Q2 2022

1. Organic growth drivers
- **Narrative:** Management has articulated a positive outlook for revenue growth driven by both organic and strategic factors. The company is focusing on executing revenue opportunities, particularly in light of geopolitical changes, and this is expected to contribute significantly to its financial performance. Additionally, there is a strong emphasis on the recovery and expansion of specific business segments, such as the spares business and industrial sector, indicating a well-rounded strategy to enhance organic growth.
- **Management's Guidance:**
- The company expects to achieve a revenue growth of 10% by the end of this year. Regarding titanium orders, management anticipates executing revenue opportunities as a result of the Ukraine situation, adding $20 million to fourth quarter sales. Revenue for the third quarter is expected to be $1.44 billion, with a margin of $15 million. The company plans for further volume increases in Q3 and Q4, which is reflected in their updated revenue guidance.
- **Actual Results:**
['Q4', '2022']:
- Revenue for Q4 2022 was up 18% year-on-year, driven by strong performance in commercial aerospace, which was up 29%. The revenue for the fourth quarter came in at $1.51 billion, above the high end of the guidance provided.
['Q1', '2023']:
- Revenue was $1.6 billion in Q1 2023, an increase of 21% year-over-year and an increase of 6% sequentially.
['Q2', '2022']:
- Revenue for Q2 2022 was reported to be $1.393 billion, up 17% year-over-year and 5% sequentially. The increase was driven by commercial aerospace, which was up 34% year-over-year. Revenue was at the high end of the guidance range.
['Q3', '2022']:
- Q3 2022 Revenue Up 12% YoY, driven by Commercial Aero Up 23% YoY
- **Evaluation:**
- Expectations Exceeded: The company exceeded its guidance of 10% revenue growth as Q4 2022 revenue increased by 18% year-on-year, with the fourth-quarter revenue of $1.51 billion surpassing the high end of their guidance.

2. Margin expansion efforts
- **Narrative:** Management highlighted the potential for margin expansion in the Wheels business, contingent upon price resets scheduled for January. This approach indicates a strategic focus on adjusting pricing mechanisms to improve profitability amidst uncertain market conditions.
- **Management's Guidance:**
- Management anticipates margin expansion in the Wheels business as a result of price resets occurring at the beginning of January, assuming market conditions remain stable.
- **Actual Results:**
['Q1', '2023']:
- Adjusted EBITDA Margin for Q1 2023 is 22.5%
['Q4', '2022']:
- Adjusting for the year-over-year material pass-through, EBITDA margin was 23.5%, and flow-through of incremental revenue to EBITDA was strong at approximately 30%.
['Q2', '2022']:
- Adj EBITDA Margin Q2 2022 22.8%; Adj EBITDA1 of $317M, at high end of Guidance; Adj EBITDA Margin of 22.8%, at high end of Guidance; 23.8% excluding YoY material pass through.
['Q3', '2022']:
- In Q3 2022, the Adjusted EBITDA Margin was reported at 22.5%, which was in line with management's guidance, and it was 23.7% when excluding the year-over-year material pass-through.
- **Evaluation:**
- Expectations Not Met: The anticipated margin expansion in the Wheels business due to price resets was not realized, as evidenced by the Adjusted EBITDA Margin for Q1 2023 being 22.5%, which is lower than the 23.5% seen in Q4 2022 when adjusted for material pass-through.

3. Earnings per share trends
- **Narrative:** During the Q2 2022 earnings call, Howmet Aerospace management provided insights into their expectations for earnings per share (EPS). The discussions highlighted the company's focus on maintaining stable financial performance with marginal variances anticipated in EPS for the upcoming quarters.
- **Management's Guidance:**
- Management projected an EPS of $1.41, with a possible variation of plus or minus $0.02. This indicates their confidence in sustaining current performance levels, with only minor fluctuations expected in the financial results. Additionally, it was clarified that the EPS guidance for Q3 was $1.41 as the midpoint, with a potential range from down $0.03 to up $0.01.
- **Actual Results:**
['Q3', '2022']:
- Adjusted Earnings Per Share for Q3 2022 was $0.36, which was up 33% year-over-year and in line with guidance; minimal currency impact.
['Q4', '2022']:
- In Q4 2022, the Earnings Per Share (EPS) was reported at $0.26, which, while being lower than the Q3 2022 guidance midpoint of $1.41, aligns with the variability expected by management for the quarter.
['Q1', '2023']:
- Adjusted Earnings Per Share for Q1 2023 is $0.42, which is up 35% year-over-year, exceeding the high end of guidance.
['Q2', '2022']:
- Adjusted earnings per share (EPS) for Q2 2022 was reported at $0.35, which exceeded the high end of the guidance and represented an increase of 59% year-over-year.
- **Evaluation:**
- Expectations Not Met: The actual EPS for Q3 2022 was significantly lower than the guidance midpoint of $1.41, at $0.36, and for Q4 2022 it was $0.26, which did not align with the expected range, indicating that the expectations were not met.

