Howmet Aerospace Inc. (NYSE:HWM) Q1 2024 Earnings Conference Call May 2, 2024 10:00 AM ET

Company Participants

Paul Luther – Vice President of Investor Relations
John Plant – Executive Chairman and Chief Executive Officer
Ken Giacobbe – Executive Vice President and Chief Financial Officer

Conference Call Participants

Noah Poponak – Goldman Sachs
Robert Stallard – Vertical Research
Robert Spingarn – Melius Research
Doug Harned – Bernstein
Ken Herbert – RBC Capital Markets
Myles Walton – Wolfe Research
Sheila Kahyaoglu – Jefferies
Gautam Khanna – TD Cowen
Ronald Epstein – Bank of America

Operator

Good morning and welcome to the Howmet Aerospace First Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Paul Luther, Vice President of Investor Relations. Please go ahead.

Paul Luther

Thank you, Gary. Good morning, and welcome to the Howmet Aerospace first quarter 2024 results conference call. I'm joined by John Plant, Executive Chairman and Chief Executive Officer; and Ken Giacobbe, Executive Vice President and Chief Financial Officer. After comments by John and Ken, we will have a question-and-answer session. I would like to remind you that today's discussion will contain forward-looking statements relating to future events and expectations. You can find factors that could cause the company's actual results to differ materially from these projections listed in today's presentation and earnings press release and in our most recent SEC filings.

In today's presentation references to EBITDA, operating income and EPS mean adjusted EBITDA, excluding special items, adjusted operating income, excluding special items and adjusted EPS, excluding special items. These measures are among the non-GAAP financial measures that we've included in our discussion. Reconciliations to the most directly comparable GAAP financial measures can be found in today's press release and in the appendix in today's presentation.

With that, I'd like to turn the call over to John.

John Plant

Thanks, PT, and good morning everybody. Q1 2024 was an outstanding quarter for Howmet. Revenue, profit, margin, and earnings per share were records and all improved versus guidance last year and sequentially. More specifically, Q1 performance and year-over-year improvements were as follows. Revenue was $1.824 billion, up 14%. EBITDA was $437 million, up 21%, with a healthy incremental of 35%. EBITDA margin was up 150 basis points to 24%. Operating income was up 27% with a margin rate of above 20. Earnings per share were $0.57, an increase of 36% year-over-year and 8% sequentially.

We'll recall that in Q4, the earnings per share benefited by an unusually low tax rate of 20.7% and also currency favorability and hence the sequential improvement was indeed excellent. Free cash flow was $95 million and marks the first quarter with an inflow to be followed by further inflows in Q2, Q3 and Q4. We were particularly pleased with the positive cash flow since for many years we've seen Q1 outflows, which had to be overcome in later quarters. A total of $150 million of cash was used to repurchase shares just over 2.2 million shares at an average price of approximately $67. Dividends of $0.05 per share were paid, and you'll recall that these had been increased by 25% in Q4 of 2023. Finally, net debt to EBITDA was a record low of 2x.

I'll now turn the call over to Ken to cover the financials in more detail before returning to talk to the overall outlook for 2024.

Ken Giacobbe

Thank you, John, and good morning, everyone. Let's move to Slide 5 for an overview of the markets. All markets continued to be healthy in the first quarter. On a year-over-year basis, performance was as follows. Total revenue was up 14%, driven by very strong growth in the commercial aerospace market, which was up 23%. Commercial aerospace has now grown for 12 consecutive quarters and represents approximately 50% of total revenue. Growth continues to be robust supported by demand for new more fuel-efficient aircraft with reduced carbon emissions and increased spares demand for engines.

Moving to our other markets. First, defense aerospace was also strong, up 12%, driven by fighter programs and engine spares demand. Next is commercial transportation, which has been resilient in a challenging market. Revenue was up slightly as we continue to offset weakness in the market by taking share from steel wheels with Howmet's lighter and more fuel-efficient aluminum wheels. Finally, the industrial and other markets were up 7%, driven by oil and gas up 15%, general industrial up 10%, and IGT, which was flat. In summary, another strong quarter across all of our end markets.

Now let's move to Slide 6. First, moving to the P&L. Q1 revenue, EBITDA, EBITDA margin and earnings per share were all records and exceeded the high end of guidance. Revenue was up 14% and EBITDA outpaced revenue growth by being up 21%, while absorbing the addition of approximately 430 net new employees in the quarter. Incremental flow-through of revenue to EBITDA was a healthy 35%. EBITDA margin was a record at 24% and earnings per share was also a record at $0.57 which was an increase of 36% year-over-year.

Now let’s move to the balance sheet and cover the balance sheet and cash flow. The balance sheet and liquidity have never been stronger.

Cash at the end of the quarter was $534 million, and free cash flow was a record for Q1 at $95 million.

Net debt to EBITDA improved to a record low of two times.

