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PRESENTATION

Operator

Hello, and welcome to AAR Corp. third-quarter 2025 earnings conference call. (Operator Instructions)

I would now like to turn the conference over to Denise Pacioni, Director of Investor Relations. You may begin.

Denise Pacioni - *AAR Corp - Director, Investor Relations*

Thank you. Good afternoon, everyone, and welcome to AAR's fiscal year 2025 third-quarter earnings call. I'm joined today by John Holmes, Chairman, President and Chief Executive Officer; and Sean Gillen, Chief Financial Officer. The presentation material we are sharing today as part of this webcast can also be found in the Investor Relations section under the Events and Presentation tab located on our corporate website.

Before we begin, I'd like to remind you that the comments made during the call may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements.

Accordingly, these statements are no guarantee of future performance. These risks and uncertainties are discussed in the company's earnings release, and the Risk Factors section of the company's annual report on Form 10-K for the fiscal year ended, May 31, 2024. In providing the forward-looking statements, the company assumes no obligation to provide updates to reflect future circumstances or anticipated or unanticipated events.

Certain non-GAAP financial information will be discussed during the call today. A reconciliation of these non-GAAP measures to the most comparable GAAP measure is set forth in the company's earnings release and slides. A transcript of this conference call will be available shortly after the webcast on AAR's website.

At this time, I would like to turn the call over to AAR's Chairman, President and CEO, John Holmes.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thank you, and welcome, everybody, to our third-quarter fiscal year 2025 earnings call. I'm pleased to report another strong quarter at AAR with record results in both sales and adjusted EPS. This past quarter, we successfully drove value throughout the organization by growing our aftermarket services and significantly improving our margins. We continue to benefit from a strong demand environment in both our commercial and government end markets, which we anticipate will continue through calendar year 2025.

Turning now to slide 3. I want to highlight some of our achievements from this past quarter. Our third quarter sales of $678 million improved 20% year over year, setting a new third quarter sales record for the company. We saw continued strength across our business segments as consolidated sales to commercial customers increased 22% from the same quarter last year and sales to government customers increased 15%.

While top line sales grew from the same period last year, we also demonstrated meaningful improvements to our bottom line results. Adjusted EBITDA of $81.2 million was higher by 39% from the same quarter last year. EBITDA margin increased to 12% this year from 10.3% in the third quarter of last year, driven by strong performance in our new parts distribution activities, and our airframe MRO operations, as well as our product support acquisition.

Once again, the combination of sales growth and margin expansion resulted in a significant increase to adjusted earnings per share, which grew 16% to $0.99 compared to $0.85 from the same period last year. Additionally, this past quarter, we reduced our net debt leverage from 3.06x from 3.17x in the prior quarter. Our strong balance sheet and disciplined capital allocation strategy have us well positioned for investments that will continue to drive growth.

Turning now to slide 4. I will discuss our three core business segments in more detail. Parts Supply continues to be our largest business segment, contributing nearly 40% of our company sales overall.

Third quarter sales of approximately $271 million were 12% higher compared to the same quarter last year, driven largely by significant growth in our new parts distribution activities. Third quarter adjusted EBITDA for parts supply was $36.8 million, 12% higher than the same quarter last year.

New parts distribution continues to drive exceptional growth in this segment as sales increased 20% organically from prior year quarter, with meaningful growth across both our commercial and government end markets. We saw better-than-expected margins due to favorable product mix and scaling efficiencies as recent new exclusive distribution contracts ramped up.

I want to take a moment and highlight our new parts distribution business. This business has grown by double digits organically for each of the last 13 quarters and now represents approximately 60% of our Parts Supply segment. Our role as an independent distributor, combined with our focus on exclusive contracts is a compelling value proposition for our customers and OEM partners.

A recent example of this value proposition is our multiyear agreement to exclusively distribute select Unison parts under our supplier capabilities contract with the Defense Logistics Agency. In this agreement, we are expanding our penetration with a key supplier, Unison, and helping the US government meet its needs. Additionally, we have entered into a multi-year exclusive agreement with Chromalloy to distribute their PMA parts for the PW4000 engine platform. This builds on our previously announced agreement to distribute Chromalloy's PMA parts for the CF6-80C2 engine platform.

In our USM activities, we saw modest year-over-year growth, which fell short of our expectations for the quarter. We saw a decline in volume due to timing of engine inductions for certain contracts we support. We expect this lower volume level to be temporary.

