

LOAR Earnings Call Transcript

Date: 2025-11-12

Quarter: 3

Operator: Today's conference call will start momentarily. We thank you for your greetings and welcome to the Loar Holdings Inc. Third Quarter 2025 Results Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ian McKillop. Thank you. You may begin.

Ian McKillop: Thank you, Rob. Good morning, everyone. And as Rob said, welcome to the Loar Holdings Inc. Q3 2025 Earnings Call. This morning are Loar's Chief Executive Officer and Executive Co-Chairman, Dirkson R. Charles, Executive Co-Chairman, Brett N. Milgrim, Treasurer and Chief Financial Officer, Glenn D'Alessandro, as well as myself, Ian McKillop, Director of Investor Relations. Please visit our website at loargroup.com to obtain a slide deck and call replay information. Before we begin, we'd like to remind you that statements made during this call, are not historical in fact, are forward-looking. Further information about important factors that could cause actual results to differ materially from those expressed or implied on the forward-looking statements please refer to our latest filings with the SEC available through the Investor Relations of our website. Also as a reminder, during the call, we will be referring to adjusted EBITDA, adjusted EBITDA margin, adjusted earnings per share, and free cash flow conversion, each of which is a non-GAAP financial measure. Please see the tape and related footnotes in the earnings release for a presentation of the most directly comparable GAAP measures and applicable reconciliations. To begin the prepared remarks this morning, I'll pass it over to Dirkson R. Charles.

Dirkson R. Charles: Thanks, Ian. So my mates at Loar and I, we get up every day to create shareholder value over the long term. When we went public, we added a plethora of new partners to join our journey in building our aerospace and defense cash compounder. I got up this morning thinking about one such partner who we know is totally, totally aligned in our approach of building our business over years and decades as opposed to a quarter at a time. He was the one that told us we are boring. I did not name him on the call, so it was interesting when we spoke to him after the call. He said, Dirkson, Brett, was I not the one that called you boring first? Of course, the answer is yes. He then reminded us about the importance of intellectual property. How could we quote him without saying who he was? It is his IP after all. As you all know, we love IP. Here's the good news. We're going to be boring today. We're going to name the whole of the patent over the adjective that truly describes us. He has been with us since we went public, which is going on two years now. And along the way, he has continued to invest more in us. So before we name him, to respect his IP, let's remind everyone what it means to be boring. It means we're about to tell you that we beat, we're raising our guidance, but more importantly, generated strong cash flows. In addition, to telling you we continue to improve our margins while achieving record sales, adjusted EBITDA, and adjusted EBITDA margins during the quarter. We're then going to give you guidance in 2026 that we're doing with the Heather rule in mind. Given that we do not want to sacrifice Ian, which means we're only going to tell you what we believe we can meet or beat. I'm going to get started with my remarks but first let me name the person that called us boring. His name is Steve. Good morning, Steve. Good morning, all. We are about to be super boring, so here goes. I'm Dirkson R. Charles, Founder, CEO, and Co-Chairman of Loar Holdings Inc. As always, we'll keep our remarks brief. So let's start by reminding you who we are. Loar Holdings Inc. is a family of companies

with a very simple approach to creating shareholder value. First, we believe that providing our business units with an entrepreneurial collaborative environment to advance their brands will generate above-market growth rates. Since our inception in 2012, through the end of calendar year 2024, we have grown sales and adjusted EBITDA at a compound annual growth rate of 37% and 45% respectively. Over the long term, we expect to increase sales organically at a double-digit percentage with the last three years 2022, 2023, and 2024 achieving organic sales growth of 18%, 14%, and 15% respectively. With adjusted EBITDA growing at a faster rate, we execute along four value streams. First, we identified pain points within the aerospace industry and look to solve those problems through organically launching new products which we believe over the long term will create one to three percentage points of top-line growth annually. Over the next two years, we expect that new product growth will be closer to 3% as we qualify new parts, sell existing products to new customers, and just dive deeper into our mission of solving our customers' pain points. As you all know, we track this pipeline of opportunities monthly. It represents a list of opportunities across our portfolio that are derived from listening to our customers to identify their pain points to determine how we can help. It is created from sharing ideas, best practices, customer synergies across the group to the high degree of collaboration that we foster across our business units. This list, as you can see, has grown by \$100 million since our last call and represents over \$600 million in sales over the next five years. As you can see, the beauty of the list is it is a living, breathing entity that continuously grows. We also focus on optimizing the way we manufacture, go to market, and manage to enhance productivity. Each year we'll identify initiatives that will allow us to continually improve our performance with a focus on one or two major initiatives each year that will improve margins. Over the next couple of years, we are looking to enhance the way we mine, gather, and utilize data. This means enhancing our management ERP and other systems and processes to improve our leverage of data to drive the improvement in our cash flows. In addition, across our portfolio of companies, we'll achieve more price than our cost of inflation. Each year, the result is a continuous improvement in margins year over year with on occasion a temporary dilution as a result of acquiring business with dilutive margins or incurring costs as a result of being a public company. All of which we have experienced over the years. But regardless of these temporary headwinds, we continue to improve our margins. Most importantly, we are committed to developing and improving the talent of all our mates, because our success is solely a result of their dedication and commitment. To all our mates, thank you so much for your commitment and hard work. I will now turn it over to Brett N. Milgrim to walk you through the key characteristics of our portfolio.

