



P A R K
A E R O S P A C E
C O R P .

FY2020 Q3 Investor Conference Call
January 9, 2020

Forward Looking Disclaimer

This presentation contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events or our future financial or operating performance, and include Park's expectations regarding revenues, EBITDA, EBIT, and growth opportunities and projected pro forma financial information for Park's business. The forward-looking statements contained in this presentation are based on management's good-faith belief and reasonable judgment based on current information, and these statements are qualified by important risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from those forecasted or indicated by such forward-looking statements.

Factors that could cause actual events or results to differ materially from Park's expectations or forecasts are set forth under the caption "Factors That May Affect Future Results" in Item 1 and in Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended March 3, 2019, and in subsequent reports filed with or furnished to the Securities and Exchange Commission. Except as may be required by any applicable laws, the Company assumes no obligation to update such forward-looking statements, which are made as of the date hereof or an earlier date specified herein, whether as a result of new information, future developments, or otherwise.



Special Dividend

- On January 8, 2020, Park's Board of Directors declared a special dividend of \$1.00 per share payable February 20, 2020 to shareholders of record on January 21, 2020. The total amount of this special dividend will be approximately \$20.5 Million
- Including this special dividend and the regular quarterly \$0.10 per share dividend payable February 4, 2020 to shareholders of record on January 2, 2020, Park will have paid approximately \$536 Million, or \$26.15 per share, of cash dividends since the beginning of FY05
- Park's Regular Cash Dividend
 - ✓ Park has paid regular quarterly cash dividends since 1985 and has never skipped or reduced its regular dividend



Doing the Cash Math

➤ The Cash Math:

- ✓ \$144.2M Cash at end of Q3 of FY20
- ✓ - 17.7M Remaining transition tax installment payments*
- ✓ - 15.1M** Remaining Newton, KS facility expansion costs
- ✓ - 20.5M Special cash dividend payment
- ✓ \$90.9M**

➤ Approximately \$91M*** of cash remaining after all items listed above are paid

*installments payable over next 6 years

** estimates

***This is a conceptual number and not a precise computation



Update on Major Expansion of Newton, KS Facilities

➤ Estimated Expansion Budget	\$20.5 Million
Spending thru FY20 Q3	<u>5.4 Million</u>
Remaining to be Spent	\$15.1 Million



- Completion now expected by **end of CY2020**
 - ✓ Delay caused by:
 - ❖ Governmental approval process more complex and time consuming than anticipated
 - ❖ Additional time required to finalize contracts and other arrangements related to construction
- New Facility now expected to be Qualified and in Production by **end of CY2021**
- Expansion now expected to provide approximately **\$55 Million to \$60 Million** of additional Hot-Melt Composite Materials Manufacturing Capacity



Estimated Manufacturing Capacity*

➤ Hot-Melt Treated Composite Materials:

60" Film and Tape Lines: \$45M

24" Film and Tape Lines: \$ 8M**

➤ Solution Treated Composite Materials: \$55M

➤ Composite Parts Fabrication and Assembly: ???

➤ Estimated Total Composite Materials
Manufacturing Capacity: \$108M

➤ Issue Related to \$45M of Hot-Melt Materials Manufacturing Capacity from 60" Film and Tape Lines:

- ✓ GE Programs business represents large majority of current Hot-Melt Business
- ✓ GE Programs business has been subject to significant short-term variability (peaks and valleys)
- ✓ Hot-Melt Materials production was approximately \$9.5M in FY20 Q3
- ✓ **But** Hot-Melt Materials manufacturing operations produced at an annualized run rate of **\$45M** during months of October and November of FY20 Q3!

*Manufacturing Capacity is highly variable and significantly impacted by product mix

**Assumes being used exclusively for GE9X Containment Wrap Program; Park has POs for this program through end of CY2020, but Park has not been awarded this program at this time; this is a GE Aviation Program and not an MRAS Program



Estimated Manufacturing Capacity (Continued)

- As a result of short-term variability (peaks and valleys) of GE Programs business, it may be difficult to handle the peaks with \$45M of Hot-Melt Materials Manufacturing Capacity
- Additional Hot-Melt Materials Manufacturing Capacity provided by expansion will not be available and qualified for approximately 2 years
- Our Solution: Increase Hot-Melt 60” Film and Tape Lines Manufacturing Capacity from \$45M to \$55M by:
 - ✓ Moving all GE9X Production to 24” Film and Tape Lines
 - ✓ Increasing 60” Film and Tape Lines Up-time by approximately 10%
- *Necessity is Mother of Invention!*