4. Cost management strategies
- **Narrative:** During the Q2 2022 earnings call, Howmet Aerospace's management highlighted their ongoing commitment to improving operational efficiency through strategic cost management. A key focus was on optimizing workforce allocation to support growth in specific segments like Engines and Structures, which are critical to the company's long-term success. By strategically increasing headcount in these areas, the company aims to enhance productivity and drive sustainable growth.
- **Management's Guidance:**
- Management indicated that in the second half of the year, there would be a focused effort to increase headcount in the Engines segment and initiate recruitment in the Structures business. This move is expected to bolster the company's operational capabilities and address increasing demand in these sectors.
- **Actual Results:**
['Q3', '2022']:
- Data Not Available
['Q4', '2022']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q2', '2022']:
- During the second quarter, we continued the recruitment of headcount by approximately 740 employees, including net additions of approximately 455 in engines and 245 in fasteners.
- **Evaluation:**
- Insufficient Info: Data not available.

5. Debt reduction strategies
- **Narrative:** Management has consistently emphasized their commitment to reducing net debt and improving leverage ratios. The strategic focus is on lowering the net debt to EBITDA ratio, showing a disciplined approach towards optimizing the capital structure and enhancing financial stability. This aligns with the broader objective of strengthening the company's balance sheet and ensuring long-term financial health.
- **Management's Guidance:**
- Management expects the net debt to EBITDA ratio to improve significantly, targeting a reduction to approximately 2.5 times by the end of the year. This indicates a clear forward-looking strategy towards achieving a more robust financial position.
- **Actual Results:**
['Q3', '2022']:
- Maintained Net Debt-to-LTM EBITDA4 of 3.0x.
['Q1', '2023']:
- In Q1 2023, the net debt-to-LTM EBITDA ratio was reported at 2.6x, slightly above the targeted 2.5x. The company reduced its 2024 debt by approximately $176 million using cash on hand, with annualized interest expense savings of about $9 million.
['Q2', '2022']:
- Improved Net Debt-to-LTM EBITDA to 3.0x
['Q4', '2022']:
- Record Net Debt-to-LTM EBITDA5 at 2.6x; All Long-Term Debt unsecured at fixed rates; $1B Revolver undrawn
- **Evaluation:**
- Expectations Met: Management's guidance was to reduce the net debt-to-EBITDA ratio to approximately 2.5x by the end of the year, and the actual results showed a reduction to 2.6x by Q4 2022, aligning closely with the target.

6. Share buyback program
- **Narrative:** Management highlighted their consistent approach to the share buyback program, emphasizing its execution nearly every quarter over the past few years. This strategy underlines the company's commitment to returning value to shareholders and optimizing its capital structure.
- **Management's Guidance:**
- Management has maintained a consistent stock buyback approach, indicating a continued focus on this strategy for future quarters.
- **Actual Results:**
['Q3', '2022']:
- In Q3 2022, Howmet Aerospace reported repurchasing approximately 2.8 million shares of common stock for $100 million, with a year-to-date total of approximately 9.7 million shares repurchased for $335 million.
['Q1', '2023']:
- Q1 Repurchased ~0.6M shares of Common Stock for $25M at an Average Price of ~$43 per Share; Common Stock Repurchases: $25M in Q1 2023; ~$928M since Separation; Eight Consecutive Quarters
['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.
['Q4', '2022']:
- Q4 Repurchased ~1.7M shares of Common Stock for $65M; FY Repurchased ~11.4M shares of Common Stock for $400M
- **Evaluation:**
- Expectations Met: Howmet Aerospace consistently executed its share buyback program as guided, repurchasing shares nearly every quarter as planned, aligning with management's stated commitment to capital return and capital structure optimization.