Brett N. Milgrim: Thanks, Dirkson. Everybody, I think you've seen this slide, we've had it in all our presentations. So I don't want to belabor it, but the reason this slide is in there is really just to remind people that we have a very consistent and very attractive business model as highlighted by all the boxes on the bottom of the page that we apply all our parts to. And those parts cut across a very broad and very diverse set of end markets, customers, and virtually any platform that you can think of that flies. And the way that ultimately manifests itself is in the strong performance that we've had that is consistent, reliable, and dare I even say boring.

Ian McKillop: Excellent. Thank you, Brett. Over the last thirteen years, we brought together a unique set of capabilities and products that are highlighted here. We go to market with more than 20,000 unique products, none of which makes more than 3% of our annual revenue. Whether it's sensors or switches, water purification systems, de-icing technologies, human interface device systems, or one of our many other products, we are an essential supplier across the aerospace and defense industry. Our customers have come to depend on our highly proprietary products, quality, on-time performance, and engineering capabilities to ensure they are able to maximize their production and aircraft operations. I'll now pass it over to Glenn D'Alessandro to walk through the financials.

Glenn D'Alessandro: Thank you, Ian. Good morning everyone. Let me start by discussing sales by our end markets. This comparison will be on a pro forma basis as if each of our businesses were owned as of the first day of the earliest period presented. This market discussion includes the acquisition of Applied Avionics in Q3 '24 and Beadlight in Q3 '25. We achieved record sales during Q3 '25. In total, sales increased to \$127 million which is a 15% increase as compared to the prior year. This increase was driven by strong performances in commercial aftermarket, commercial OEM, and defense. Our commercial aftermarket sales saw an increase of 19% in Q3 2025 versus Q3 '24. This is primarily

driven by the continued strength in demand for commercial air travel and an aging commercial fleet. We continue to see strong commercial aftermarket bookings. Our total commercial OEM sales increased by 11% in Q3 2025 as compared to the prior year period. This increase was driven by higher sales across a significant portion of the platforms we supply along with an improving production environment for commercial OEMs. The increase of 70% in our defense sales was primarily due to strong demand across multiple platforms and an increase in market share as a result of new product launches. Defense sales will continue to be lumpy given the nature of the ordering pattern of our end customers for our products. Let me recap our financial highlights for 2025. Our net organic sales increased 11.1% over the prior year. Our gross profit margin for Q3 2025 increased by 380 basis points as compared to the prior year period. This increase was primarily due to our operating leverage, the execution of our strategic value drivers, as well as a favorable sales mix. Our increase in net income of \$19 million in Q3 2025 is primarily due to a tax benefit as a result of the enactment of the One Big Beautiful Bill Act, higher operating income, and lower interest. Adjusted EBITDA was up \$11 million in Q3 '25 versus Q3 '24. Adjusted EBITDA margins were a record 38.7% due to our operating leverage, the execution of our strategic value drivers, and a favorable sales mix. This was partially offset by additional costs with being a public company including Sarbanes-Oxley compliance and additional organizational costs to support our reporting, governance, and control needs. We did not see a material increase in these types of costs going forward. We believe the run rate of these costs is fully reflected in our Q3 '25 results. From 2020 through 2025, we will have increased our EBITDA margins by 710 basis points. We have achieved this growth through the following: operating leverage, winning new profitable business, executing on productivity initiatives, and from value-based pricing. In Q3 2025, our margins grew by 190 basis points from the prior year to a record 38.7%. This was achieved even with the negative impact of costs related to Sarbanes-Oxley from being a public company as well as the dilution of margins from our most recent acquisition, Beadlight. We are excited to share our most recent view for calendar year '25. This view is in excess of what we told you thirteen weeks ago. Our confidence rests in the great strides we have made executing on our value drivers in the first nine months of 2025 and the strength of our proprietary portfolio. Primarily, we are ahead of our plan on value pricing and productivity initiatives. In addition, we have not seen any material in demand on any of our end markets and expect no meaningful impact on our end markets as a result of the tariff environment. The one end market to note is total commercial aftermarket. Given the strength we have seen in the first nine months of 2025, we are increasing our outlook to low double-digit growth from high single-digit growth. Commercial OEM and defense are in line with our prior outlook. These market assumptions along with our continued execution of our value drivers will allow us to exceed the following metrics for calendar year '25 versus our previous outlook. Net sales were up \$1 million, adjusted EBITDA is up \$1 million, net income is up \$5 million, diluted earnings per share is up \$0.05, adjusted earnings per share is up \$0.10. We see a further reduction in our interest expense by \$1 million. All other assumptions are consistent with our previous outlook. Let me now turn the call back over to Dirkson R. Charles to share our outlook for '26.

