

AAR Corp.: Integrating MRO Holdings Without Losing the Operating Edge

Internal ID: S&F-STR-015

Topic: Mergers & Acquisitions, Customer Strategy, Platform Strategy

Industry: Aerospace & Defense

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Teaching case. Information cutoff: September 29, 2026. All dollar figures are U.S. dollars. Alternatives below are classroom-created; they are not announced AAR plans.

A signed deal, an unfinished operating choice

On September 28, 2026, AAR Corp. announced a definitive agreement to acquire a 65% controlling interest in MRO Holdings, a heavy airframe maintenance provider. The agreement was signed, but the acquisition had not closed. Closing was expected in AAR's fiscal third quarter ending February 2027, subject to regulatory approvals and other customary conditions.

The transaction would be one of AAR's largest strategic steps in its effort to connect parts distribution, aircraft repair, and software. Chief executive John Holmes described heavy maintenance as foundational to the platform: AAR expected the combined hangar network to service nearly 3,000 aircraft each year and anticipated opportunities to send additional work to component-repair facilities, broaden OEM distribution relationships, and gather more data for software. These are management's expectations, not disclosed cross-selling results.

The acquisition agreement created a new assignment for AAR's senior team: decide how to integrate MRO after closing while balancing operational coordination, customer and workforce continuity, cash generation, and a later decision on the remaining ownership stake. AAR had announced expected synergies and leverage targets, but had not disclosed detailed synergy workstream economics or MRO's standalone customer, labor, utilization, and cash-flow data.

AAR's platform before MRO

AAR is an aerospace and defense aftermarket company with four reporting segments: Parts Supply; Repair, Engineering, and Software; Government Solutions; and Legacy Commercial Programs. Its Repair, Engineering, and Software segment includes airframe maintenance, component maintenance, and software products. In November 2025, AAR acquired HAECO Americas, another heavy aircraft MRO provider, for \$78 million. The Q1 FY2027 Form 10-Q described the Greensboro, North Carolina, and Lake City, Florida, hangars as part of that business.

For the quarter ended August 31, 2026, AAR reported sales of \$918.0 million, 24% above the prior-year quarter. Its GAAP operating margin was 7.9%; its adjusted operating margin was 10.6%, a non-GAAP measure, compared with 9.7% in the prior-year period. Operating cash flow was \$55.8 million. At quarter-end, net debt was \$780.5 million and reported net leverage was 1.81x. The acquisition was signed after the quarter ended, so none of those actuals included MRO.

AAR's FY2027 guidance also excluded MRO. It forecast second-quarter sales growth of 14%-16% and an adjusted EBITDA margin of 13.0%-13.4%, each excluding Legacy Commercial Programs. For the full year, AAR raised its sales-growth outlook, excluding Legacy Commercial Programs, to "low teens." The company was simultaneously winding down that legacy business over an expected three-to-four-year period, making scope definitions important when comparing reported segment measures.

The acquisition and its proposed economics

MRO Holdings operates approximately 115 airframe maintenance lines across facilities in El Salvador, Mexico, Colombia, and the United States. AAR's announcement described a workforce of approximately 10,000 and stated that around 90% of MRO revenue came from U.S. customers. These are issuer-reported descriptions; the announcement did not provide line utilization, customer concentration, labor availability, or site-level profitability.

AAR estimated MRO's calendar 2026 sales at approximately \$1.0 billion and adjusted EBITDA at \$285 million, a margin of about 27%. AAR also reported that MRO converted approximately 70% of adjusted EBITDA into adjusted operating cash flow in calendar 2025. These figures were management estimates in the transaction announcement, not audited standalone historical results or a post-close forecast.

AAR estimated approximately \$75 million of annual run-rate cost synergies from operations optimization, procurement savings, SG&A optimization, and sharing operating practices, with the full run rate expected three to four years after closing. The company targeted adjusted EBITDA margins of about 19%-20% over that period. The announcement described an implied enterprise value of \$4.0 billion and a 10.7x multiple of projected 2026 adjusted EBITDA, including anticipated synergies and net of transaction-related tax benefits with a stated present value of about \$150 million.

The transaction documents describe several different measures. AAR's 10-Q summarized an approximately \$3.0 billion transaction including repayment of \$1.3 billion of MRO borrowings. The acquisition 8-K's share purchase agreement summary lists an estimated \$1.819 billion cash purchase price plus non-voting preferred shares with an agreed value of \$780.8 million for the 65% interest. The release separately described approximately \$1.8 billion of equity value plus repayment of existing borrowings. These public summaries do not reconcile transparently on their face. Students should keep the disclosed measures distinct rather than add them together or treat them as directly comparable.