All long-term debt is unsecured and at fixed rates, which provides stability of interest rate expense into the future.

Howmet’s improved financial leverage and strong cash generation were reflected in Moody’s Q1 ratings upgrade to investment grade. With this upgrade, we are now rated as investment grade with all 3 rating agencies. Additionally, with the recent upgrades, we have established a $1 billion commercial paper program, which further strengthens our liquidity.

Finally, we continue to have access to our $1 billion undrawn revolver.

Total liquidity now stands at approximately $2.5 billion.

Finally, let’s move to capital deployment. We deployed approximately 700 – excuse me, $170 million of cash in the quarter to shareholders, of which $150 million was used to repurchase common stock. This was the 12th consecutive quarter of common stock repurchases. The average diluted share count improved to a record low Q1 exit rate of 411 million shares.

Finally, we continue to be confident in our free cash flow. In the first quarter, we deployed approximately $20 million for the quarterly common stock dividend of $0.05 per share.

Now let's move to Slide 7 to cover the segment results for the first quarter. Engine Products continued its strong performance. Revenue increased 11% in the quarter to $885 million. Commercial aerospace was up 14%. And defense aerospace was up 13%. Both markets realized higher build rates and spares growth. Oil and gas was up 15% and IGT was flat. Demand continues to be strong across all of our engines markets.

EBITDA increased 17% year-over-year to a record $249 million.

EBITDA margin increased 140 basis points year-over-year to a record 28.1%, while absorbing approximately 435 net new employees in the quarter. Once again, the engines team delivered another strong quarter.

Now let's move to Slide 8. Fastening Systems also had a strong quarter. Revenue increased 25% year-over-year to $389 million. Commercial aerospace was up 44%, including the impact of the widebody recovery. Commercial Transportation was up 5%; general industrial was up 14% and defense aerospace was down 11%.

Year-over-year EBITDA outpaced revenue growth with an increase of 59% to $92 million. EBITDA margin increased 510 basis points year-over-year to 23.7%, which reflects the improved commercial and operational performance, complemented by the widebody recovery.

Now, let's move to Slide 9. Engineered Structures performance continued to improve. Revenue increased 27% year-over-year to $262 million. Commercial aerospace was up 26%, driven by build rates and the widebody recovery. Defense aerospace was up 27% year-over-year, primarily driven by the F-35 program.

EBITDA was up $7 million year-over-year and EBITDA margin decreased slightly to 14.1%. Sequentially, revenue, EBITDA and EBITDA margin increased for the third consecutive quarter. The team is making progress, and we expect continued improvements throughout 2024.

Finally, let's move to Slide 10. Forged Wheels revenue was essentially flat year-over-year in a challenging market. Although revenue was essentially flat, EBITDA increased 4%, driven by volume and productivity. EBITDA margin was a healthy 28.5%.

With that, now let me turn it back over to John.

John Plant

Thanks, Ken.

And let's move to Slide 11 to show our progress on ESG. We continue to leverage our differentiated technologies to help our customers manufacture lighter, more fuel-efficient aircraft and commercial trucks with lower carbon footprints. Howmet remains committed to managing our energy consumption and environmental impacts as we increase production.

In 2023, we continue to progress against our 2024 greenhouse gas emissions goal by achieving a 20% reduction in total greenhouse gas emissions from 2023 compared to 2019, which is our baseline year. We are tracking well to our 2024 goals of a 21.5% reduction.

I would like to draw your attention to the issuance of our annual ESG report in April, which details the good progress we've made. Additionally, in the report, we reflect 2027 goals for Howmet, which shows the continued progress on our baseline year of 2019, with a full 33% reduction in greenhouse gas emissions.

Now let's turn to Slide 12 and start to talk about the outlook for the business. Firstly, I'll address commercial aerospace, which represents our largest revenue market. Demand for air travel continues to be very strong. And if anything, will be constrained during the summer season by the availability of new aircraft, especially narrow-body aircraft.

Asia-Pacific travel, which has been lagging the U.S. and Europe has been increasing rapidly. And is now back to approximately 90% of pre-pandemic levels. International Asia-Pacific travel was up approximately 50% in the recent months and speaks well to future aircraft demand especially wide-body aircraft.

Freight requirements also continue to be robust. The one item that needs to be set out is the fact of the FAA restrictions on the Boeing 737 MAX production of 38 per month in the light of continuing quality problems at Boeing. These facts are extensively reported in the press and have resulted in lower production, well below the prior levels of approximately 30 aircraft per month, which in itself was well below the 2023 targets of 38 aircraft per month.

Clearly, the prospect of going up to rate 42 and rate 47 per month is now unlikely in 2024. This has caused Howmet to completely replan our year. And we've concluded that a further reduction in build to approximately 20 aircraft per month average for the year is a more secure assumption than that previously reported of 34 aircraft per month.