Dirkson R. Charles: Thanks, Glenn. Look, we are extremely excited to share our initial, I'll say it again, initial view for calendar year 2026. But as a reminder, we can share such a detailed forecast so early in the year because of the substantial proprietary content of our product and service portfolio. Combined with our record backlog as of the end of 2020, both of which allow for tremendous visibility into 2026. This view is on a pro forma basis assuming we own all of our business units since the beginning of 2025. So with that said, we expect commercial OEM and aftermarket growth will be low double digits in 2026. With the strong backlogs at the commercial aircraft producers, we see another year of double-digit growth. With regards to our assumptions about monthly production rates, for the Boeing 737 MAX and A320 family of aircraft, we have assumed that monthly production will average thirty-eight and fifty-four during 2026 respectively. This is between a 15% to 20% reduction from the OEM skyline projections that they all talk about. This is how we adjust for any supply chain challenges, destocking, that inevitable part of the complicated ecosystem of making parts for aircraft. So let's meet and exceed. Commercial aftermarket growth again will be driven by the continuing secular growth rate of air travel combined with an older in-service fleet as OEM production continues to not meet demand for aircraft. It is noteworthy that the average age of the passenger fleet worldwide is a record fourteen plus years

currently. Given that airlines have learned to affordably maintain aircraft for longer combined years, we expect that with the production of aircraft not covering retirements and plus a secular growth, that the aftermarket will stay strong for quite a period of time. We also see strength in general aviation with Q3 2025 departures setting a record at over 1 million. How do we say it? We love the aftermarket. While our defense end markets will be up mid-single digits as we come off a fantastic year of growth. As we have always said, growth in the defense end market will be choppy. So up, down, up, down over the long term, lots of cash. So we think about it. These market assumptions along with our continued execution of our value drivers will allow us to meet or exceed the following for calendar year 2026. Net sales between \$540 million to \$550 million, adjusted EBITDA between \$209 million and \$214 million, adjusted EBITDA margin of approximately 39%, once again demonstrating our ability to continually improve margins. Net income between \$80 million and \$85 million, adjusted EPS between \$0.98 and \$1.03 per share. In addition, we expect capital expenditures of approximately \$17 million, full-year interest expense \$25 million, effective tax rate will be approximately 25%, depreciation and amortization of \$15 million, non-cash stock-based comp of \$17 million with the fully diluted share count of 97 million shares. Please note that all of the amounts I've just outlined for you relating to calendar year 2026 performance assume no additional acquisition and does not include the previously announced pending acquisition of L and B, Frans and Motors. However, as we have noted previously, our drumbeat is to complete one or two acquisitions each year. But we just cannot predict the timing of such acquisition. One last metric I will share. Related to calendar 2026. We expect operating cash flow minus capital expenditures greater than 125% of our net income assuming no additional acquisition. With that operator, let's open up the line for questions.