Quarterly Results for FY2019 and FY2020 Q1, Q2 and Q3 (In Thousands)*

	FY19 Q1	FY19 Q2	FY19 Q3	FY19 Q4**	FY20 Q1	FY20 Q2	FY20 Q3
Sales	\$10,393	\$11,211	\$12,853	\$16,659	\$14,950	\$13,723	\$15,847
Gross Profit	\$2,852	\$3,145	\$4,284	\$5,903	\$4,804	\$3,813	\$5,022
Gross Margin	27.4%	28.1%	33.3%	35.4%	32.1%	27.8%	31.7%
EBITDA	\$1,385	\$1,663	\$2,948	\$4,251	\$3,372	\$2,406	\$3,622

- What we said about FY20 Q3 during our October 10, 2019 FY20 Q2 Investor Call:
 - ✓ Sales estimate: \$14.75 Million to \$15.75 Million
 - ✓ EBITDA estimate: \$3.0 Million to \$3.5 Million

- FY20 Q3 Results exceeded higher ends of Forecast Estimate Ranges by:
 - ✓ Sales: \$97 Thousand
 - ✓ EBITDA: \$120 Thousand

*From Continuing Operations

**14 Week Quarter



01/08/2020 Slide 8

Discussion of FY20 Q3

- Carbon fiber supply continues to be very tight...very little slack or leeway in system
- Park's carbon fiber and fabric raw material inventory at historically low levels...hand to mouth situation
- Distorted carbon fiber weave and polyurethane film wrinkling issues from FY20 Q2, and the associated rework, carried over through the month of September of FY20 Q3, resulting in:
 - ✓ Park incurring additional cost of rework in FY20 Q3
 - ✓ Unavailability of carbon fabric and resources diverted from production operations to rework operations, which in turn resulted in:
 - ❖ Significantly reduced production in September, particularly for Hot-Melt product
 - ❖ The need to run Hot-Melt production in October and November at annualized run rates of \$45 Million, the current manufacturing capacity limit of Park's 60" Hot-Melt Film and Tape manufacturing lines!
- Running Hot-Melt operations at or close to manufacturing capacity limitations for the two full months of October and November, combined with historically low carbon fiber and fabric inventory levels, required intense focus and brute force effort by our Manufacturing People, and resulted in manufacturing inefficiencies, additional costs and reduced Gross Margins
 - ✓ FY20 Q3 was not an easy quarter on manufacturing floor...not for the weak of heart or will
 - ✓ But Park's Manufacturing People did what they had to do and got the job done



Discussion of FY20 Q3 (Continued)

- Park's People Count:
 - ✓ Park hired 10 additional Production and Lab People during FY20 Q3 to staff the 4th shift for Hot-Melt tape line operations and for other manufacturing and lab functions (Hot-Melt tape line operation is now running 24/7)
 - ✓ Managing Park's People Count is somewhat of a trial and error process:
 - ❖ Park tends to run lean...Always
 - ❖ Park attempts to do more with less...Always
 - ❖ We add People cautiously and carefully as we go
 - ✓ The additional People obviously impact our Gross Margins
 - ✓ Park's People Count is now approximately 135

- Other factors which affected FY20 Q3 EBITDA and Gross Margins:
 - ✓ Outside testing costs related to data development for new product expected to be released in near future
 - ✓ GE9X Program manufacturing trials and development expenses
 - ✓ Film Adhesive manufacturing trials and development expenses
 - ✓ Costs of operating 24" Hot-Melt lines for GE9X
 - ✓ Legacy costs (expected to continue through FY20 Q4)



FY2020 Q4 and FY2020 Forecast Estimates (Historical Data In Thousands)*

	FY19 Q1	FY19 Q2	FY19 Q3	FY19 Q4**	FY20 Q1	FY20 Q2	FY20 Q3	FY20 Q4	FY2020
Sales	\$10,393	\$11,211	\$12,853	\$16,659	\$14,950	\$13,723	\$15,847	\$15.0M to \$16.0M	\$59.5M to \$60.5M
EBITDA	\$1,385	\$1,663	\$2,948	\$4,251	\$3,372	\$2,406	\$3,622	\$3.1M to \$3.6M	\$12.5M to \$13.0M

- As of January 3, 2020, amount shipped in FY20 Q4, plus amount booked to be shipped in FY20 Q4: ~\$13M
- Off to slow start in December of FY20 Q4 as a result of:
 - ✓ Lengthy shut-down for major maintenance
 - ✓ Carbon fiber shortage; fiber was airfreighted from Japan this week
- Factors expected to affect FY20 Q4 EBITDA:
 - ✓ Outside testing costs related to data development for new product
 - ✓ GE9X Program manufacturing trials and development expenses
 - ✓ Film Adhesive manufacturing trials and development expenses
 - ✓ Costs of operating 24" Hot-Melt lines for GE9X
 - ✓ Legacy costs (expected to continue through FY20 Q4)