While engine material and narrow-body assets remain tight, as we mentioned last quarter, we see signs of loosening and more whole assets coming to the market. We are watching this market closely and believe we are well positioned to invest in parts and whole assets where they meet our return requirements. To that end, this morning's announcement of our extension of our CFM56 arrangement with FTAI will provide exclusive access to this high demand material now and in the coming years.

Turning now to Repair & Engineering segment. Third quarter sales were $216 million and grew 53% from the same quarter last year. Adjusted EBITDA grew to $27.9 million, up 110% from the same quarter last year.

The Product Support acquisition continues to perform well and drive growth and margin improvement in the repair and engineering segment. As a reminder, as part of the product support integration, we are exiting our Long Island, New York facility, and consolidating that work into our locations in Dallas and Wellington, Kansas. The site integration is on schedule for completion during our fiscal fourth quarter, and we intend to fully exit the New York facility in Q1 FY26.

That said, we saw some lower efficiencies and throughput this quarter as we significantly ramped up head count in the two sites that are receiving the work. As our new technicians become more experienced, they will be able to repair units more efficiently. As we come out of this particularly active point in the integration process, we expect our operating efficiency to improve, which supports our plans to continue our overall margin expansion.

Finally, it's important to note that the backlog is growing across our component repair sites as we leverage our global sales force to win new business. One example of this is the recently announced multiyear agreement with Cebu Pacific for CFM56 engine nacelle maintenance for their A320 fleet. This work will be done out of our Thailand facility and represents a key win in the important Asia Pacific region.

On the airframe MRO side of repair and engineering, we continue to see strong underlying demand for our services and are focused on implementing process improvements that continue to increase efficiency and improve throughput at our existing facilities. These initiatives have been extremely effective and less of better-than-expected margins this quarter.

Our hangar capacity expansions in Miami and Oklahoma City are both progressing. The Oklahoma City expansion is slightly ahead of schedule, and the Miami expansion is slightly behind due to some permitting delays.

Turning now to Integrated Solutions. Sales for the quarter were $163 million, slightly lower than the same quarter last year due to a net decline in our overall government activities. While we saw a decline in certain existing programs, this was partially offset by growth in new programs, which we expect to continue and contribute to overall growth in the coming quarters. Adjusted EBITDA in the Integrated Solutions for the second quarter was $16.2 million, stronger by 11% from the same period last year due to mix shift within certain programs and strong performance on Trax.

Speaking of Trax, while Trax is a relatively small contributor today as we invest and scale the offering to secure more business, Trax will drive further operating margin expansion for the company overall.

An example of a new business win is Cathay Pacific. We recently selected Trax to become the new maintenance operating system for their airline. Additionally, we expect that Trax will ultimately become a sales channel for our parts activities, and we are making investments to support this initiative.

Before I turn it over to Sean, I did want to comment on the current government environment and DOGE in particular. AAR can bring significant cost savings to the government by applying our commercial best practices. We've demonstrated this already with our support on the US Navy's P-8 fleet for airframe and engine maintenance. Our services allowed the government to reduce cost and improve readiness.

Additionally, we continue to pursue USM sales opportunities with the US government, which is a cost-saving alternative to purchasing new parts. We look forward to further demonstrating our capabilities to the US Department of Defense, State Department and other agencies have submitted a paper to the DOGE Commission outlining specific areas where we can best provide cost savings.

I'll now turn it over to Sean to discuss our third quarter results in more detail.

Sean Gillen - *AAR Corp - Chief Financial Officer, Senior Vice President*

Thanks, John. Looking now to slide 5. Total sales in the quarter grew 20% to $678 million year over year, setting a new third quarter sales record, an improvement in part supply driven by an increase in distribution activities, along with higher sales in repair and engineering resulted in a significant sales increase from the same period last year.

Sales to commercial customers increased 22% and sales to government customers increased 15%. For the quarter, total commercial sales made up 72% of total sales, while government sales made up the remaining 28%.

Compared to the same quarter last year, adjusted EBITDA increased 39% to $81.2 million and EBITDA margins increased to 12% from 10.3%. Adjusted operating income increased 39% to $65.6 million with adjusted operating margins improving to 9.7% from 8.3%. Our focus on airframe maintenance efficiencies and the contribution from the recently acquired product support business continues to help improve margin performance.

