Q4 2021

1. Organic growth drivers
- **Narrative:** Management is optimistic about the company's prospects in the coming year, highlighting key areas of growth within the Commercial Aerospace sector, including both narrow-body and wide-body aircraft. The company is also focusing on expanding its market share through increased volumes and improvements in aftermarket revenues.
- **Management's Guidance:**
- Management expects a 30% increase in aftermarket revenues in the Commercial Aerospace sector, and a similar improvement in spares for both narrow-body and wide-body aircraft in 2022.
- **Actual Results:**
['Q1', '2022']:
- Commercial aerospace revenue was up 29% year-over-year in Q1 2022, indicating strong growth in this sector.
['Q3', '2022']:
- Data Not Available
['Q4', '2021']:
- Data Not Available
['Q2', '2022']:
- Revenue increased by 17% year-over-year in Q2 2022, driven by a 34% increase in Commercial Aerospace revenue. The Fastening Systems' year-over-year revenue was 6% higher, with Commercial Aerospace up 20%, primarily due to narrow-body recovery. Engineered Structures' year-over-year revenue saw a 16% increase. Overall, total revenue for Q2 2022 was $1.393 billion, up 17% year-on-year and 5% sequentially.
- **Evaluation:**
- Expectations Met: Management expected a 30% increase in aftermarket revenues, and the actual results showed a 34% increase in Commercial Aerospace revenue in Q2 2022, indicating that the expectations were met.

2. Margin expansion efforts
- **Narrative:** Management has outlined a structured approach to margin expansion, emphasizing the strategic impact of material pass-through on margins. The focus is on sustaining and enhancing their margin improvement trajectory as observed in previous years. This demonstrates a commitment to operational efficiency and financial performance.
- **Management's Guidance:**
- Management has provided a 2022 revenue guidance that includes more than $125 million of material pass-through, which is expected to impact margins by at least 50 basis points. They have also set a range for margin improvement, with expectations to deliver enhanced margins in 2023, following the same upward trend observed in 2022 and 2021.
- **Actual Results:**
['Q3', '2022']:
- Adj EBITDA Margin Q3 2022 was 22.5%, in line with guidance; 23.7% excluding year-over-year material pass-through.
['Q1', '2022']:
- Adj EBITDA Margin for Q1 2022 was 22.7%, which was in line with the guidance midpoint. The segment adjusted EBITDA increased 31% year-over-year, and the margin improved by 270 basis points while adding approximately 325 employees in the first quarter.
['Q4', '2021']:
- Adjusted EBITDA Margin for Q4 2021 was reported at 23.0%, indicating margin expansion efforts were successful in that quarter.
['Q2', '2022']:
- Adjusted EBITDA Margin of 22.8%, at high end of Guidance; 23.8% excluding YoY material pass through
- **Evaluation:**
- Expectations Met: The actual results consistently showed adjusted EBITDA margins in line with management's guidance, with margins improving and excluding material pass-through effects, aligning with the company's stated margin expansion goals.

3. Profit margin analysis
- **Narrative:** Management highlighted a notable improvement in profit margins, with a more than 200 basis points increase in 2021 compared to 2020. They indicated a positive outlook for profit margins, aiming for a midpoint increase in 2022. Additionally, they provided insights into their first-quarter guidance, suggesting that despite a significant portion of revenue being material pass-through—which typically does not contribute to volume growth—the company's margin remains consistent with the levels achieved in the latter half of 2021.
- **Management's Guidance:**
- Management anticipates maintaining strong profit margins into the future, projecting a midpoint increase over 2021 levels. They expect margins to align with those of the second half of 2021, even after adjusting for material pass-through impacts.
- **Actual Results:**
['Q1', '2022']:
- Adjusted EBITDA for Q1 2022 was reported at $300 million, which exceeded the guidance midpoint. The margin was 22.7%, which was in line with the guidance.
['Q2', '2022']:
- Adjusted EBITDA for Q2 2022 was $314 million, and excluding the $60 million year-over-year revenue impact of higher material pass-through, EBITDA margin was 100 basis points higher at 23.8%.
['Q3', '2022']:
- EBITDA was $323 million, and EBITDA margin was a healthy 22.5%.
['Q4', '2021']:
- In Q4 2021, the adjusted EBITDA was $296 million with an EBITDA margin at 23%, and the adjusted EBITDA margin increased by 220 basis points with approximately $285 million less revenue, achieving a Q4 2021 exit rate of 23.0%.
- **Evaluation:**
- Expectations Met: The actual results showed that the profit margins for Q1 and Q2 of 2022 were consistent with management's guidance, achieving a margin of 22.7% and 23.8% respectively, aligning with the expected levels from the second half of 2021.

