

American Axle

AXL demonstrates progress in 4Q; outlook in line – quick take

Maintain Rating: UNDERPERFORM | PO: 7.00 USD | Price: 8.55 USD

4Q:23 beat on stronger volume and mix

AXL reported 4Q:23 adjusted operating EPS of (\$0.09), above both our estimate of (\$0.16) and the Bloomberg consensus of (\$0.19). On an operating basis, the beat versus BofAe was driven by stronger sales and mix, which were partially offset by the impact of the UAW strike. At the segment level, results for both Driveline and Metal Forming were better than expected, which suggests that operational issues may be largely solved. Specifically, AXL's 4Q:23 net sales increased 5.0% YoY to \$1.46bn, above both our estimate of \$1.43bn and consensus of \$1.42bn. AXL's adjusted EBITDA margin of 11.6% was 150bps above our forecast of 10.1% and up ~30bps YoY. This drove \$170mm in adjusted EBITDA, above both our estimate of \$144mm and the Bloomberg consensus of \$145mm, and improved from \$158 mm in 4Q:22.

Outlook in line with estimates

AXL provided its 2024 financial outlook. The company anticipates 2024 revenue of \$6.05bn-\$6.35bn, which is roughly in-line with BofAe at \$6.25bn and consensus at \$6.17bn. AXL expects adjusted EBITDA of \$685mm-\$750mm, which compares to BofAe at \$667mm and consensus at \$709mm. AXL's guidance implies an adjusted EBITDA margin of 11.3%-11.8% (vs. BofAe at 11.2% and consensus at 11.5%). AXL expects adjusted FCF of \$200mm-\$240mm, which reflects a CapEx range of 4.0%-4.5% of sales. Other items in the outlook include interest expenses of \$195m, income tax expenses in the range of \$0mm-\$15mm, and depreciation and amortization of \$480mm. The company also reported that its incremental backlog for 2024-2026 is \$600mm, of which 50% is electrification-related, up from 40% for its 2023-2025 backlog.

Balance sheet okay, weak cash flow

AXL ended 4Q:23 with cash & equivalents of \$520mm and gross debt of \$2.77bn, for a net debt position of ~\$2.2bn, putting its net debt/EBITDA ratio at ~3.3x. This compares to 3.3x at the end of 2022. AXL recorded adjusted FCF of \$4.5mm in 4Q:23 (reported FCF of -\$3mm), which was down YoY from \$99mm in 4Q:22.

Maintain Underperform on lack of catalysts

AXL posted stronger than expected results in 4Q:23. The operating performance was boosted by higher-than-expected production levels. We view AXL as a strong operator that executes well even in tough environments, with improving mid-term+ diversification opportunities (highlighted at CES). Combined with the ongoing volume recovery, this will ultimately support earnings and cash flow generation. In the near term, however, the lack of positive catalysts, risk of volume pressure, and plant issues will likely keep a lid on the stock. Therefore, we maintain our Underperform rating.

16 February 2024

Equity

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Stock Data

Price	8.55 USD
Price Objective	7.00 USD
Date Established	22-Jan-2024
Investment Opinion	C-3-9
52-Week Range	6.29 USD - 10.12 USD
Mkt Val (mn) / Shares Out (mn)	1,005 USD / 117.6
Free Float	95.0%
Average Daily Value (mn)	8.34 USD
BofA Ticker / Exchange	AXL / NYS
Bloomberg / Reuters	AXL US / AXLN
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	384.1%
ESGMeter™	High

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AXL = American Axle

UAW = United Auto Workers

FCF = Free Cash Flow

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Timestamp: 16 February 2024 09:26AM EST

Exhibit 2: AXL YoY and variance table versus BofAe

AXL reported 4Q:23 adjusted operating EPS of \$(0.09) versus BofAe of \$(0.16)