Net interest expense for the quarter was $18.1 million, reflecting financing from the Product Support acquisition. For Q4, we expect net interest expense to remain consistent with these levels. We also expect our Q4 effective tax rate to be approximately 30%. The increase in the effective tax rate is due to the impact of the impairment associated with the landing gear divestiture.

In future quarters, we expect our effective tax rate to be approximately 28%. Average diluted share count in the quarter was 35.4 million shares. Year-over-year adjusted diluted EPS increased 16% to $0.99 from $0.85 in the same quarter last year, reflecting the benefit of our growth and margin expansion.

With that, I'll turn to the detailed results by segment, starting with Parts Supply on slide 6. Parts Supply sales grew 12% to $271 million from the same quarter last year, driven by growth in both distribution and USM with better-than-expected sales and distribution. An increase in commercial volume drove growth across both distribution and USM, along with an uptick in government demand for new parts distribution.

Third quarter part supply adjusted EBITDA was $36.8 million, higher by 12%, and adjusted EBITDA margins were flat at 13.6% from the same quarter last year. Adjusted operating income rose 10% to $34.3 million, and adjusted operating margin declined slightly from 12.8% to 12.7%.

Turning now to slide 7 for Repair and Engineering. Sales increased 53% to $216 million, as demand remains strong for our airframe MRO and component services capabilities. Adjusted EBITDA of $27.9 million was 110% higher than in the same period last year, while adjusted EBITDA margins increased to 12.9% from 9.4%. Third quarter adjusted operating income of $23.9 million was 108% higher, and adjusted operating margin increased to 11.1% from 8.2% in the same period last year.

Going forward, we expect to drive further margin expansion in the segment from the realization of product support synergies, continued rollout of our paperless hanger initiatives, and the capacity expansions that are in process.

Looking now to slide 8. Integrated Solutions sales slightly decreased by 1.6% to $163 million, driven by slightly lower government program sales, offset by improvement in commercial program sales and gains in tracks. Integrated Solutions adjusted EBITDA of $16.2 million was 11% higher than the same period last year. Adjusted operating income of $12.4 million was 11% higher, while adjusted operating margin of 7.6% was slightly higher. As John mentioned earlier, we continue to see strong margins from Trax.

Turning to slide 9 of the presentation. During the quarter, we reduced our net debt leverage from 3.17 times to 3.06 times, despite having an operating cash use of $19 million due to the FCPA settlement of $56 million, which was paid during the quarter. When we closed the Product Support acquisition in March of last year, net leverage at the time was 3.58 times, and we have made good progress on deleveraging in the year since closing. Our strong balance sheet has us well positioned to invest organically and to potentially pursue value-accretive acquisitions. Absent any M&A, we would expect to continue to delever towards our target net leverage of 2 to 2.5 times.

I'd also like to update you on the sale of our Landing Gear business. we are close to closing and expect the divestiture to be complete during this quarter. Upon closing, the cash proceeds will be used for debt pay down, which will be reflected in our fourth quarter cash flows. Our fourth quarter results will include landing gear results through the closing date of the sale. For context, Landing Gear contributed $19 million of sales in Q4 of last year and is currently generating approximately $6 million to $7 million of sales per month.

With that, I'll turn the call back over to John.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thank you, Sean. Turning to slide 10. In summary, for Q3, our strong performance in new parts distribution, airframe MRO and Trax led to better-than-expected operating margins and our integration of product support is on schedule. Performance in USM remains variable due to market dynamics, but the overall strength of the rest of the company is allowing us to accelerate our margin expansion efforts.

As it relates to Q4 FY25, we expect year-over-year sales growth in the mid-single digits. The sales growth guidance assumes approximately one month of Landing Gear revenue will be included in our Q4 financial results. Excluding the impact of the Landing Gear divestiture, our year-over-year sales growth will be closer to the high single digits.

We expect adjusted operating margin in the range of 9.7% to 9.9% in Q4. As Sean mentioned, we also expect our net interest expense to be consistent with Q3 of $18 million and our effective tax rate to be approximately 30% in the quarter.

Just as we stated last quarter, we continue to see strong demand signals from our largest commercial and government customers. We expect growth and margin expansion to continue this year and through FY26.

Before turning it over to the operator for questions, I would like to thank the team of dedicated employees, our customers and our shareholders for your continued interest and support of AAR.

And with that, we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Mikus, Melius Research.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Hey, Scott. Scott, are you there?. Why don't we go to the next question.

