

DESK NOTE

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AAR Corp (AIR US) – Navigating Growth Amid Industry Challenges – Why Caution Prevails

Conclusive Summary: AAR Corp.'s strong financial performance, highlighted by record revenue and EPS growth, reflects solid execution across its key business segments. The Parts Supply segment benefited from exclusive contracts and recovering USM sales, while Repair & Engineering achieved significant growth driven by acquisitions and increasing maintenance demand. Strategic moves, such as the divestiture of non-core assets and expansion of MRO capacity, position AAR for future growth in high-margin activities. However, operational risks, including execution challenges with integration synergies and hangar expansions, as well as uncertainties in government contracts, introduce significant variability. Margin pressures in Parts Supply and Integrated Solutions, along with compliance costs and exposure to rising interest rates, further weigh on near-term prospects. Given these dynamics and the current valuation which price in optimistic quarters ahead, we see no upside for the stock at present. **We recommend monitoring AIR and reconsider the stock near the price of \$50.00.**

Competitive Position: AAR Corp. competes with OEMs, airline service divisions, and independent suppliers in the aviation aftermarket. Its diverse offerings, strategic acquisitions like Triumph Product Support and Trax software, and expanding MRO capacity strengthen its market presence. While benefiting from aging aircraft fleets and increased air travel, AAR faces challenges from tight USM supply and rising interest rates. Its integrated business model and adaptability position it to navigate competitive pressures and capitalize on industry trends.

Valuation: Based on blended multiple valuation calculations we reach a blended target price (TP) of \$68.37, around +1.9% above current levels. The stock is currently trading around its historic P/E and EV/EBIT averages and around 1 standard deviation above its EV/Sales and EV/EBITDA averages. At current prices, AIR stock does not appear to offer upside.

Ticker: AIR US

Previous day close price: \$67.09

Price range (52w.): \$ 54.71 - \$76.34

Target price: \$68.37 (+1.9% upside)

Recommendation: *Avoid*

Description: AAR Corp. is a leading independent provider of aftermarket solutions for the global aviation industry, serving commercial and government aerospace markets. The company delivers a broad range of services through its Parts Supply, Repair & Engineering, Integrated Solutions, and Expeditionary Services segments. Leveraging OEM partnerships, advanced repair capabilities, and innovative software, AAR supports fleet operations, supply chain logistics, and mission-critical deployments. With a focus on cost-efficient and adaptive solutions, AAR addresses the growing demand for used serviceable material (USM) and MRO services, strengthening its position in the aviation aftermarket.

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Multiple Next 12 Months	Factor	Target EV	Net Debt	Target MCap	Shares	Target Price	
EV/Sales	1.20	2,830	3,396	1,003	2,393	35.91	\$66.64
EV/EBITDA	10.00	330	3,301	1,003	2,298	35.91	\$63.99
EV/EBIT	12.50	271.07	3,388	1,003	2,385	35.91	\$66.42
P/E	17.00	2.93	2,791	1,003	1,788	35.91	\$49.79
Avg. Multiple Price							\$61.71
DCF Price							\$75.02
Avg. Multiple & DCF Price							\$68.37

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