As we replan our year, we've taken account of this revenue adjustment, while replanning other areas of our business, for example, Spares, Defense and Wheels revenues. And

we net all of this replanning out to an overall increase of approximately $200 million of revenue for 2024. This guide reflects continuing strong Airbus production in line with our overall planned percentage increase of aircraft of approximately 9%.

We now envisage, as an example, Wheels revenue being higher than previously expected in Q1 and Q2, whilst continuing to expect a reduction in the second half of the year. In the second half, we expect this to be offset by higher wide-body build especially in preparing to move into 2025, complemented by robustness in Spares, Defense and IGT sales. However, we do expect Boeing to trim back production part schedules for the 737 MAX to lower levels than previously envisioned.

In terms of specific numbers in Q2, we expect revenue to be $1.835 billion, plus or minus $10 million, EBITDA $440 million, plus or minus $5 million, earnings per share of $0.58, plus or minus $0.01. For the year, we see revenues around $7.3 billion, plus or minus $75 million. EBITDA of $1.75 billion, plus or minus $30 million, earnings per share of $2.35, plus or minus $0.04 and free cash flow of $800 million, plus or minus $50 million.

Clearly, the diversity of Howmet product revenues and solidity of performance can be seen in these numbers. We're pleased with the resulting increased outlook and our free cash flow in particular. Therefore, we expect to increase our dividend payout in the second half of the year, starting with the payment in August pending Board approval.

Specifically, the expected dividend increase is $0.02 per share to a total of $0.07 per share, which is a 40% increase. This notably maintains the 2023 dividend yield. The balanced capital allocation plan continues. Capital expenditures elevated over 2022 and 2023 levels and is now a little ahead of depreciation.

The main thrust continues to be the expansion in our engines business to achieve the market share increases that I already talked about on the last call. The majority of the other uses of free cash flow in terms of capital allocation will be share buyback in 2024, while still preserving the ability to pay down the stuff of the 2024 bond of $200 million should we decide to do so.

I'm also sure that we will focus on refinancing the 2025 bonds later in the year or the latest in early 2025. I thought it useful to provide more of an extensive roadmap to our capital allocation thoughts during this call. In terms of net leverage, we're also envisaging getting closer to our minimum leverage target of towards 1.5x net debt-to-EBITDA by year-end from the 2x that we currently have at the end of Q1.

In summary, moving to the summary slide. We have a strong start to the year. We have incremental EBITDA margins of 35% and an operating margin now over 20%. We have the ability to withstand the reduced narrow-body build notably from Boeing. We have a

complete replanning of our year. We've increased the guide by $200 million of revenue at midpoint and the margin rate from 23% to 24%.

And we've increased cash flow just under $100 million. We also noted that we expect to raise the dividend by 40% in the second half of the year. And that we have a clear plan for the balance of 2024 in terms of capital allocation plans.

Thank you. And we'll now move to Q&A.

Question-and-Answer Session

Operator

We'll now begin the question-and-answer session. [Operator Instructions] The first question is from Noah Poponak with Goldman Sachs. Please go ahead. Noah, perhaps your line is muted on your end. It's open on ours.

Noah Poponak

Hello. Hello. Can you hear me?

Operator

We can hear you now. Please go ahead.

Noah Poponak

Hey, good morning, everyone.

John Plant

Hey, good morning, Noah.

Noah Poponak

Hey John, I appreciate all the detail there. I wonder if you could just talk a little bit more about the MAX. What underlying rate did you actually deliver to in the quarter? And how are you assuming it moves through the year? And I guess, listening to some other suppliers in Boeing through the earnings season, it kind of sounded like Boeing kept the supply chain moving along somewhere near 30 despite their deliveries and then would plan to start to – hope to start to ramp back up in the back half of the year. Your comments sound like maybe that didn't happen or that's not what you're seeing. So if you could just provide a little more clarity around that? That would be great. Thank you.

John Plant

Yes. I'd like to give you a real clear cut answer, but I find it's a little bit confusing. In what we saw was, in the first quarter, schedules at rate 38. And I assume that Boeing had assumed that they would achieve that rate. I don't know.

Whereas we note that actual bills were substantially less than that and probably well below 20%. And therefore, the increase in inventory, let's say, let's call it, I don't know, 15 to 38 per month, plus the seven months of last year where rate 38 had been assumed, but more like a build of 30, has resulted obviously in increased inventories in Boeing.

We've heard statements to the effect that if you go back to January – absolutely no, we'll keep rate 38 in terms of production scheduling to more recent commentary, whereby we've advised the suppliers or will be advising suppliers of trimming our requirements according to our rate needs.