Operator

Ken Herbert, RBC Capital Markets.

Kenneth Herbert - *RBC Capital Markets - Analyst*

Hey, good afternoon, John and Sean, and Denise. First, John, you made a comment, again, USM. I think you said down slightly in the quarter, but you expected, I think, you said that to be temporary.

Can you just maybe get a little bit more about what you're seeing in that marketplace and which gives you confidence that USM sounds like could be up in the fourth quarter? And how do we think about that then into fiscal '26?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. We're getting pretty good at talking about USM. So yeah, this quarter, we did have some situational things going on. As you know, in the USM business, we support -- most of it's engine material, and we support certain engine shops on contract. And certain of our customers saw lower-than-expected engine shop inputs from their end users, which resulted in lower demand for our material during the quarter on those particular contracts.

We expect that to be temporary, because these were maintenance deferrals by their end customers. and we expect that work to get done later, and therefore, we'll see the demand later.

Generally speaking, consistent with what we said last quarter, we are seeing more whole assets and parts packages come to market in USM. And with those assets meet our return requirements, we're in a position to invest in them where we see demand.

Kenneth Herbert - *RBC Capital Markets - Analyst*

And just as a follow-up, there's certainly been some more concern about capacity growth amongst US airlines initially and maybe now a few in Europe. Can you just comment on if you're seeing any of that impact your business? And maybe how much would we have to see capacity go down before you would, in fact, start to see impacts on different parts of your business?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. Great question. We're certainly paying attention to the commentary from the airlines here as well as in Europe and other geographies. Generally speaking, we are not seeing any meaningful decline in demand signals for the services that we offer. So for Parts Supply, for airframe and heavy maintenance, and for component maintenance, all of the demand for those services for our customers is as strong as we've seen.

So at this point, we feel quite good. Our focus would be continuing to the extent that there are capacity reductions. Our focus would be continuing to demonstrate our value. So to the extent that less work is coming out of the airline, it's going to go away from our competitors and remain with us.

Kenneth Herbert - *RBC Capital Markets - Analyst*

Great. thanks, John. I'll pass it back there.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Right. Thank you, Ken.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - *William Blair & Co LLC - Analyst*

John, Sean, and Denise, good afternoon.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Hey, Louie. How are you?

Louie DiPalma - *William Blair & Co LLC - Analyst*

Great. Nice work on the margin expansion. That's been a focus for investors. And I was wondering, you provided the information that the Landing Gear, I think, is generating roughly $20 million in revenue a quarter. Should that divestiture potentially add like 32 to 40 basis points to the EBITDA margin when it closes?

Sean Gillen - *AAR Corp - Chief Financial Officer, Senior Vice President*

No, not that much. And just to be clear, Landing Gear, the results were fully in Q3, and then we expect to close shortly. So the guidance that we gave for Q4 assumes Landing Gears in the results for one month. It's about breakeven to slightly positive on operating profit. So it will be overall accretive to margins, but not to the magnitude you mentioned.

Louie DiPalma - *William Blair & Co LLC - Analyst*

Okay. Great. And another question, your Trax business, one, the deal with Cathay Pacific, and you previously announced a win with Singapore Airlines. Should these deals contribute to margin expansion as they scale? And are there other Trax deals in the pipeline, as it seems you have momentum there in the APAC region?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. No, thanks for pointing that out. Yes and yes. So we do expect them to add volume to Trax and Trax is our highest margin business in the company. So as that business grows, it's overall accretive to margin.

And we do have a very strong pipeline of customers for Trax. We can't announce all of the wins. Some customers will let us go public, some of them won't. Fortunately, Singapore and Cathay were willing to let us announce the wins. But for those that we can announce and for those that we can't, we feel really good about the pipeline of opportunity for Trax.

Louie DiPalma - *William Blair & Co LLC - Analyst*

Awesome. Thanks, John.

Operator

Michael Leshock, KeyBanc Capital Markets.

Michael Leshock - *KeyBanc Capital Markets - Analyst*

Hey, good afternoon, everyone. You had called out the increased throughput at MRO facilities and those have been running at, at or near full capacity for a while now. So it's good to see that improvement.

