Operator: Next question is coming from Gavin Parsons from UBS.
Gavin Eric Parsons: On the engine services margin in the second half, still ramping LEAP and CFM56, but guidance implies were stable from the second quarter. So are we at peak dilution there? Or does that step up again next year?
Daniel Satterfield: Yes. I mean -- so the dilutive impact, of course, grows as the revenue on these grows. And you can see, yes, you're right. In my implied margins in the second half on ES are [13.1], right, so right in line. So we -- and we expect to continue this ability to offset the dilutive margins on the great ramping programs with the activities that we've got on our core engine platforms. And so it's quite indicative that -- the guidance is exactly what we expected to do. The core business is offsetting the important investments of these ramp programs.
Russell W. Ford: There's a convergence of curve. So as the volume builds on the newer engines, where the productivity and the efficiency is not as good that has a dilutive effect. But as we come down the learning curve, then that will offset the volume and eventually these 2 lines will cross.
Gavin Eric Parsons: Okay. Great. And then on ES repairs done internally, I think you're still at 10%. What determines how quickly you can ramp up that mix? And where can you take that as a percent over time.
Daniel Satterfield: Yes. I mean the in-sourcing, if that's what you're referring to. That activity is strongly up versus the prior year, almost 40% and that's obviously great for a variety of reasons, right? We're growing CRS, and we're getting the in-house repairs done at our cost. So as we continue to do this, it's all good news for margins. It's good news for turn times because we keep the work in-house. We're typically able to do it faster than sending it out. And so we -- it's a margin-accretive activity.
Russell W. Ford: What drives this Gavin, is 2 things. Number one, the repair development work that we continue to do, right? We have an entire engineering staff that focuses on developing new repairs. And every time we add 1 of those repairs to our portfolio, that's work that is being done outside of our company that we can bring in and run through this repair cycle. And then the other thing that has essentially the same impact is the acquisitions that we've done growing the repair catalog for our CRS group. So both of those things are essentially having the same effect, which is to expand your catalog for authorized repairs. And as soon as that happens, then all of that work that we're having to take outside will come back to us. In addition to the ability to sell those to the third parties or to the outside market to be able to have those additional repairs as well.
Operator: Next question is a follow-up from Myles Walton from Wolfe Research.
Myles Alexander Walton: Russ, on GE's investor update, they pointed to 30% of LEAP shop as that's being done externally by 2030. They had previously pointed to about 40%. Have you seen any change in customer behaviors or the ability of the MRO network to take on more of the load of the external shop visits?
Russell W. Ford: We've seen no change to the pipeline for RFPs or the interest from the airlines. The OEs, Safran, GE, they've got a limited amount of shop capacity to apply to MRO work. They're focused on new production of these engines and will be for a number of years. So they're unlikely to be expanding. What they need is they need the network to expand like us. And so I think that's all goodness. But what it does in effect is that it's -- what we are seeing is the airlines are pushing harder to get longer-term contracts put in place sooner than they might have on other engines in the past. Because they know that, that MRO capacity is going to get allocated, and they want to make sure that they've got spots. So that's actually good for us. It's pushing the contracts towards us earlier and gives us more bargaining power.
Operator: We have reached the end of our question-and-answer session. I'd like to turn the floor back

over for any further closing comments.

Russell W. Ford: Okay. Very good. Thanks, everyone. We appreciate you joining us today for the earnings call. We also appreciate your continuing support for StandardAero and we look forward to talking to everybody again soon. So with that, we'll end the call. Thank you.

Operator: Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.