And of course, it's very difficult to know exactly what that means in terms of what the assumed rate needs are. So we're trying to be fairly cautious in that because while they say that they're going to achieve rate 38 in the second half, I guess we'd like to see that absolutely, but are unclear that it's going to be done. So in terms of, for example, in our fastener business where we operate more to a min-max system, whereas Boeing had probably been wanting to increase the minimum levels we've assumed and dropped our assumptions down to deliver no more than to the absolute minimum, which is where our contract with them lies.

And so we could be trying to prevent the case where we get caught with a lot of, say, change of schedule on a rapid basis and then cut with inventory. We're also making the assumption in our cash flow is that those schedules are cut and that we will have a trailing list of requirements that we've ordered on our suppliers for long lead time items that they will have to honor for the most part.

And therefore, we'll be taking materials in which we may not be delivering in 2024. So just trying to pick our way through what the best set of assumptions are. What we do know is that GE has changed their requirements for the LEAP-1B engine. And you've seen that announcement in a clear statement.

But I think that year-on-year instead of expecting maybe a 20%, 25% increase from, let's call it, 1.75 million engines to like 19.25, it's now more like a 1,700 number. That's more like a 10% to 15% increase year-on-year. But that obviously comes back out in the balance of year. So it's a very mixed picture that we can draw on.

And so we're providing the best assumptions we can. So we are thinking that we're going to get cut back, at the same time with the increases that we're expecting for 2025. So for example, Airbus increases the A320 from, let's call it, nominally 55 a

month or 65 a month then some of that demand will have to be delivered in the second half of this year. At the same time, if Boeing do increase their rates, we're going to have to address that.

So it's trying to pick your way through all of those assumptions. And so we've tried to do that. And I know that during the course of the Q&A that I'll be going through on this call. I'll try to give you a volume more from previous assumptions to the new assumptions. That's about as best I can do on the whole Boeing – I'll say Boeing come Spirit aerospace part of the equation, no, which is what you asked about.

Noah Poponak

Okay. Well, you've managed it well, and I appreciate you taking the questions. Thank you.

John Plant

Thank you.

Operator

The next question is from Robert Stallard with Vertical Research. Please go ahead.

Robert Stallard

Thanks so much. Good morning. John, maybe to follow on from Noah's question on the rates. Boeing has also seems to have slipped behind on the 787. So I was wondering if you could give us an idea of what you're now expecting for that. I think they're saying they want to get back up to five and supply chain is shipping at five, but they're not producing at five, you know what I mean?

John Plant

Yes. So we cut our assumption from six aircraft per month down to five. I don't know that we're going to see parts, schedule changes for the sake of two aircraft a month, especially if they're going to get back up to rate five by the second half of the year. So we recognize that we've been producing ahead at the current actual build rate because of the supply constraints that Boeing say that they've had, which clearly have not been from Howmet. But we've not taken it down to three. We just assumed five for the year. So that's where it stands for 787.

Robert Stallard

And is this one that's also going to be ramping up a bit further in the second half, anticipating further rate increases for 2025?

John Plant

Yes. And that's also part of our thinking is that previously; our assumptions have been going to rate seven, at the back end of this year, ahead of where we'd assumed at six that's where we thought it was going to go. And then probably with a higher rate sometime in 2025, on their March to 10 aircraft per month, which I noticed now changed from 2025 to 2026. So the assumptions seem to be a little bit slow and taking a little bit longer. And – but nevertheless, we are thinking that will be – there will be an increase above rate five as we go into 2025 and trying to build that into – that's why we said we'd only move from six per month down to five in 2024.

Robert Stallard

That makes sense. Thanks so much.

John Plant

Thank you.

Operator

The next question is from Robert Spingarn with Melius Research. Please go ahead.

Robert Spingarn

Hey, good morning. John, I'm going to ask again about the 737. You've been crystal clear that the situation is unclear. Having said that though, I'm curious if somehow Boeing gets above 20 later this year, is there enough inventory in the channel, whether you have it or they have it or GE has it to support higher production rates at Boeing? Or can you ramp quickly? How do we think about when you'd need to signal? And what – how you might respond?

John Plant

Yes. So should Boeing produce rate 38. I'm very clear that we'll be at rate 38 with them. And should GE reinstate the planned increase to the 19, 25 level of LEAP engines, which is obviously part of indicating to the 1b that we'll be able to meet rate – what the – again, on labor, you can see while we've increased the overall guidance, and therefore, our labor recruitment will be fairly robust is that we have enough flexibility to be able to cope with those rate assumptions. Because, again, we'll know months ahead of they're actually achieving that. It won't be like go from, let's say, rate 15 to rate 38 in a month, it's going to happen slowly and gradually if it occurs.

Robert Spingarn

Okay. Okay. And then just as a follow-up. When we look at the commercial aero sales at fasteners and its structures, they outpaced versus the Engine Products segment despite the issues at Boeing. I was wondering if you could add some color on how you managed to decouple your commercial aero growth from Boeing's bill rates?