4. Earnings per share trends
- **Narrative:** During the Q4 2021 earnings call, Howmet Aerospace's management provided detailed forward-looking statements about their financial expectations. The management highlighted a robust outlook for revenue and earnings per share (EPS), indicating a strong performance trajectory compared to the previous year. The strategic focus appears to be on consistent growth and improving financial metrics, including EBITDA and cash flow, which underpin their confidence in achieving higher earnings.
- **Management's Guidance:**
- 1. For Q1, management expects revenue to be $1.3 billion, with a margin of plus or minus $20 million, EBITDA at $295 million, plus or minus $9 million, an EBITDA margin of 22.7%, plus or minus 30 basis points, and EPS of $0.29, plus or minus $0.01. 2. The CEO, John Plant, projected that EPS is anticipated to increase to $1.37, plus or minus $0.06, and cash flow to reach $625 million, plus or minus $50 million. 3. Adjusted EBITDA is expected to rise by 15% compared to the previous year, with adjusted earnings per share anticipated to increase approximately 36% versus 2021.
- **Actual Results:**
['Q3', '2022']:
- Q3 2022: Revenue Up 12% YoY, Adj EBITDA Margin1 22.5%, Adj EPS2 Up 33% YoY; EPS (GAAP): Q3 2022 = $0.19; Adj Earnings Per Share Q3 2022 $0.36; Adj Earnings Per Share2 of $0.36, up 33% YoY, in line with Guidance; minimal currency impact
['Q4', '2021']:
- Adj Earnings Per Share for Q4 2021 was $0.30, an increase from $0.27 in Q3 2021 and $0.21 in Q4 2020. The FY 2021 Adj EPS was up 31% to $1.01.
['Q1', '2022']:
- Adjusted earnings per share was strong at $0.31, up 41% year-over-year. Adjusted EBITDA was strong at $300 million and earnings per share at $0.31, both of which were ahead of the midpoint of guidance.
['Q2', '2022']:
- In Q2 2022, Howmet Aerospace reported adjusted earnings per share of $0.35, which was an increase of 59% year-over-year and exceeded the high end of the guidance. This strong performance in earnings per share highlights the company's effective execution against its financial targets.
- **Evaluation:**
- Expectations Exceeded: The actual adjusted earnings per share consistently surpassed the management's guidance across Q1, Q2, and Q3 2022, with Q1 EPS at $0.31 (above guidance), Q2 EPS at $0.35 (exceeding the high end of guidance), and Q3 EPS at $0.36 (up 33% YoY and in line with guidance), illustrating a stronger-than-anticipated performance.

5. Aerospace product enhancements
- **Narrative:** Management emphasized the importance of obtaining FAA recertification to enhance their aerospace product offerings. This strategic move is seen as critical to maintaining competitiveness and ensuring the continuation of product development and innovation within the aerospace sector.
- **Management's Guidance:**
- Management is optimistic that the FAA recertification will be granted either during this quarter or by the early second quarter, which is expected to bolster their aerospace product capabilities.
- **Actual Results:**
['Q3', '2022']:
- Data Not Available
['Q4', '2021']:
- Data Not Available
['Q1', '2022']:
- Data Not Available
['Q2', '2022']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

6. Supply chain improvements
- **Narrative:** Management emphasized their focus on operational efficiency through strategic supply chain improvements. This includes plans to enhance their workforce to better manage supply chain demands, indicating a proactive approach to addressing potential constraints and optimizing operations.
- **Management's Guidance:**
- Management anticipates recruiting an additional 800 to 1,000 personnel throughout 2022 to support supply chain efficiency. They have indicated flexibility in this recruitment strategy, adjusting as necessary based on evolving conditions.
- **Actual Results:**
['Q2', '2022']:
- Data Not Available
['Q3', '2022']:
- Data Not Available
['Q4', '2021']:
- Matt Akers [You added a lot of people in 2021]
['Q1', '2022']:
- By the end of the year, Howmet Aero recruited approximately 950 net additional personnel. In Q1 2022, recruitment continued with an addition of about 250 more personnel in Engine Products.
- **Evaluation:**
- Expectations Met: By the end of the year, Howmet Aero recruited approximately 950 net additional personnel, aligning with management's target of adding 800 to 1,000 personnel to support supply chain efficiency.