Could you talk about the efficiency improvement and maybe how big of an impact it's had on margins? And then secondly, do you see more room for increased throughput in the near term?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yes. Great question. So we've made -- if you look at the last several quarters, we've made substantial gains in margins in our airframe hangars. And we've also continued to grow sales, and we're proud of the fact that we've been able to improved margins in an inflationary environment for labor costs, in particular, and grow sales on the same footprint. And to your point, that comes from increased throughput.

We do see opportunities to continue both improvements, more throughput, and sales growth, as well as further margin expansion in the hangers on the existing footprint in the coming quarters.

To highlight one initiative, and we've talked about this a couple of times, our paperless initiative inside of the hangers is still not fully rolled out. We've made a lot of progress in the last couple of quarters of getting that rolled out. So we have more runway there as that initiative fully implemented throughout our entire network. And so that will drive further margin improvement.

And then beyond that, once we do complete the expansions in Oklahoma and Miami, that will drive again further margin improvement as we leverage the fixed cost base, bringing on those new bays in those three facilities.

Michael Leshock - *KeyBanc Capital Markets - Analyst*

And then maybe an update on defense opportunities? You had talked about the USM parts with DOGE. How has the activity there increased versus maybe three months ago? And looking forward, when could we realistically expect those opportunities to come to fruition?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

A great and timely question. So the first answer is there is actually -- from a USM sales to the government, we have not seen a notable increase yet. So any activity there would be upside to where we are today.

I was actually in Washington, D.C. yesterday. I had a number of meetings on the hill. We're talking about this opportunity. And even though it's a concept that we've been talking about with the government for some time, we are hopeful that with the DOGE commission in place and the general environment for trying new things at scale quickly, this could be, at the moment, where we actually see significant uptake for USM.

So we're encouraged by the conversations and they would be incremental to the results today, because at the moment, we have -- from a USM standpoint to the US government, we don't have much activity today.

Michael Leshock - *KeyBanc Capital Markets - Analyst*

Great. I'll leave it there. Thank you.

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Analyst*

Hey, John, Sean. Sorry, I think I got disconnected earlier.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Don't worry. Thanks for coming back.

Scott Mikus - *Melius Research LLC - Analyst*

Yeah. I saw the press release on you extending the partnership with FTAI through 2030 on the CFM56 engine. I'm just wondering, did that extension of the agreement, did it come with any change in economics or increase in scope? And then kind of how should we think about it ramping from this point through the end of this decade?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. Great question. The partnership with FTAI has gone very well, which is why we chose to extend it. It's a very similar arrangement to what we have today, where we are at the exclusive outlet for the CFM56 engine materials, as they retire engines out of their portfolio.

We do expect over time to continue to increase the volume from where we are today with FTAI and that's directly tied to their own scaling as they scale their own portfolio, adding more and more engines to their lease portfolio.

We should see more engines coming out of that portfolio. But again, we have the exclusive rights to the distributing parts. So it's a continuation of what we're doing, but we do expect growth in the coming quarters and years.

Scott Mikus - *Melius Research LLC - Analyst*

Okay. And then thinking about the tariff situation, it's very fluid. I'm thinking, are you potentially doing any bulk buys of parts for your parts distribution business to preempt any tariffs? And is there the possibility that if there's not broad exemptions for tariffs that it could drive more demand for your component repair business?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great question. We, naturally, like everybody, we're paying attention to the changing landscape in tariffs. It could impact us in a few different ways. So first of all, we are not buying ahead of any tariffs. So we're not making any meaningful decisions there.

We are focused on keeping Trax to the extent that tariffs impact the OEM price increases to us. We want to make sure that we're able to pass those increases along to the end user. And it's important to remember, we've been in an inflationary environment for some time. So even before the tariffs were part of the narrative, the OEMs have been -- our OEM partners and distribution have been making substantial changes to their pricing to us, which we've had to pass on. And we've been doing that successfully and we will do that certainly in a tariff environment.

As it relates to tariffs potentially benefiting, I mean, yes. So to the extent that repair work needs to stay in the US as opposed to being sent overseas, we are in a great position to capture that work given the expanded footprint that we acquired with Trax.

Scott Mikus - *Melius Research LLC - Analyst*

All right. Thanks for taking the questions.

Operator

(Operator Instructions) Josh Sullivan, The Benchmark Company.