*From Continuing Operations

**14 Week Quarter



FY2020 Q4 and FY2020 Forecast Estimates (Continued)

- **Factors affecting predictability of short-term forecasts:**
 - ✓ All Major Jet Engine Company Programs, except B747-8, are ramping or in development
 - ✓ Severe stress on Aerospace Industry supply chain
 - ✓ Because of tight manufacturing capacity, reduced carbon fiber and fabric raw material inventory and tight carbon fiber supply, there is very little slack and leeway in system, making it difficult to recover from supply or production short-falls
- Park plans to update its Long-Term Forecast through FY2024 at the 22nd Annual Needham Growth Conference on January 15, 2020



Update on Major Jet Engine Company Programs

- Boeing 747-8: Flat...How long will “Queen of the Skies” be produced?
- A320neo/A321neo/A321XLR with LEAP-1A Engines: Strong and still ramping
- Bombardier Global 7500 with Passport 20 Engines: Ramping nicely
- Comac ARJ21 with CF34-10A Engines: Ramping nicely
- Comac 919 with LEAP-1C Engines: Ramp is still down the road
- Boeing 777X with GE9X Engines: Production schedule pushed out; current focus is development work (GE Aviation program not included in MRAS LTA)

FY20 Q3 Top Five Customers (in Alphabetical Order)

AAR Corp.

GKN Aerospace

Kratos Defense and Security Solutions

Lockheed Martin

Middle River Aerostructure Systems (MRAS),
subsidiary of ST Engineering Aerospace



Recent Developments

- Major Private Space Company...NRE in progress
- Qualified for initial low rate production on new EVTOL Program
- Qualified on new Hypersonics Program...Original PO received
- DC-10/KC-10 Aircraft...In production of “niche” component using Park materials
- Northrop Grumman recently announced plans to increase production of Global Hawk/Triton UAVs; Park’s materials are qualified on those programs
- December 20, 2019 WSJ Article reporting a deal for CFM International to produce an increased volume of LEAP-1A engines for A320neo family of aircraft...What does this mean for Park?
- Single Isle vs. Wide Body Aircraft...Paradigm Shift? Park seems to be well positioned on Single Isle Aircraft with A320neo family of Aircraft and Comac 919 Aircraft; Park has no content we are aware of on B737 MAX Aircraft



Recent Developments (Continued)

- Park still immersed in battling through challenges relating to steep program ramps, ongoing severe stress on Aerospace Industry supply chain, tight supply of raw materials, operating with tight raw materials inventories and Park's own manufacturing capacity limitations...but we don't quit, back down or relent...that is not the Park way...
- Park will present at the 22nd Annual Needham Growth Conference at 12:00 Noon EST on January 15, 2020; Park's presentation will be available via Webcast and on Park's website



Thank You!



Park Aerospace Corp.

January 9, 2020 Investor Conference Call – Supplementary Financial Information

The financial and other data contained herein (the “Supplementary Data”) is being provided pursuant to the requirements of Regulation G promulgated by the U.S. Securities and Exchange Commission (the “SEC”). The Supplementary Data is time-sensitive information and is accurate as of January 9, 2020. Park Aerospace Corp. (“Park” or the “Company”) is under no obligation to (and expressly disclaims any such obligation to) update or alter the Supplementary Data whether as a result of new information, future events or otherwise.

The Supplementary Data should be read in conjunction with our 2020 third quarter earnings news release dated January 9, 2020 and the reports and documents that we file from time to time with the SEC. In particular, please read our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K that we may file from time to time. Park currently expects to file its Quarterly Report on Form 10-Q for the third quarter ended December 1, 2019 on or about January 10, 2020. We make available free of charge on or through our website located at www.parkaerospace.com our SEC filings on Forms 10-K, 10-Q and 8-K and any amendments to those filings as soon as reasonably practicable after electronic filing with the SEC.

Information to be presented at the January 9, 2020 investor conference call by P. Matthew Farabaugh, Senior Vice President and Chief Financial Officer

Certain statements we may make during the course of this discussion which do not relate to historical financial information may be deemed to constitute forward-looking statements. Any forward-looking statements are subject to various factors that could cause actual results to differ materially from our expectations. We have set forth in our most recent Annual Report on Form 10-K for the fiscal year ended March 3, 2019 various factors that may affect future results and risk factors. Those factors are found in Items 1 and 1A of that Form 10-K. Any forward-looking statements we may make are subject to those factors.

As previously reported, Park sold its Electronics Business to AGC Inc. on December 4, 2018. Accordingly, my comments will focus on Park’s Aerospace Business, the business which remains with Park going forward. All comparisons to prior periods have been updated to exclude Park’s former Electronics Business.

I’d like to briefly review some of the items in our fiscal year 2020 third quarter ended December 1, 2019 P&L.