Operator: Thank you. At this time, we'll be conducting a question and answer session. Our first question comes from Kristine T. Liwag with Morgan Stanley. Please proceed with your question.

Kristine T. Liwag: Hey, good morning everyone.

Dirkson R. Charles: Good morning. Good morning.

Kristine T. Liwag: Congratulations on your record margin in the quarter despite the two headwinds that you called out, including the dilution from the recent deal. I guess, can you provide more color now with what the operating and integration playbook looks like thirty, sixty, ninety days after a deal? Are there some heuristics operationally that you could call out? And where do you usually find low hanging fruit?

Dirkson R. Charles: So, good morning, Kristine. So it varies by the business that we acquire, right? Some businesses require, put it this way, a lot of handholding, others just require strategic direction. Specifically, to Beadlight our recent acquisition, great business, great team, great leader in Gina. It's more about in this case, the first thirty, sixty days which is always the case, I should start there. Is listen and observe first. We don't believe that we're smarter than the folks that have been running the business for years. Right. So we listen and watch and learn first. And help wherever they come to us initially. In Beadlight's case, it's more about top line synergies. Right? We have embedded Beadlight with our short business. So Gina actually reports to President at Short. To incorporate the outreach to customers in a synergistic way. At Short, as you know, we make seat belts and restraints for effectively the same customers that Beadlight is selling to. So in the case of Beadlight, it's more about the synergy with customers and focusing in that manner, which we have started with really have a tremendous runway ahead of us in terms of opportunity.

Kristine T. Liwag: Great. That makes sense. And then with your commercial aerospace OE outlook for next year, Dirkson, can you provide some color regarding the underlying production rates that underpin those assumptions?

Dirkson R. Charles: Yeah. That is that I think what I outlined was the production numbers that we are dealing to thirty-eight and fifty-four that's Boeing and Airbus respectively. That's what we're looking at. Now I will tell you that varies tremendously by part. That's the net net net of everything that we've seen and touched across the group. So we can have a track liner at one number and we can have a water purification system at another number just driven by what's in the pipeline, what customers are expecting, those types of things. But on the average, we're looking at 38 for the max and 54 for the A320 family.

Kristine T. Liwag: And for the wide bodies too?

Dirkson R. Charles: For the wide bodies, I would say it this way. The discount isn't as great. I think we

discounted the 15% to 20% on the narrow bodies, on the wide bodies versus skylines about 10%. And just keeping in mind, the way we think about it is really going back to our rule of engagement when we give guidance, which is the header. We want to make sure especially at this early stage, I mean, we're in November predicting what's going to happen to the 2026, which is thirteen plus months away. We just want to be conservative.

Kristine T. Liwag: Great. Thank you very much.

Operator: Our next question comes from Sheila Karin Kahyaoglu with Jefferies. Please proceed with your question.

Sheila Karin Kahyaoglu: Good morning guys and congrats on a great quarter.

Dirkson R. Charles: Thanks, Sheila. Maybe if I could ask on the same light as Kristine. But just focusing on Defense. Your Defense growth has been superb this year. Your guidance is for about 5%. Why the deceleration? And maybe can you talk about, yes, what's driving the deceleration, whether domestic or international?

Dirkson R. Charles: So first of all, I'll say it this way, lessons learned been doing this for three decades. And when you have a defense market that one year is up, as we've seen it somewhere between 16% to 20%. It usually is time for it to be rationalized, right? It should be a mid-single-digit-ish growth rate on the defense side. I'll give you a little bit of specifics. Ground vehicles were strong in 2025. I will tell you as we put together our budget, is a month or so ago now, we looked at terms of our product and ground vehicles and we said, to ourselves that that's a slowdown. We didn't have the backlog at the time. To support it. But what I would tell you today, Sheila, if we were building that forecast today, probably come up with a different result. But since that time, we've seen improved bookings for ground vehicle product.

Sheila Karin Kahyaoglu: Okay. Got it. So just normalization of the market and being conservative.

Dirkson R. Charles: Correct.

Sheila Karin Kahyaoglu: Cool. And then Dirkson, at the beginning, you gave some introductory comments that the new product growth now could be 3% versus your, I think, 1% to 3% historically. Can you talk about some of the areas where you're making particular headway, whether it's an end market, a certain OEM, or, you know, is it a synergy with Beadlight as you pointed to? Where are you seeing that new product growth coming from?