AAR expected to fund the acquisition and related expenses through approximately \$2.1 billion of new debt, \$780 million of preferred equity issued to sellers, and \$230 million of PIPE proceeds. A committed bridge facility would backstop the new debt financing. The company projected net leverage of approximately 3.6x at closing, including run-rate synergies; approximately 3.0x within two years; and 2.0x-2.5x over the medium term, even as it exercised options to buy the remaining ownership. AAR expected to maintain a BB-category credit profile. All are company forecasts, and none was achieved by the information cutoff.

Control, minority ownership, and future options

After closing, AAR would appoint five members of an eight-member MRO board; the sellers could appoint three while they remained shareholders. The agreement also gave the sellers consent rights over specified reserved matters. AAR would consolidate MRO's financial results.

AAR could acquire an additional 5% at a flexible time under a first call option. The remaining 30% could be acquired in three 10% tranches, beginning on the second, third, and fourth

anniversaries of closing. For those later tranches, the agreement's pricing formula uses MRO's future last-twelve-month pro forma adjusted EBITDA multiplied by the greater of 13.5x or AAR's then-current LTM enterprise-value-to-adjusted-EBITDA multiple, capped at 15.25x, followed by specified adjustments for debt, cash, equity-method investments, minority interests, working capital, and other items. The first 5% option has separate terms. The future exercise cost therefore depends on financial and contractual inputs that were unavailable at the cutoff.

The transaction presentation stated that MRO excess cash flow during the first two years would repay an intercompany loan.[5] Separately, the LLC agreement summary restricted member distributions until the second anniversary, subject to the agreement's provisions.[1] The two mechanisms should not be treated as interchangeable or as an unrestricted distribution commitment.

An aftermarket with different economics

AAR's own businesses span parts, airframe and component repair, government programs, and software. MRO adds scale in heavy airframe maintenance; AAR's stated logic is that this may support other parts of the platform. But neither the release nor the filing quantified how much incremental component-repair, distribution, or software revenue might follow, how quickly it could be won, or at what margin.

Public competitor disclosures also illustrate why one margin cannot stand in for another. StandardAero, a publicly traded provider focused on engine aftermarket services, reported second-quarter 2026 revenue growth of 4.6% and adjusted EBITDA margin expansion to 14.4%. Its release attributed results to volume, pricing, productivity and mix. StandardAero's engine and component service mix differs from MRO's airframe-heavy business; its figures are context, not a like-for-like benchmark for AAR or MRO.

AAR identified risks that included integration execution, personnel retention, customer and operating disruption, debt repayment, credit ratings, and the amount and timing of anticipated synergies. It also cited skilled-personnel shortages, operational-footprint management, outsourcing demand, and aviation-sector risks in its filings. The public material did not quantify the probability or cost of these risks for MRO.

The assignment

Assume you are advising AAR's executive team as it prepares for a possible close. This is a classroom role; no private management meeting or mandate is being represented. Recommend the first post-close integration and capital-allocation priorities. Consider these three hypothetical, combinable paths:

1. **Accelerate selected integration.** Move quickly on procurement, systems, support functions, and operating practices where a specific synergy owner and measurable baseline can be established.
2. **Protect operating autonomy first.** Preserve MRO's customer-facing and maintenance-execution routines while cash generation and debt reduction take priority; integrate only essential controls and clearly evidenced shared activities.
3. **Stage changes by evidence gates.** Select a small set of early workstreams, preserve local discretion elsewhere, and expand only after service quality, customer, workforce, cash-conversion, and leverage measures meet defined thresholds.

For your recommendation:

- Identify which decisions or capabilities should be shared across AAR and MRO, and which should remain with MRO operating leaders.
- Separate the announced \$75 million synergy target from savings actually realized. Name the evidence needed to validate the estimate and quantify integration cost.
- Explain how you would monitor cash conversion, debt reduction, service execution, customer outcomes, and workforce stability before making later ownership-option decisions.
- State what would cause you to accelerate, pause, or revise the plan. Do not assume AAR faces a fixed budget bottleneck or that its announced targets will be met.

Selected source notes

1. AAR, MRO Holdings transaction release, September 28, 2026, transaction rationale, estimates, financing and expected close: [issuer release](#); see also [SEC 8-K and agreement](#), Item 1.01.
2. AAR, Q1 FY2027 10-Q, quarter ended August 31, 2026, filed September 29, 2026: [SEC filing](#), statements and segment note, pp. 4-5 and 22-25; Note 16, pp. 28-30.
3. AAR, Q1 FY2027 results release, September 28, 2026: [issuer release](#).
4. StandardAero, Q2 2026 results release, August 6, 2026: [issuer release](#).
5. AAR Q1 FY2027 transaction presentation, furnished Exhibit 99.2 to the September 29, 2026 Form 8-K, slides 14-15 (financing, leverage and intercompany-loan repayment mechanics): [SEC exhibit](#).

Prepared for classroom discussion. Public information cutoff: September 29, 2026.