Q3 2021

1. Organic growth drivers
- **Narrative:** Management has indicated a strong return to revenue growth, with a focus on expanding within the commercial aerospace sector. The company has transitioned to year-over-year revenue growth and anticipates this trajectory to continue into the fourth quarter and throughout 2022. They emphasize recovery in commercial aerospace as a key driver of this growth, projecting significant volume increases.
- **Management's Guidance:**
- Howmet expects year-over-year revenue growth to continue into the fourth quarter and into 2022, with a growth rate of approximately 12% in commercial aerospace and a total revenue growth of approximately 6% in the fourth quarter. A modest sequential growth in Q4 for Engineered Structures is anticipated despite ongoing challenges with the 787, while Fastening Systems is expected to grow in the first half of 2022. Management projects second half revenue to increase by approximately 8% compared to the first half, primarily driven by growth in Commercial Aerospace, Commercial Transportation, and ITT segments. An early estimate suggests an annual revenue increase of 12% to 15%, led by recovery in Commercial Aerospace. The revenue outlook for the fourth quarter is projected to be $30 million higher than the third quarter.
- **Actual Results:**
['Q1', '2022']:
- First quarter revenue was up 10% year-over-year. Commercial aerospace revenue increased by 29% year-over-year and 4% sequentially.
['Q4', '2021']:
- Revenue for Q4 2021 was reported at $1.285 billion, representing a Year-over-Year increase of 4% and flat sequentially. The commercial aerospace segment experienced a Year-over-Year growth of 13%.
['Q2', '2022']:
- In Q2 2022, revenue was up 17% year-over-year, with commercial aerospace up 39%, driven by the narrow-body recovery. Engineered Structures' year-over-year revenue was 16% higher in the second quarter. Fastening System's year-over-year revenue was 6% higher, with commercial aerospace 20% higher, driven by narrow-body recovery but somewhat offset by continued production declines for the Boeing 787.
['Q3', '2021']:
- In Q3 2021, Howmet reported a 13% increase in total revenue year-over-year and a 7% sequential increase. Commercial aerospace revenue was up 15% year-over-year and 16% sequentially. However, Fastening Systems year-over-year revenue was 6% lower, and Engineered Structures year-over-year revenue was 3% lower in the third quarter.
- **Evaluation:**
- Expectations Met: Howmet's Q4 2021 revenue grew 4% year-over-year, and commercial aerospace rose 13%, aligning closely with management's guidance of 6% total revenue growth and 12% in commercial aerospace.

2. Margin expansion efforts
- **Narrative:** Management has indicated their focus on improving margin expansion through strategic operational efficiencies and cost management initiatives. This reflects a commitment to enhancing profitability by optimizing existing processes and leveraging technology to reduce costs.
- **Management's Guidance:**
- Management expects the Q4 sequential segment incremental operating margins to be approximately 28%, indicating a strong focus on improving operational efficiency and cost management in the upcoming quarter.
- **Actual Results:**
['Q4', '2021']:
- Data Not Available
['Q1', '2022']:
- Incremental Margin 33%
['Q2', '2022']:
- Adjusted EBITDA margin for Q2 2022 was 22.8%, which was at the high end of guidance.
['Q3', '2021']:
- Howmet's adjusted EBITDA margin expanded a full 800 basis points year-on-year in Q3 2021. The incremental operating margin for Engine Products was approximately 70%, and for Forged Wheels, it was approximately 45%. Fasteners saw an operating margin expansion of 630 basis points, while Structures increased by 210 basis points. Adjusted EBITDA Margin was reported at 22.8%.
- **Evaluation:**
- Expectations Exceeded: Management expected a 28% incremental operating margin for Q4; however, the actual result for Q1 2022 showed an incremental margin of 33%, surpassing the initial target.

3. Earnings per share trends
- **Narrative:** Management highlighted their optimism regarding earnings per share (EPS) trends by outlining improved financial metrics. They emphasized strategic financial management that has resulted in increased guidance figures for the upcoming quarters. This positive outlook is attributed to enhanced operational efficiencies and reduced interest costs.
- **Management's Guidance:**
- Management provided updated guidance for earnings per share, projecting an increase to $1 per share for the year. Additionally, they indicated that adjusted earnings per share guidance was increased, reflecting lower interest costs, which positions the company for a healthy 2022.
- **Actual Results:**
['Q4', '2021']:
- In Q4 2021, the adjusted earnings per share were reported as $0.30, and for the full year 2021, the adjusted earnings per share were $1.01, reflecting a 31% increase year-over-year. This aligns with the management guidance of $1 per share for the year.
['Q1', '2022']:
- In Q1 2022, the adjusted earnings per share was reported at $0.31, which represented a 41% year-over-year increase.
['Q2', '2022']:
- Adjusted earnings per share for Q2 2022 was reported at $0.35, which represented a 59% increase year-over-year and exceeded the high end of the guidance.
['Q3', '2021']:
- In Q3 2021, adjusted earnings per share increased by 23% sequentially, with the adjusted earnings per share reported at $0.27. The earnings per share (GAAP)

for Q3 2021 was $0.06.
- **Evaluation:**
- Expectations Exceeded: The actual results for the full year 2021 reported an adjusted earnings per share of $1.01, which slightly exceeded the management's guidance of $1 per share, and subsequent quarters in 2022 showed significant year-over-year increases, indicating the company's strategic financial management surpassed expectations.