Dirkson R. Charles: So this was a little sensitive. Because you're not the only one listening. And I don't want to share information that would make it harder to compete in the market get people focused. But I know there's two things that we talk about quite a bit. Happy to share, because these are two of the reasons why it is improving and we do see it. So one, is on brakes. We are getting certification on PMA brake applications. We've gotten five done this year, most of those within the last three, four months. And in the pipeline, but for the government shutting down, we're probably a little bit ahead. We have another four or so certifications to get. That's one of the reasons that we're going to see higher growth rates over the next couple of years because we're now getting into that business. So that I can talk to. The other one I can speak to is as we think about so that one's aftermarket. I'll give you one that's OE. As we think about the cockpit door barrier, I think we've told folks that got that certified this year, started producing in May on the Airbus platform. We're going to see more of that content growth next year and in the years to come. Because we're exclusive and the majority of the Airbus narrow body aircraft. Those two alone would get us as I said, I didn't say 3%, I said closer to three than one. Those two alone get us closer to 3% than one.

Sheila Karin Kahyaoglu: Got it. Okay, great. Thank you so much. And also as Steve said, I don't know why anybody would listen to a boring call like this. So exactly. You could share with us all you want. Thank you.

Operator: Our next question comes from Kenneth George Herbert with RBC Capital Markets. Please proceed with your question.

Kenneth George Herbert: Good morning, Ken.

Dirkson R. Charles: Yes. Hi, Ken.

Kenneth George Herbert: Hey, Dirkson. And Glenn, good morning and Ian. Maybe just to start, you did nudge up slightly the aftermarket expectations for this year. Curious if you can talk about what's specifically driving that or how we think about sort of volume versus price in the aftermarket growth this

year?

Dirkson R. Charles: It's all across our products. I can't think of any one that stood out in terms of driving the aftermarket growth change. It's really across all the products. And it's volume driven not price. We're just seeing well, I guess I'll put it this way. When we put together a guide as we always do, we think of it in such a way to make sure that we meet or exceed, I think you know that. So it's actually what's not surprising to us that it's low double-digit growth. Just like we're starting out this year, thinking it's low double-digit growth. Commercial aftermarket, I got to tell you is extremely strong. I know some folks we talk to worry about it slowing down. I got to tell you Ken, don't see it. So going back to your question, volume driven not price and it's across all of our product offerings.

Kenneth George Herbert: That's great. Thank you, Dirkson. And as we think about the initial outlook for 2026, again up sort of low double, similar contributions as we think about the volume and price mix in 2026 on the aftermarket? And then under that, I guess, we think about '26, are you seeing any acceleration or deceleration underpinning that by end market from '25 to '26?

Dirkson R. Charles: No. But you can no. I don't see anything. So I guess I should say it this way, right? So across all the end markets, I see this, I see over the last three years or so, that as we think about the mix of what drove growth, that I would put it in this way, volume price, then new business. That's probably the last three years. The next two or three years, I would rank it this way. New business, volume, and then price. So to answer your question, don't see any slowdown on volume, don't see any risk in terms of any long-term destocking. No, that said, I know we're talking about 26%, but does remind me as we think about I hate guiding for thirteen weeks. Which is what you guys force us to do. We get to this point in the year. We're talking about the 2025. I will tell you Ken, I am seeing more noise from customers. By the way, we love them. From customers in terms of cosmetically managing their balance sheets, and managing working capital. And there's a lot of push-pull within our system as to the timing of deliveries. It's all timing. It's all proprietary products, all those things. I would say that about 2025. But in terms of 2026, fairly strong across all the end markets, talked about military, just trying to normalize what we think about what 2026 should look like.

Kenneth George Herbert: Great. Thanks, Dirkson. And appreciate all the detail.

Dirkson R. Charles: If that's the last question, operator.

Operator: Yes, it is. Would you like to do closing comments?

Dirkson R. Charles: Yes, I can close it up real quick. First of all, big thank you to everyone that has taken the time to hear our story again today. Believe me, believe me when I say we continue to be excited about building our aerospace as cash compounder. We call it Loar Holdings Inc. Looking forward to speaking to you all again in late February 2026. Just to give you a date this time. Thank you. Thank you very much. And by the way, thank you everyone for calling in on time. Love you guys. Thank you.

Operator: This concludes today's conference. You may disconnect your lines at this time and we thank you for your participation.