

January 2014

Successful Attraction Strategy Builds Regional Capacity



Overview

AAR Corp. (AAR) is a publicly held (NYSE:AIR) provider of diverse products and value-added services to the worldwide aerospace and defense industry. The Company was incorporated in 1955 and has revenues of more than \$2 billion with approximately 7,000 employees in 17 countries. AAR operates aircraft maintenance, repair and overhaul (MRO) facilities in Oklahoma, Indiana, Arkansas, Florida, Minnesota and Louisiana.

The Opportunity

In 1996 Northwest Airlines (NWA) opened a \$47 million, 189,000 square foot maintenance facility in Duluth, Minnesota. The facility was heavily funded and financed through public sector partners, including the State of Minnesota and City of Duluth. When Northwest Airlines' business model changed in 2005, the 252 mechanics employed at the facility found themselves unemployed and the City faced the potential responsibility for millions in debt left unpaid by the airline. In addition, the City unexpectedly assumed ownership, management and approximately \$180,000 in non-debt, annual carrying costs of the vacant facility.

In 2010 local economic development partners including APEX, Duluth Economic Development Authority (DEDA), Duluth Airport Authority, Northern Aero Alliance, Northland Connection, Monaco Air and TeamSAI put together a sophisticated attraction strategy to lure an aviation tenant to the City-owned facility. The strategy involved industry research, input from an esteemed aviation consultant and market and prospect identification. The objective was to build a business case that cost-justified a company's decision to lease and operate the MRO facility.

In 2011 APEX and DEDA representatives selected Aviation Week Americas MRO national aviation trade show as the forum to target suitable tenants for the facility. It was at this show that APEX first met Tim Romenesko, AAR's President and Chief Operating Officer. Romenesko had already previously learned about the NWA facility from Congressman Jim Oberstar in 2008 at an aviation event in Washington, DC.

APEX and DEDA discussed the features of the facility with Romenesko, and provided an overview of the skilled aviation workforce located within the region. Immediately following the show, AAR was presented with a draft term sheet, highlighting several factors, including: the features of the building; the regional workforce; the Duluth International Airport and the burgeoning regional aviation cluster; attractive lease rates available; and state and local tax advantages related to opening a facility in Duluth.

AAR showed intense interest in the state-of-the-art facility yet was uncertain of whether the skilled workforce would still exist six years after the departure of NWA in 2005. To demonstrate the regional talent, APEX and the City held a Career and Networking Fair for AAR



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that shattered anticipated attendance. Over 670 people showed interest in the Company by attending the fair, or providing their resume online.

APEX also served as an integral support system for potential AAR customers visiting Duluth, by welcoming them and providing team support and sales support – which helped to build business relations and expansion for AAR.

The Outcome

Romenesko complimented the efforts of APEX as an integral partner in the Company's expansion to the region.

In June 2012 AAR signed a lease for the former Northwest Maintenance facility with the City of Duluth's Economic Development Authority. Romenesko complimented the efforts of APEX as an integral partner in the Company's expansion to the region. The rationale for locating in Duluth, Romenesko explained, included "The available state-of-the-art maintenance facility, the significant local workforce still intact, an attractive incentive package and the warm reception from public, private and government leaders."

In December 2012 AAR retained Tripp Umbach to measure the economic, employment and government revenue impacts of operations. The methodology employed in the calculation of these impacts is IMPLAN (Impact analysis for PLANing) data and software. The overall impact to the State of Minnesota's economy was estimated at \$47 million annually.

Additional highlights of the IMPLAN research include:

Economic Impact

- Direct AAR spending of \$25 million
- Indirect/induced impacts (AAR employee spending, their households and suppliers) of \$22 million
- In addition to boosting the region's aviation sector, AAR will contribute a total of \$2.5 million annually to the local and state tax base

Employment Numbers

- Originally AAR estimated employing 244 at full employment
- Each new AAR job will support an additional 1.7 jobs in the State of Minnesota
- AAR will directly and indirectly support more than 405 Minnesota jobs, as estimated by Tripp Umbach
- AAR now expects to hire at least 310 employees, further impacting indirect job creation

Once AAR's skilled workforce reaches a critical mass of Airframe and Power Plant (A&P) mechanics, the Company committed to building a local training program to grow their own talent.

About APEX

APEX is the private-sector led business development engine for northeast Minnesota and northwest Wisconsin. APEX investor-members represent some of the most influential companies in the region, with a collaborative approach to promoting sustainable economic growth. APEX attraction, expansion and retention efforts focus in areas including aviation, data centers, manufacturing, professional services and next generation forest products. Since 2003, through attraction, expansion and retention efforts, APEX has impacted over 3,190 jobs in the region, resulting in an annual regional payroll of over \$120 million and contributing to over \$16 million in state and local taxes annually.