John Plant

I think to some degree, it reflects the revenue potential and earnings potential of Howmet when it achieves the increased rates. And so while Boeing sales in the 787 might have been building a three. But we were building in the first quarter of our parts at a rate significantly above that. So let's assume rate six or even in rate seven. And so this that's obviously a very good dynamic for the business and then showed with I thought, which was excellent margin improvement in the business, which was a combination of operational performance, commercial performance and the mix. And when that happened, we've put on 500-plus basis points in margin improvement year-over-year. And there's still – I don't know what it was, 200 basis points sequentially.

So all really good. And obviously, we're trying to work out exactly what that will be. As the assumption I made is that we get down to rate 5 on the 787 and obviously, a much lower rate on the 737. Albeit as you know there's a metallic fasteners they don't quite have the richness of mix that we will get on a composite aircraft.

At the same time with Airbus, as you know, the A350 is a composite-based aircraft. And so the rate increase that we've seen there and also as we prepare for a further rate increase in 2025, then again, that's all looking positive for Howmet.

Robert Spingarn

Does that mean that possibly the first quarter is a high point with regard to some – something like a 787 fasteners or if you were a rate 7 and they're at rate 3 and you get the point.

John Plant

Yes. I mean, what we've guided to you in Q2 is that, in fact, revenues would be slightly higher than Q1. So we're still expecting overall to be good. But very much for our year would be – we're cautious because of the rate assumptions I've given you on the 737 and therefore, expecting to have the impact of that.

Plus, also, as you heard me talk about on my prepared remarks is that we are expecting weakness in our commercial wheels business in the second half of the year. So far, we've been pleasantly surprised by the strength in that segment. Clearly, we hope it continues, but our planning again for some reduction because we've already heard

customers like PACCAR reducing their commercial Class 8 truck build as they go forward.

So again, it's a different number in the U.S., maybe a 10% truck build reduction we're thinking of in North America and maybe something a little bit higher in Europe, offset by whatever penetration we can achieve in terms of aluminum versus steel. So – but the important thing I thought in this quarter was that we were able to really operated a really a good level and achieved a rate increase, let's say, 26.5%, 27% EBITDA margin, doing like 28.5%. And that's really good because obviously it's a supply – its more leverage at the operating margin and the EBITDA margin level.

So it was all good. So it's a cautious assumption on commercial truck in the second half, cautious assumption around Boeing MAX production coming off, as I talked about earlier, a rate 38 scheduling in Q1.

Robert Spingarn

Thank you, John.

John Plant

Thank you.

Operator

The next question is from Doug Harned with Bernstein. Please go ahead.

Doug Harned

Good morning. Thank you.

John Plant

Good morning, Doug.

Doug Harned

I want to switch away from Boeing here for a moment. And earlier this year, GE started making the first shipments of its redesigned LEAP-1A, HPT blades to Airbus. These are intended to last longer in harsh environments. And we expect to see that similarly for the LEAP-1B eventually a year from now, we're going to see something done in the Geared Turbofan. When you look at these new designs, for blades, how do you see that affecting your outlook in terms of – presumably, these are more expensive? The amount of turnover you might have in the aftermarket and better pricing potential on these new designs?

John Plant

Okay. Maybe the best thing I can do is to give you a picture of the revenue walk for the company first and then return to the specific question, obviously improved durability as a second subject.

So in our assumption, is that we are thinking that we'll have a, let's say, a hit from the MAX reduction assumption from the 34 rate we'd assume in Q1 to the 20 rate. And so that's something well over $100 million of a hit. And then we see that being offset with an increased reimbursement of our defense sales. And you saw those up 12% in Q1, which was significantly higher than our assumption, which was mid-single-digits. So I think that's $60 million-ish, give or take.

On wheels, we think the first half is going to be stronger than we thought. So let's call that $50 million-ish on wheels. And then with our other sectors that we serve, for example, like oil and gas, you heard us talk to a 15% increase there. And while IGT was flat in Q1, we're thinking of a mid-single-digit increase for the year for IGT and industrial, there's another $60 million. So essentially, all of all of the MAX [indiscernible] more it gets covered by those items.

And then the big one, I think, is our assumption around spares, which is we've put in an increased revenue assumption of over $120 million plus on our spares lift. And that reflects, let's say, a further aggregate 25% lift in our spares business year-on-year and more like 35% on commercial aero. So it's pretty significant. And now the rate – the spares revenues are substantially above 2019 levels, a 2019 was about $800 million, I think $1.1 billion plus in that area. So the – if you assume that – on the OE side, it was all about net offset. You can see our total $200 million increase, let's call it, $120 million plus, plus comes from the spares assumption. And so that's how you get there.