4. Debt reduction strategies
- **Narrative:** Management at Howmet Aerospace has implemented a strategic approach to debt reduction, focusing on paying down existing debt and refinancing it into lower-cost alternatives. This strategy is aimed at significantly reducing the company's annual interest expenses, thereby improving financial health and flexibility. The company has actively engaged in these debt management actions throughout the year and plans to continue this path to further strengthen its balance sheet.
- **Management's Guidance:**
- The combination of debt actions in the third quarter, combined with first half results and actions, will reduce annual interest expense by approximately $70 million. The company has lowered its annualized interest cost by $70 million through a combination of paying down debt and refinancing into lower-cost debt. In the first half of the year, approximately $835 million of debt was paid down, leading to an annualized interest expense savings of approximately $47 million. In the third quarter, $600 million of 6.875% notes due in 2025 were tendered and $700 million of 3% notes due in 2029 were issued, resulting in an annualized interest expense savings of approximately $20 million. The expected interest expense for the next year is about $235 million, as a result of substantial actions taken on the debt profile this year. The company intends to continue reducing gross liabilities by another $230 million this year.
- **Actual Results:**
['Q2', '2022']:
- We repurchased 60 million of our 2024 bonds in the quarter with cash on hand, and this will reduce our annualized interest cost by approximately 3 million.
['Q3', '2021']:
- We have lowered our annualized interest cost by $70 million. We paid down approximately $835 million of debt. We tendered $600 million of our 6.875% notes due in 2025 and issued $700 million of 3% notes due in 2029.
['Q1', '2022']:
- Interest Expense was approximately $232 million in Q1 2022.
['Q4', '2021']:
- During Q4 2021, Howmet Aerospace reported a debt reduction of approximately $845 million with cash on hand, leading to a reduction in annualized interest expense by approximately $70 million. The net debt-to-EBITDA ratio improved to 3.1 times. The company also reported an interest expense of approximately $232 million for the year.
- **Evaluation:**
- Expectations Met: The actual results show that Howmet Aerospace successfully reduced its annualized interest expense by $70 million, aligning with the management's guidance, through debt reduction and refinancing strategies as planned.

5. Share buyback program
- **Narrative:** During the third quarter of 2021, Howmet Aerospace's management focused on capital allocation strategies, particularly emphasizing their share buyback program. They strategically repurchased $100 million of their 2021 notes through an open market repurchase. This move was aimed at neutralizing the gross debt impact of prior tender and refinancing activities, underscoring the company's commitment to optimizing its capital structure and reducing interest expenses.
- **Management's Guidance:**
- Management anticipates that the repurchase will result in annualized interest expense savings of approximately $5 million, which reflects their ongoing efforts to improve financial efficiency and support future growth.
- **Actual Results:**
['Q2', '2022']:
- We purchased approximately 1.8 million shares of common stock in the quarter for $60 million; in the first half of 2022, we repurchased approximately 6.9 million shares of common stock for $235 million.
['Q3', '2021']:
- We repurchased $100 million of our 2021 notes through an open market repurchase in Q3 and in October.
['Q1', '2022']:
- Data Not Available
['Q4', '2021']:
- In Q4 2021, Howmet Aerospace repurchased approximately 6,762,081 shares of common stock at an average price of $30.32. The total repurchase for the year 2021 amounted to 13,410,146 shares at an average price of $32.07.
- **Evaluation:**
- Insufficient Info: Data not available.

6. Cash balance management
- **Narrative:** Management addressed their approach to managing cash balances with a focus on maintaining discipline in capital allocation. They emphasized the importance of keeping cash reserves at optimal levels to support strategic initiatives and operational needs.
- **Management's Guidance:**
- Management anticipates that cash balances will be managed to remain lower than $120 million in the upcoming quarters, reflecting their commitment to efficient capital allocation.
- **Actual Results:**
['Q2', '2022']:
- The cash balance at the end of Q2 2022 increased to $538 million, which is significantly higher than the management guidance target of maintaining cash balances below $120 million.
['Q3', '2021']:
- Q3 2021 Ending Cash balance of $726M
['Q4', '2021']:
- The year-end cash balance was $722 million.

['Q1', '2022']:
- March 31, 2022 Cash, cash equivalents, and restricted cash $522
- **Evaluation:**
- Expectations Not Met: The actual cash balance significantly exceeded the management guidance of maintaining cash balances below $120 million, with the cash balance increasing to $538 million by the end of Q2 2022.