7. Cost management strategies
- **Narrative:** During the Q4 2021 earnings call, management reiterated their focus on operational efficiency with a strong emphasis on cost management strategies. The executive team highlighted their commitment to optimizing incrementals, specifically through adjustments related to metal costs. This strategy aligns with their broader goal of maintaining competitive margins and enhancing overall financial performance.
- **Management's Guidance:**

- Management stated that incrementals, after adjusting for metal costs, are expected to range between 30% and 35%. This suggests a proactive approach in managing cost fluctuations and indicates a stable outlook for maintaining cost efficiencies in the upcoming quarters.
- **Actual Results:**
['Q2', '2022']:
- Data Not Available
['Q3', '2022']:
- Data Not Available
['Q4', '2021']:
- Structural Cost Reductions of approximately $130M exceeded the full year target of $100M, indicating effective cost management strategies.
['Q1', '2022']:
- Data Not Available
- **Evaluation:**
- Expectations Exceeded: Structural cost reductions of approximately $130 million exceeded the full-year target of $100 million, indicating that the cost management strategies were more effective than anticipated, surpassing the management's guidance on operational efficiency.

8. Debt reduction strategies
- **Narrative:** In 2021, Howmet Aerospace's management focused on reducing the company's financial liabilities and interest costs. A significant action taken was the reduction of gross debt by approximately $845 million, which was achieved using cash on hand. Additionally, the company refinanced higher-cost debt with lower-cost alternatives, resulting in an annualized interest cost reduction of about $70 million. These strategic financial maneuvers were complemented by reducing pension and OPEB growth liabilities by $440 million, which substantially improved the company's balance sheet, decreasing net liabilities by $275 million.
- **Management's Guidance:**
- Management aims to maintain a strong focus on debt reduction strategies to further enhance the financial robustness of the company in future quarters.
- **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. Net pension and OPEB liabilities were reduced by approximately $60 million in the first half of 2022, and cash contributions were reduced by approximately 65% to 13 million on a year-over-year basis. Net debt to EBITDA improved to three times.
['Q1', '2022']:
- Data Not Available
['Q3', '2022']:
- Data Not Available
['Q4', '2021']:
- During Q4 2021, Howmet Aerospace management reported the following results on debt reduction strategies: Gross debt was reduced by approximately $845 million using cash on hand, and annualized interest costs were lowered by approximately $70 million.
- **Evaluation:**
- Expectations Met: Howmet Aerospace successfully reduced gross debt by $845 million and lowered interest costs by $70 million in 2021, aligning with management's debt reduction focus. Further reductions in the first half of 2022, including the repurchase of $60 million in bonds and improved net debt to EBITDA ratios, indicate that management's strategic goals were met.

9. Share buyback program
- **Narrative:** Management has detailed a robust strategy regarding their share buyback program, leveraging strong free cash flow to execute significant share repurchases. This approach is part of a broader capital allocation strategy aimed at reducing net leverage and enhancing shareholder value. The company has actively repurchased shares in early 2022 and plans to continue this activity throughout the year, though the specific timing and amount are yet to be determined.
- **Management's Guidance:**
- The company repurchased 3 million shares for $100 million in January 2022 and plans to continue share buybacks throughout the year, although the exact cadence is not yet set. Management highlighted that the excellent free cash flow enabled further share buybacks amounting to $430 million or 13 million shares, alongside a reduction in gross debt by $845 million and interest carrying costs by $70 million, which is expected to improve future free cash flow yield.
- **Actual Results:**
['Q2', '2022']:
- Repurchased approximately 1.8 million shares of common stock for $60 million in Q2 2022; In the first half of 2022, repurchased approximately 6.9 million shares for $235 million.
['Q1', '2022']:
- In Q1 2022, Howmet Aero reported repurchasing approximately 5 million shares of common stock for $175 million at an average acquisition price of $34 per share. This included an additional $75 million over and above the January buyback of $100 million.
['Q3', '2022']:
- In Q3 2022, management reported repurchasing approximately 2.8 million shares of common stock for $100 million at an average price of $36.17 per share. Year-to-date, they have repurchased approximately 9.7 million shares of common stock for $335 million with an average acquisition price of $34.60 per share.
['Q4', '2021']:
- In Q4 2021, Howmet repurchased approximately 6,762,081 shares at an average price of $30.32. The total share repurchases for 2021 amounted to 13,410,146 shares at an average price of $32.07.
- **Evaluation:**
- Expectations Met: The management anticipated ongoing share buybacks throughout 2022, and the actual results show a consistent execution with 9.7 million shares repurchased for $335 million by Q3, aligning with their capital allocation strategy.