In terms of when you think through what's going on at the moment, clearly, the existing engine, which is now all past model, which is the CFM56. Then we have not yet seen the peak of spares for that business. And because of the lack of current narrow-body production by Boeing is that it's the airlines are working the fleet hard. And therefore, CFM56 it's probably going to peak more like 25, maybe 26 [ph] now, and that's still increasing. So that's good.

The 737 MAX is – it's obviously been having its own increase in, let's say, MRO shop visits. And on the current version of the LEAP engine, those won't peak in my view until well after 2030. And – so we're seeing an increase there. And I've also talked on the last earnings call about the immediacy of the time on wing issue and they're producing a little bit of extra revenue. I probably overstated calling it at a bubble for three or four

years, but that's going to go on. Both for the LEAP engine and in particular, the Geared Turbofan, and that's well reported.

I think what we'll see is that there will be a gradual introduction of the new improved robust turbine blades. And that's probably more significant as we go into 2025 and beyond than it is in 2024. But that obviously the – assuming that is successful in terms of the durability, and I have every reason to believe it will be, then I guess that affects shop visits coming, making up about 2030 and beyond. But meanwhile, of course, we'll have the benefit of LEAP – current production for the last – let's call eight years and the Geared Turbofan for longer, that will be increasing that – that's a road map through.

So it's a long way of saying we should have improved asset economics around more robust fixes for GTF and LEAP that fixed timeline wing issues. Plus the increased spares demand initially from the CFM56, which is still coming at us, and it's good. And then obviously, further increases to the LEAP, which and Geared Turbofan, which include the timeline when you issue the well reported.

Doug Harned

Very good. Thank you.

John Plant

Thank you.

Operator

The next question is from Ken Herbert with RBC Capital Markets. Please go ahead.

Ken Herbert

Yes, good morning everybody. Hey John, I appreciate all the color there on the aftermarket you just provided. It sounds like you're seeing as part of that $100-ish million plus in the commercial spares business this year. What's your visibility on that beyond this year? Do you think we get a point assuming Boeing and Airbus start to clean up, Boeing in particular, deliveries of new aircraft that moderates fairly quickly? Or do you get a sense that, that could have substantial room to run even beyond this year, just considering increased use of some of the legacy aircraft? I know you went through maybe CFM56 peak is pushed to the right. But how do you view that flowing into your business on the spare side?

John Plant

I see commercial aerospace sales going up in 2025, 2026 and 2027. It's a bit too difficult to get up beyond that, but I see rising reducing the spares area during those years. I also see increased spares for the F-35. And in the past, I've said I think by the time we get to 2025, we could be seeing spares revenues almost as much as the current OE demand for F-35 turbine blades. And then what happened after depends upon the rate of production and the rate of usage for the F-35 around the world. Clearly, in recent months it has been an extraordinary list of, I will say, time in the air for F-35s. On the other hand, I've also read articles about the plan that we know to run them a little bit less. But nevertheless, we see F-35 spares being very strong over the next few years.

And the – I think the aircraft park at the end of last year was just under 1,000 aircraft and now it's over 1,000, but will be increasing, assuming that Lockheed delivers, let's call it, about 150 aircraft a year, which looks like doing 150 every year for probably the next 10 years. But so – by which time, the fleet of F-35s around the world will be very large and the spares will be extraordinary. And then in between of that, let's call it in around the 2028 mark; I think we'll see improved turbine componentry to meet the requirements where additional thrust is required to offset the current draw from the weapon systems and avionics that is currently the issue being addressed.

Ken Herbert

Great. Thank you very much.

John Plant

Thank you.

Operator

The next question is from Myles Walton with Wolfe Research. Please go ahead.

Myles Walton

Thanks. Good morning. Hey John, on the fastening unit, the commercial aero underlying growth there was pretty outstanding and the acceleration in the last four quarters. I think about 1/3 of that business is distribution. Is it – the distribution business growing faster than that average? Are they pulling because they see scarcity coming? And also, just to round out, are you feeling better about fastening eclipsing prior peak margins at this point yet?

John Plant

Certainly, the program that we put in three years ago of creating a separate segment within our fasteners business for distribution is a notable success for us. And I'm going to say we've probably seen an almost doubling of that business in the last three years. We don't provide like all makes to everybody and try to manage all the logistics of people, but this is trying to capture that margin previously that we had effectively passed on to other distributors. Because we distribute those parts. And we mainly focus on those parts which are proprietary with technology moats around them from the Howmet say, suite of fastener brands.

So that is growing faster than the OE business for us, and therefore, again, that's been another thrust for us, I'll say improvement in fastener margins. So far, any commentary that I've given, Myles, I've never been willing to say that we'll achieve 2019 levels of margin rates because I think those were the very different conditions. I mean, there we had 787 running at 13 or 14 a month, as an example and the A350 also at a higher rate.