7. Inventory management strategies
- **Narrative:** Management has acknowledged the ongoing process of destocking, particularly focusing on the wide-body segment. There is a strategic emphasis on completing this destocking by the end of the current year, which is expected to streamline operations and optimize inventory levels.
- **Management's Guidance:**
- Management anticipates that the completion of destocking efforts by the end of the year will lead to improvements starting in the first quarter of the following year.
- **Actual Results:**
['Q4', '2021']:
- To accurately complete the task, I need the actual results data from the knowledge graph database for Q4 2021. Please provide the input data, including the relevant citation IDs and text, so I can analyze it and deliver the required actual results.
['Q1', '2022']:
- Free cash flow was essentially breakeven after approximately 85 million increase in inventory to support the aerospace recovery plus the commensurate increase in AR as a result of the increased sales.
['Q2', '2022']:
- In Q2 2022, it was reported by John Plant that there was a build-up of inventory, with total inventory increasing by close to 200 million in the first half of the year.
['Q3', '2021']:
- Data Not Available
- **Evaluation:**
- Expectations Not Met: Despite management's guidance to complete destocking by year-end for improvements in the following year, actual results showed a buildup in inventory, with an increase of close to $200 million in the first half of 2022, indicating the destocking strategy did not meet expectations.

8. Production rate guidance
- **Narrative:** Management focused on anticipating an uplift in production rates starting from the first quarter of the next year. This guidance reflects a proactive approach towards scaling operations in response to expected demand increases.
- **Management's Guidance:**
- Management provided an expectation of a production uplift in the first quarter of the following year, indicating a strategic plan to enhance output capabilities.
- **Actual Results:**
['Q4', '2021']:
- John Plant - While we supplied to schedule during 2021. John Plant [in particular, effectively production going to zero in the fourth quarter.]
['Q1', '2022']:
- John Plant [And essentially, that has taken down the total number of 787 aircraft produced this year from, I think, 35 down to 24 or 25, something like that, and taking that revenue hit, but as you see, maintained our guide for the year.]
['Q2', '2022']:
- Data Not Available
['Q3', '2021']:
- Data Not Available
- **Evaluation:**
- Expectations Not Met: The management expected a production uplift in Q1 2022, but actual results indicated a decrease in production rates, specifically with the reduction in the number of 787 aircraft produced, impacting revenue.

9. Supply chain resilience
- **Narrative:** Management highlighted the ongoing challenges in the supply chain, particularly affecting the commercial truck business. There is an emphasis on the expected alleviation of these constraints as the year progresses, showcasing a proactive approach to managing supply chain issues.
- **Management's Guidance:**
- Management anticipates that the supply chain constraints impacting the commercial truck business will begin to ease by the second half of the year.
- **Actual Results:**
['Q2', '2022']:
- Data Not Available
['Q3', '2021']:
- Data Not Available
['Q4', '2021']:
- Data Not Available
['Q1', '2022']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

10. Commercial aerospace trends
- **Narrative:** Management highlighted the ongoing challenges and uncertainties in the commercial aerospace sector, particularly relating to inventory liquidation and the wide-body segment, which is expected to remain flat for the next 12 months. Despite these challenges, there is optimism about the growth trajectory of air foils in commercial aerospace, with a positive outlook for business jets and anticipated improvements in the narrow-body segment in the coming quarters.
- **Management's Guidance:**
- Management anticipates continued growth in commercial aerospace air foils in 2022, with business jets maintaining a healthy performance. Improvements in

narrow-body segment are expected as the company progresses through the next few quarters, reaching a healthy level by 2022. However, management projects that 2022 will experience a significant demand decrease compared to 2021.
- **Actual Results:**
['Q2', '2022']:
- The commercial aerospace recovery continued in the second quarter, with commercial aerospace revenue up 34% year-over-year and 7% sequentially. Additionally, commercial aerospace was 37% higher as the narrow-body recovery more than offset the impact of production declines for the Boeing 787.
['Q3', '2021']:
- Commercial Aerospace was up 15% year-over-year and 16% sequentially, indicating a positive trend in the commercial aerospace sector during Q3 2021. This growth was primarily driven by improvements in the narrow-body segment, despite ongoing challenges in other areas such as the wide-body segment.
['Q4', '2021']:
- Commercial Aerospace was 15% lower.
['Q1', '2022']:
- Commercial aerospace was up 45%, driven by the narrow body recovery.
- **Evaluation:**
- Expectations Exceeded: Management anticipated growth in commercial aerospace air foils and improvements in the narrow-body segment, and the actual results showed significant revenue increases, with commercial aerospace revenue up 34% year-over-year in Q2 2022, surpassing expectations despite projected demand decreases for 2022.

11. Supply chain disruptions
- **Narrative:** During the Q3 2021 earnings call, HowmetAero's management addressed supply chain disruptions as a significant operational challenge. They emphasized the importance of adopting a cautious approach in navigating these disruptions, indicating that the company is preparing for potential impacts on their operations and timelines.
- **Management's Guidance:**
- Management indicated that they anticipate improvements towards the end of Q1, but maintained a cautious stance regarding the outlook and potential risks involved.
- **Actual Results:**
['Q2', '2022']:
- Data Not Available
['Q3', '2021']:
- John Plant indicated that Boeing experienced a 0 build condition for 90 days and some major customers abandoned their third shift. These disruptions reflect the operational challenges faced by HowmetAero due to supply chain issues.
['Q4', '2021']:
- Data Not Available
['Q1', '2022']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.