7. Dividend distribution
- **Narrative:** Management has articulated a clear strategy to enhance shareholder value through increased dividend payouts. The company aims to double the quarterly dividend as part of its broader financial strategy, reflecting confidence in the company's financial stability and future performance. This move is indicative of Howmet Aero's commitment to returning capital to shareholders while maintaining a balanced approach to capital allocation.
- **Management's Guidance:**
- The Howmet annual dividend of $0.08 per share or $0.02 per quarter is planned to be doubled to $0.04 per share per quarter, with the first higher payment made in November of this year.

- **Actual Results:**
['Q3', '2022']:
- Doubled Quarterly Dividend to $0.04 per share of Common Stock in Q4 2022. The quarterly dividend was doubled to $0.04 per share per quarter with the first higher payment to be made in November of 2022.
['Q4', '2022']:
- In the fourth quarter, the quarterly common stock dividend was doubled to $0.04 per share, dividends in 2022 were $44 million.
['Q1', '2023']:
- Paid Quarterly Dividend5 at $0.04 per share of Common Stock in Q1 2023. The quarterly common stock dividend remained at $0.04 per share after it was doubled in the fourth quarter of last year.
['Q2', '2022']:
- Paid Quarterly Dividend of $0.02 per share of Common Stock
- **Evaluation:**
- Expectations Met: Management planned to double the quarterly dividend to $0.04 per share, and this goal was achieved as expected in Q4 2022, with subsequent payments maintained at the increased level.

8. Cash balance management
- **Narrative:** During the Q2 2022 earnings call, Howmet Aerospace management emphasized their approach towards cash balance management as a part of their broader capital allocation and financial strategy. The focus was on optimizing free cash flow and capital expenditures to support the company's growth and financial health.
- **Management's Guidance:**
- 1. Management indicated that the capital expenditure for the next quarter is projected to be approximately $50 million. 2. They also provided guidance on free cash flow, expecting it to be around $650 million, with a variance of plus or minus $25 million, marking an increase of $25 million from the prior guidance. 3. Additionally, the free cash flow conversion of net income is anticipated to be approximately 110%, indicating a strong efficiency in translating earnings into cash flow.
- **Actual Results:**
['Q1', '2023']:
- Data Not Available
['Q2', '2022']:
- Free cash flow in the second quarter was reported as $114 million, which excludes $44 million from the sale and leaseback of the corporate headquarters. The cash balance at the end of Q2 increased to $538 million.
['Q3', '2022']:
- Data Not Available
['Q4', '2022']:
- In Q4 2022, Howmet Aerospace reported a free cash flow of $540 million, which was within the guided range. The free cash flow conversion of net income was approximately 91%, slightly below the anticipated 110%. The ending cash balance was $792 million. Capital expenditures for the quarter were $45 million, slightly under the projected $50 million.
- **Evaluation:**
- Expectations Not Met: Although capital expenditures were slightly under the projected amount, the free cash flow for Q4 2022 was within the guided range, but the free cash flow conversion of net income was below the anticipated 110%, indicating that the efficiency in translating earnings into cash flow did not meet management's expectations.

9. Production rate guidance
- **Narrative:** Management discussed ongoing adjustments to production rates across various aircraft models, highlighting continued growth in narrow-body aircraft production, particularly with Airbus leading with its A320 models. Adjustments were made to Boeing's production rates, notably the 737 MAX, with expectations of increased production in the latter half of the year. There were also reductions in the production forecast for the Boeing 787, reflecting a more conservative outlook. The management also noted a more cautious approach to North American truck production due to parts availability concerns.
- **Management's Guidance:**
- Airbus is expected to maintain A320 production rates in the mid-50s per month in the second half of the year. Boeing's 737 MAX production is anticipated to increase to approximately 30 units per month in the second half. The production forecast for the Boeing 787 has been revised down to 15 units for the year from the previously projected 25 units. A reduction in North American truck production assumptions has been made by 5,000 to 10,000 units due to a conservative stance on parts availability.
- **Actual Results:**
['Q3', '2022']:
- John Plant [50-plus for A320s]
['Q4', '2022']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q2', '2022']:
- John Plant [The forecast for 787 production in 2022 is cut again from 25 aircraft I talked about in the last quarter's earnings call to 15 as our best estimate.]
- **Evaluation:**
- Expectations Met: Management's guidance for Airbus A320 production rates was met with production in the '50-plus' range, and the forecast for Boeing 787 was accurately revised to 15 units, aligning with the management's guidance.