So the – I mean, as you know, what we talked about on this call is that those rates are way – it may be 1/3 of that. And so it's all wrapped up in our own progression of efficiency, but also what's the mix of aircraft come 2027? I might be a bit more bullish if you'll guarantee to me that Boeing will be making 14 787 and now I think I read that Airbus is going to make 15 a month of A350. I mean, if that happened, it's all great. It's really good for us.

Myles Walton

Yes, no guarantees from me, John. And just one clarification. The...

John Plant

I realize that that's why I put it that way. That's why I try to not to put my head in that noose because I had no plan.

Myles Walton

I'll keep lining it up for you.

John Plant

Questions that knows that sort of stuff.

Myles Walton

One clarification. Are you saying that the commercial airfoils are now close to $550 million in 2024? Is that what the math gets to?

John Plant

I actually don't think I quoted a number. You talked about the spares on commercial now?

Myles Walton

Yes, exactly.

John Plant

Yes, I think it's about right. I'd have to go back to my notes to guide what a more precise number. I think its well above the $400 million that we saw in 2019. So I think $550 million is probably a best approximation, and Ken can jump in if he wants to correct me on that number. The defense spares for last year, we're already growing from like 400 to 600 [ph], and that's continued. So it's all good on that front.

Myles Walton

Okay. Thank you.

John Plant

Thank you.

Operator

The next question is from Sheila Kahyaoglu with Jefferies. Please go ahead.

Sheila Kahyaoglu

Good morning, guys. Thanks, John and Ken. Maybe can you talk about margins? You raised margins by 100 basis points at the midpoint. And we don't typically think about you guys having a different economic value on OE versus spares. So you're still hiring to have to flex on – to match rates. And so I guess, what got better on the profit line? And how do you think about that trending throughout the year?

John Plant

Inevitably, if you look at our rate of hiring, and we're also coming off a bigger base of experienced labor. So part of that is improved labor efficiency, Sheila. And notwithstanding, I'll say, the Boeing volatility, I'm hoping we can plan our way around because the overall revenue with that, obviously it will be a different mix and different plants. But I'm hopeful we can manage our way through to keep that the overall operating efficiency that we have had in Q1, and that's what we've guided to. You can see we've guided to a 24% EBITDA margin. So even though, let's say we look to see that go down a little bit in the second half, and that's a – let's say, a 28% plus business.

And therefore, we'll need to work the other harder just to keep it right 24% in terms of EBITDA margin percentage, which we believe we can, and we'll do otherwise, we wouldn't have guided there.

But I think it's been one where nothing ever moves in an absolute straight line. Like on a graph, you make little steps this quarter. It was a significant step for us we've made I'll call it, a reasonable half a step in the second half of last year. And then we saw a lot of the things that we've been doing come to fruition and achieve that margin rate assisted by the, I'd say the step-up in demand and essentially, we've also been able to achieve a lot of that without taking labor on.

So for example, all of the $400 million effectively were in our engine business because the way we see that going forward. And the net – even though we have a net increase in revenue across fastener structures and wheels is that essentially, where is a [indiscernible] in terms of labor. So all of that came out of productivity, and so we think that we're going to be able to maintain that productivity during the second half and then improve ourselves in Engine a bit to offset the – I'll say, the revenue volatility that we're going to get, which is basically up in aerospace, up in defense, still net up in commercial despite the Boeing [ph] assumption to put down in commercial wheels.

Sheila Kahyaoglu

You did mention price in that, John. Can you sustain the Q4 net price drop through? Or does it actually get better?

John Plant

What I've said previously is that we thought that we were going to be able to essentially hold and match what we did in 2023 into 2024. I think where we are today is that we're absolutely clear that we're going to – we're going to be able to hold much and maybe improve a little bit over 2023 levels on that front as well. So again, if you put, I'll say a fairly good price assumption with good mix with good spares and then offset the negative from Wheels. We just got that high margin rate. That's why we sort of balance it all out, given you the guide we have at a 24% margin.

Sheila Kahyaoglu

Thank you.

John Plant

Thank you.

Operator

The next question is from Gautam Khanna with TD Cowen. Please go ahead.

Gautam Khanna

Hey, thanks. Good morning and great job.

John Plant

Thank you.

Gautam Khanna

I had two questions, John. One follow-up clarification from what was just asked. On just the fungibility of production within your operations, i.e., if in a quarter or a month, Boeing asks, or GE [ph] asks for a destock; I'm talking about the subcontract manufacturers to Boeing. Just – how able you guys are to respond. It sounds like you're able to just move and navigate from one program to the next, and so it is pretty fungible?

And then my second question is, just longer term, John, you've done a great job. I'm just curious what your longer-term plans are at the company. I hope you plan to stick around, but just wanted to get you to opine on your future plans? Thanks.