Joshua Sullivan - *The Benchmark Company LLC - Analyst*

Hey, good evening. Just as far as the BELAC distribution agreement with Chromalloy. There's a conversation around lessors and their interest in PMAs. I mean what's your sense as you get into this distribution arrangement that the lessor market is going to be a good customer?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. Great question. I mean, lessors, in particular, we do see increasing openness to adopt PMA. I mean obviously, what FTAI's been able to achieve is a big part of that kind of change in mindset out there. So we do see that as a market. But more than that, we see many end users that own the engines and they'll lease them as open to these particular PMAs.

And the BELAC PMA is on the CF6 ADC2 and the Pratt & Whitney 4000 engines, these PMAs have been in existence for many years. They're well-established technology. There's already broad adoption. And we teamed up with Chromalloy, because Chromalloy felt that we could help take their sales to the next level given our reach into the global market.

Joshua Sullivan - *The Benchmark Company LLC - Analyst*

And then I guess tying that -- maybe a separate question, but tying it into your comments earlier about DOGE. I mean what are your thoughts about potential PMAs entering into that conversation as well?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Our focus has been more on the USM side of things. And that's a different conversation. Obviously, USM, it's the same partner who orders from the same material. So that's a more straightforward discussion to have.

PMA, obviously, is a different part, so the approval process is different. But for our interest, we've been focused more on the USM side.

Joshua Sullivan - *The Benchmark Company LLC - Analyst*

Got it. And then I guess just one last one on Trax. As it becomes a broader-based platform, when do we hit that tipping point, where we really see some -- a lot of activity for air distribution or products flowing through the Trax platform?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. Great question. That is a very significant focus of ours right now. We are really excited about the potential there. We are making investments to build that channel and we hope to have something to talk about more fully later this calendar year.

Joshua Sullivan - *The Benchmark Company LLC - Analyst*

Okay, thank you for the time.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thank you.

Operator

Michael Ciarmoli, Truist Securities.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

Hey, good afternoon, guys. Thanks for taking the question. John or Sean, I just want to make sure. It sounded like the top line miss versus your expectation, I think you were looking at '22, [you have that] higher USM. So I wanted to make sure I had that.

And then just, I mean, on the engine maintenance deferrals, I mean, should we be thinking of that as something maybe a little bit more ominous when we couple that with what we're seeing out of the airlines? And I think there's always been some chatter and reports of some of these advanced bookings, especially in Canada, really showing some weakness. So I'm just thinking, you hear an airline defer an engine most likely because they're not flying? Or how can we reconcile that?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. I appreciate that. You got a little garbled there at the beginning, but I think I got it. So in terms of the topline, yes, the sales out of the USM business were below our expectations for the quarter. Specifically, that was a couple of customers on one contract, and I would not cite that as ominous or an indication of overall trend. As a matter of fact, our understanding is the reason they deferred maintenance is because they actually needed to lift, as opposed to had the ability to take the engines out of service and put them through the shop. So it would suggest that there's continued strong demand there.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

And then just what about the sort of -- more questions on USM, I guess. We've actually seen some of the US carriers maybe talking about accelerating some retirements, which maybe that's just a healthy return to normal in terms of retirement as a percent of fleet. Are you seeing those signals? Didn't you get access to that material?

I mean, some of these customers, some of the carriers have said that are some of your customers. So do you think there's going to be -- I don't want to say a bow wave of USM, but do you think you get some more shots on goal here?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. I mean -- so we're in a lot of these conversations as you can imagine. The bow wave has been predicted for some time and it hasn't happened in that form. But as we mentioned, generally speaking, we are seeing more of those conversations and more whole assets and parts packages come to market. But it's still not a normal amount.

But as we have said for that business, when you reach a point where you start to get a more regular level of material hitting the market, combined with the elevated demand that we expect to persist for some time, that would be a good combination of events for us -- for USM. But again, our focus and our investments at the company have really been in the other areas around component repair, which obviously is very high margin.

And certainly, the new parts distribution business, which we've highlighted, has been growing exceptionally well over the past 13 quarters, and we see a lot of run rate for that business, which is more predictable over the next several years.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

And then just last one, housekeeping. What was the organic growth? I may have missed it, the organic growth in the quarter, Sean?

Sean Gillen - *AAR Corp - Chief Financial Officer, Senior Vice President*

Yeah. For the quarter, it was 6% organic growth.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

Got it. All right. Thanks, guys. I'll jump back in the queue.

Operator

Ladies and gentlemen, at this time, I would now like to turn the call back over to management for closing remarks.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thank you, everybody. We really appreciate the time and the interest, and we look forward to being back with you in July.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.