10. Supply chain resilience
- **Narrative:** Management has highlighted a positive outlook for the supply chain situation, indicating expectations for improvement in 2023 compared to the previous year. This suggests strategic efforts are being made to bolster supply chain resilience, aiming for a more robust and reliable supply network.
- **Management's Guidance:**
- Management anticipates an improved supply situation in 2023 relative to 2022.
- **Actual Results:**

['Q3', '2022']:
- Data Not Available
['Q4', '2022']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q2', '2022']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

11. Emissions reduction targets
- **Narrative:** Management has set a strategic objective to significantly reduce the company's carbon footprint, aligning with broader Environmental, Social, and Governance (ESG) initiatives. The focus is on achieving substantial emissions reductions over a multi-year period, demonstrating HowmetAero's commitment to environmental stewardship and sustainability.
- **Management's Guidance:**
- Management has projected a 20% reduction in carbon emissions over the next five years.
- **Actual Results:**
['Q4', '2022']:
- Data Not Available
['Q1', '2023']:
- Achieved a 20% GHG emissions reduction vs 2019 baseline; Progressed against our 2024 greenhouse gas emission goal by achieving a 20% reduction in total greenhouse gas emissions through 2022 from the 2019 baseline.
['Q2', '2022']:
- Data Not Available
['Q3', '2022']:
- Data Not Available
- **Evaluation:**
- Expectations Met: Management projected a 20% reduction in carbon emissions over five years, and by Q1 2023, HowmetAero achieved a 20% reduction in total greenhouse gas emissions from the 2019 baseline.

12. Commercial aerospace trends
- **Narrative:** Management remains cautiously optimistic about the commercial aerospace sector, with a specific focus on improvements in the wide-body segment. The discussion suggests that significant performance enhancements are anticipated to become more apparent in the upcoming year.
- **Management's Guidance:**
- Management indicates that improvements in the wide-body aerospace segment are expected to manifest more predominantly in 2023, suggesting a more favorable climate for growth in the following year.
- **Actual Results:**
['Q3', '2022']:
- Ken Giacobbe reported that the commercial aerospace recovery continued in the third quarter, with commercial aerospace revenue up 23% year-over-year and 7% sequentially.
['Q4', '2022']:
- Commercial aerospace recovery continued throughout 2022, with fourth quarter commercial aerospace revenue up 29% year-over-year and up 28% for the full year. Commercial aerospace has grown for seven consecutive quarters and stands at 48% of total revenue, but continues to be short of the pre-COVID level, which was 60% of total revenue. Commercial aerospace was up 29% in the quarter.
['Q1', '2023']:
- John Plant reported that Commercial Aerospace increased 29% year-over-year and 4% sequentially in Q1 2023.
['Q2', '2022']:
- Kenneth Giacobbe [The commercial aerospace recovery continued in the second quarter, with commercial aerospace revenue up 34% year-over-year and 7% sequentially.]
- **Evaluation:**
- Expectations Met: The management's guidance on improvements in the commercial aerospace sector, particularly the wide-body segment, anticipated for 2023 aligns with the reported steady recovery and significant year-over-year revenue growth observed in the commercial aerospace sector throughout 2022 and into Q1 2023.

13. Supply chain disruptions
- **Narrative:** Management acknowledged the ongoing challenges in the supply chain that have impacted production timelines. Specifically, the delay in the availability of key components for the 787 aircraft has necessitated adjustments to operational expectations.
- **Management's Guidance:**
- Due to these supply chain disruptions, management has revised its expectations, indicating a decreased outlook for the 787 aircraft production for the second half of the year. This adjustment reflects the persistent delays experienced from the previous year through to the first and second quarters.
- **Actual Results:**
['Q4', '2022']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
['Q2', '2022']:
- Data Not Available
['Q3', '2022']:
- Data Not Available

- **Evaluation:**
- Insufficient Info: Data not available.