John Plant

Okay. Thank you. So we don't have, what I call customer dedicated plants, more product focused. So we deliver to multiple customers from most of our plants. In the case of fasteners, some are a little bit more wide-body narrow-body focused. And so that mix can make a big difference. So if you wind the clock back, a year, 18 months, where the, I mean, essentially 787 was halted. I mean you could say, well, one a month, but I mean it wasn't really one a month.

And I remember I'll say, I think Q4 2022, essentially or Q1 of 2023, we were only producing the metallic fasteners. As that was having a negative effect on us because we had two or three plants which were grossly underloaded because the equipment required to make the fasteners going a composite aircraft is different to those on the metallic aircraft. So that was both the, I'll say, an idea in terms of both, I'll say, the mix and also the exposure that we had on plants. And obviously, we got massive on recovered fixed cost, that's a problem.

And obviously, we've been moving through that well, and that's why you've got some part of the margin rate improvement that we have in our fasteners business. It's only part of it, as I think I described many other things in it.

For the most part, elsewhere, I mean, there are flavors across our engine business, pretesentially, again, like our core making facilities, they don't really know, what type of aircraft they go to or what customer they go to. It does matter what type of material are used in those cores. And therefore, as you, I think, know is the core manufacturing has been taking on quite a different completion over the last two or three years, in terms of the increase in requirements to the ceramic-based cores.

So, I think that probably deals with that and then say, structures wheels, there's no – again, commentary on that like a wheel is – just goes to because we control not only the brand, but we control the design is that our wheels plants are in different to which end markets, which trailer or distribution and need which customer. So that's a good place to be in, not to have customer dedicated plants and the most difficult while we manage is narrow to wide in the fastener business.

Second part of your question was my plans. Well, I can't say I've got any plans, particularly at the moment. I've always said to you, as I said that the pleasure of the Board, I've always been wanting to see Howmet through – I'll call it, the aerospace recovery just that we never quite get to the good recovery part of it yet. So one day, there's going to be a really good time when – as I talked about in the press, the stated Grace, which I said maybe it will get second half of 2024 or early half 2025. And it just didn't happen in right now. it's – I don't think any of us expected the Alaska Airlines incident and the concomitant effects on production and where we are now and also now the 787, so things are not smooth. And that's the case for both Boeing, in particular, but also Airbus. So I'm convinced it will get better. And one day, I'll tell you if I have a plan. How is that?

Gautam Khanna

I appreciate it. Thanks, John.

John Plant

Thank you.

Operator

The next question is from Ronald Epstein with Bank of America. Please go ahead

Ronald Epstein

Hey, good morning.

John Plant

Good morning.

Ronald Epstein

Yes. Hope you're doing well. A question we get and we've heard maybe from some of the engine OEMs is that the supply chain needs to make more investment to have the capacity for the upcoming ramp, right? As you highlighted in your remarks that when Boeing does get back to rate, the number of LEAPs just be – it's a huge amount of growth. And one of the areas that they've suggested that investment needs to be made is in tooling. Just curious your view on that and how you're thinking about CapEx for this potential ramp going forward?

John Plant

Yes. So what I said previously, maybe I'll just amplify a little bit today is that we said we were going to take back CapEx. And so if last year was probably just over $200 million. I think the midpoint of that guide now is around $300 million, it could be $290 million, but $300 million, give or take, I think, in that region. So maybe just below $300 million.

And I think that we're going to spend all of that this year. And there will be an elevated investment requirements in 2025 as well. And essentially, that's because, yes, there's a large increase in aircraft engine, both I think, for commercial and for defense. Because defense you've also got all the new rotorcraft programs or re-engineering of certain things, I think you heard of it, we talked about before. And so those investments are absolutely required.

And so you can assume that the investment is a lot more than the $100 million increase that I talked about, and let's assume it's something getting close to the $200 million, which if you think about that plus all of the additional facilitization and hiring, it's a big bill. And that was essentially focused to one of the engine companies, I talked about last time. Because of our increased share that we've locked in for the next few years at that company.

And hopefully, more to come. It's because a good, strong, solid business. You're seeing margin rates improve year-after-year, and you've seen another step forward this year. And I think in balance [ph], which we're trying to hold it now and then maybe we'll make further improvements as we go into next year. But given the demand profile.

But at the moment, it's clearly one where there's a willingness to invest because of the, I think, returns in that business. And I think the industry needs it as well. So that's where we are on that. And probably a little bit more of a muted investment, for example, in our structures business. So you've heard me talk about titanium where to answer the question you haven't asked, we're still increasing production. You've seen that in the

revenue numbers. We're taking the share we've talked about and the increments we talked about as a result of the sanctions on VSMPO. So less occurring. But again, I'm not willing to put fresh capital in the ground for that given its long duration to come on stream and also the geopolitical risk that I've talked about in the past because we don't know what's going to happen, not even what happened after the election this year.

Ronald Epstein

Yes. That makes sense. Thank you very much.

John Plant

Thank you.