Income Statement	YoY Comparison			Variance vs BofA		
	Actual 4Q:23	Actual 4Q:22	Var YoY	Actual 4Q:23	BofA 4Q:23	Var BofA
Net Sales	1,463	1,393	5.0%	1,463	1,426	2.6%
Cost of sales	1,308	1,258	4.0%	1,308	1,295	1.0%
Gross profit	155	135	15.2%	155	131	18.5%
SG&A	96	89	8.1%	96	86	11.9%
Amortization	21	21	0.5%	21	22	-0.5%
Operating income	38	25	53.0%	38	24	59.5%
Interest expense, net	(43)	(37)	16.3%	(43)	(46)	-6.2%
Other income	3	3	15.4%	3	(1)	-700.0%
Income before taxes	(2)	(10)	-78.1%	(2)	(23)	-90.7%
Income tax expense	8	2	378.8%	8	(3)	-340.6%
Net Income	(10)	(8)	29.6%	(10)	(19)	-46.6%
Diluted shares	117.1	115	2.2%	117.1	117.1	0.0%
Diluted EPS	(0.09)	(0.07)	26.9%	(0.09)	(0.16)	-46.6%
Margins						
Gross margin	10.6%	9.7%	90	10.6%	9.2%	140
SG&A	6.5%	6.4%	20	6.5%	6.0%	50
Operating margin	2.6%	1.8%	80	2.6%	1.7%	90
EBITDA margin	11.6%	11.3%	30	11.6%	10.1%	150
Tax Rate	-387.6%	-17.7%	(36,990)	-387.6%	15.0%	(40,260)
Net Income	-0.7%	-0.6%	(10)	-0.7%	-1.3%	60

Segments	YoY Comparison			Variance vs BofA		
	Actual 4Q:23	Actual 4Q:22	Var YoY	Actual 4Q:23	BofA 4Q:23	Var BofA
Segment Revenue						
Driveline	1,015	967	5.0%	1,015	980	3.6%
Metal Forming	576	527	9.3%	576	576	0.1%
Intersegment sales	(128)	(102)	26.4%	(128)	(130)	-1.2%
Total sales	1,463	1,393	5.0%	1,463	1,426	2.6%
Segment EBITDA						
Driveline	140	127	10.6%	140	121	16.2%
Metal Forming	29	31	-5.2%	29	23	27.7%
Adjusted EBITDA	170	158	7.5%	170	144	18.0%
Margins						
Driveline	13.8%	13.1%	70	13.8%	12.3%	150
Metal Forming	5.1%	5.9%	(80)	5.1%	4.0%	110
Adjusted EBITDA	11.6%	11.3%	30	11.6%	10.1%	150

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

American Axle (AXL)

Our price objective of \$7 is based on an EV/EBITDA multiple of roughly 4x on our 2024 estimates, which is somewhat lower than the historical average of roughly 4.5x, but in range of recent trading ranges and reflective of the forthcoming US/NA and Global production volume recovery.

Upside risks: 1) Continued strength in large truck volume growth, 2) resolution of plant issues, 3) labor cost inflation doesn't materialize

Downside risks: 1) a slowdown in large truck volume growth, particularly at key

customers, 2) failure to diversify its customer base, geographic, and product exposure, 3) expansion into new segments could significantly reduce operating margins, 4) continued sharp rise in raw material and labor costs, 5) loss of business at key customers, and 6) disruption at AXL's suppliers.

Analyst Certification

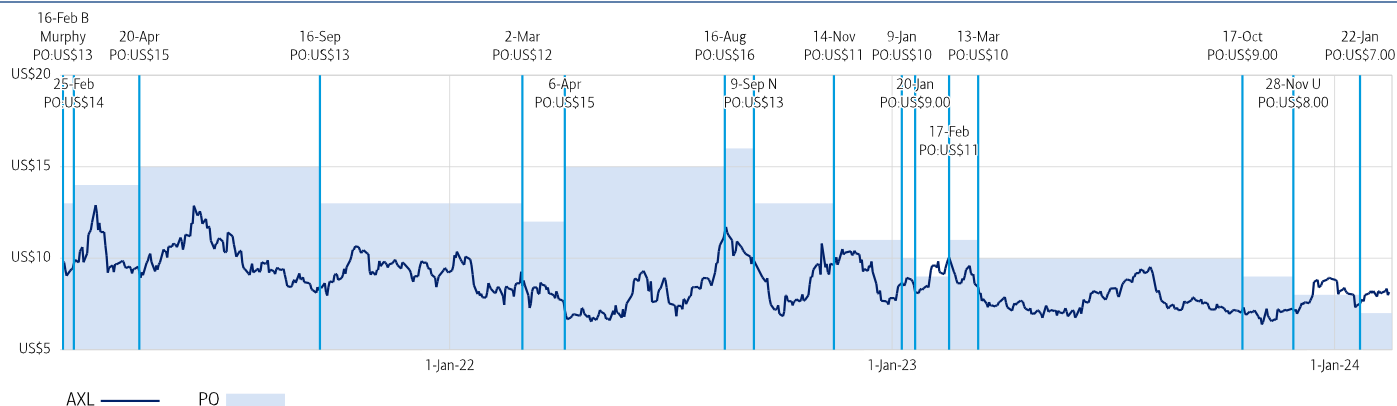
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American Axle (AXL) Price Chart



AXL — PO —
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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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