Park’s sales were \$15.8 million in the 2020 fiscal year third quarter compared to \$12.9 million in the 2019 fiscal year third quarter and \$13.7 million in the 2020 fiscal year second quarter.

APPENDIX I

Gross Profit for the 2020 fiscal year third quarter was \$5.0 million, or 31.7% of sales, compared to \$4.3 million, or 33.3% of sales, for the 2019 fiscal year third quarter and \$3.8 million, or 27.8% of sales, for the 2020 fiscal year second quarter.

Selling, general and administrative expenses for the 2020 fiscal year third quarter were \$1.9 million, or 12.3% of sales, compared to \$2.0 million, or 15.4% of sales, for the 2019 fiscal year third quarter and \$1.9 million, or 13.9% of sales, for the 2020 fiscal year second quarter. Investment income, net of interest expense, in the 2020 fiscal year third quarter was \$802,000 compared to \$393,000 in the 2019 fiscal year third quarter and \$863,000 in the 2020 fiscal year second quarter.

Earnings before income taxes for the 2020 fiscal year third quarter were \$3.9 million, or 24.5% of sales, compared to \$2.7 million, or 21.0% of sales, for the 2019 fiscal year third quarter and \$2.8 million, or 20.1% of sales, for the 2020 fiscal year second quarter.

Before special items, net earnings for the 2020 fiscal year third quarter were \$2.8 million, or 17.7% of sales, compared to \$2.1 million, or 16.2% of sales, for the 2019 fiscal year third quarter and \$2.1 million, or 15.0% of sales, for the 2020 fiscal year second quarter.

Depreciation and amortization expense in the 2020 fiscal year third quarter was \$410,000 compared to \$453,000 in the 2019 fiscal year third quarter and \$366,000 in the 2020 fiscal year second quarter. Capital expenditures in the 2020 fiscal year third quarter were \$2.1 million compared to \$229,000 in the 2019 fiscal year third quarter and \$394,000 in the 2020 fiscal year second quarter.

EBITDA for the 2020 fiscal year third quarter was \$3.6 million, or 22.9% of sales, compared to \$2.9 million, or 22.9% of sales, for the 2019 fiscal year third quarter and \$2.4 million, or 17.5% of sales, for the 2020 fiscal year second quarter.

The effective tax rate before special items was 27.6% in the 2020 fiscal year third quarter compared to 22.9% in the 2019 fiscal year third quarter and 25.7% in the 2020 fiscal year second quarter.

For the 2020 fiscal year second quarter, the top five customers, in alphabetical order, were AAR Corp., GKN Aerospace, Kratos Defense & Security Solutions, Lockheed Martin, Middle River Aerostructure Systems (including its subcontractors). Middle River Aerostructure Systems is a subsidiary of ST Engineering Aerospace. The top five customers totaled approximately 73% of total sales during the 2020 fiscal year third quarter. Our top 10 customers totaled approximately 81% of total sales and the top 20 customers totaled approximately 89% of total sales for the 2020 fiscal year third quarter.

Safe Harbor Statement

The Supplementary Data may contain “forward-looking statements,” as defined under the Federal Securities Laws, including the Private Securities Litigation Reform Act of 1995. Certain portions of the Supplementary Data which do not relate to historical financial information may

APPENDIX I

be deemed to constitute forward-looking statements that are subject to various factors which could cause actual results to differ materially from Park's expectations or from results which might be projected, forecasted, estimated or budgeted by the Company in forward-looking statements. Generally, you can identify forward-looking statements by the use of words such as "expect," "estimate," "project," "budget," "forecast," "anticipate," "goal," "intend," "plan," "may," "will," "could," "should," "believes," "predicts," "potential," "continue" and similar expressions or the negative or other variations thereof. Such forward-looking statements are based on current expectations that involve a number of uncertainties and risks that may cause actual events or results to differ materially from Park's expectations. Factors that could cause actual events or results to differ materially include but are not limited to general conditions in the aerospace industry, Park's competitive position, the status of Park's relationships with its customers, economic conditions in international markets, the cost and availability of raw materials, transportation and utilities, and the various other factors set forth under the caption "Factors That May Affect Future Results" in Item 1 and in Item 1A "Risk Factors" of Park's Annual Report on Form 10-K for the fiscal year ended March 3, 2019. These and other risks may be detailed from time to time in Park's periodic reports filed with the Securities and Exchange Commission, including, but not limited to, its fiscal year 2019 Annual Report on Form 10-K and other SEC filings, copies of which may be obtained from <http://www.sec.gov/>. Park is under no obligation to (and expressly disclaims any such obligation to) update any of the information contained herein if any forward-looking statement later turns out to be inaccurate whether as a result of new information, future events or otherwise.