10. Cash balance management
- **Narrative:** In Q4 2021, Howmet Aerospace's management focused on refining their cash balance management strategy. They did this by restructuring their accounts receivable securitization program, which would affect cash flow reporting and simplify the definition of free cash flow. This strategic move is aimed at enhancing transparency and operational efficiency.
- **Management's Guidance:**

- The restructuring of the accounts receivable securitization program will result in zero cash receipts from sold receivables going forward, which will now fully impact cash from operations. Starting Q4 2021 and beyond, free cash flow will be defined as cash from operations less capital expenditures (CapEx). CapEx is projected to be in the range of $220 million to $250 million, remaining less than depreciation and amortization, thus resulting in a net source of cash. Adjusted free cash flow is expected to be approximately 110% of net income. Pension contributions are anticipated to be lower in 2022 compared to the previous year.
- **Actual Results:**
['Q2', '2022']:
- Free Cash Flow in Q2 2022 was positive $114 million, excluding $44 million from the sale and leaseback of the corporate headquarters. Capital expenditures were between $200 million and $225 million, lower than depreciation, consistent with management's guidance. The cash balance at the end of Q2 2022 increased to $538 million. Cash provided from operations was $158 million, with a reduction in pension contributions by 65% compared to the first half of the previous year.
['Q3', '2022']:
- In Q3 2022, cash provided from operations was $65 million, with a year-to-date total of $278 million. Capital expenditures for Q3 2022 were $42 million, with a year-to-date total of $148 million. Free cash flow year-to-date was reported as $130 million, including an inventory build of approximately $270 million primarily for the commercial aerospace recovery.
['Q4', '2021']:
- Adjusted free cash flow was a record $517 million, which was well above the guidance. Free cash flow conversion was 117% of net income and if we exclude voluntary pension contributions of $28 million, adjusted free cash flow conversion was 123% of net income. Cash receipts from sold receivables was zero dollars in the fourth quarter.
['Q1', '2022']:
- In Q1 2022, the cash provided from operations was reported as $55 million, with capital expenditures between $220 million to $250 million, and free cash flow essentially breakeven at approximately ($7 million), including an inventory build of approximately $85 million primarily for the Commercial Aero recovery.
- **Evaluation:**
- Expectations Exceeded: Howmet Aerospace's restructuring led to an adjusted free cash flow that exceeded guidance with a record $517 million in Q4 2021, achieving a 123% conversion of net income, surpassing management's expectations of approximately 110%.

11. Production rate guidance
- **Narrative:** The management of Howmet Aerospace discussed their strategic focus on increasing aircraft production rates over the next two years. They highlighted a structured plan to reduce inventory overhang in early 2022, which is expected to lead to improved production volumes in 2023. Additionally, specific production targets were set for the Boeing 737, with a gradual increase in production rates throughout 2022.
- **Management's Guidance:**
- Management anticipates an increase in aircraft production in 2022, with further improvements in 2023, focusing on reducing inventory overhang in early 2022. This strategy is expected to lead to better volume performance in 2023. The production rate for the 737 aircraft is projected to rise from approximately 17 aircraft at the end of Q4 2021 to the low 20s in the first half of 2022 and the low 30s in the second half. For another line of production, management is expecting a recertification that would increase production, targeting a rate of five per month in the second half of the year.
- **Actual Results:**
['Q3', '2022']:
- Data Not Available
['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']:
- Data Not Available
['Q2', '2022']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

12. Supply chain resilience
- **Narrative:** Management highlighted optimism regarding the easing of supply chain constraints, which is expected to positively impact their Wheels business. This is anticipated to lead to a stronger performance in the latter half of the year and set the stage for a robust growth trajectory in 2023.
- **Management's Guidance:**
- Management indicated that the supply chain constraints are expected to ease, leading to a healthy performance in the second half of the year and a significant improvement in 2023.
- **Actual Results:**
['Q2', '2022']:
- Data Not Available
['Q3', '2022']:
- Data Not Available
['Q4', '2021']:
- Data Not Available
['Q1', '2022']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

13. Defense sector opportunities
- **Narrative:** Management highlighted challenges within the defense sector, noting it as a weaker segment at present. Their discussion indicated an expectation of stagnation or a slight decline in performance within this sector.
- **Management's Guidance:**
- The CEO, John Plant, projected that the defense sector would be flat to slightly down for the upcoming year, with the majority of this performance trend materializing in the first half of 2022.

- **Actual Results:**
['Q3', '2022']:
- Defense Aerospace was down 14% year-over-year, driven by customer inventory corrections for the F-35 as expected. Defense Aerospace was down 4% year-over-year.
['Q4', '2021']:
- Defense Aerospace was down 26% year-over-year, driven by customer inventory corrections and production declines for the Joint Strike Fighter.
['Q1', '2022']:
- Defense aerospace revenue was down 16% year-over-year and essentially flat sequentially. Defense aerospace was down 24%, while the defense aerospace market was down 26% year-over-year.
['Q2', '2022']:
- Kenneth Giacobbe [Defense aerospace was essentially flat year-over-year as well as sequentially.]
- **Evaluation:**
- Expectations Not Met: The actual results showed a significant decline in the defense aerospace sector, with a 14% year-over-year drop in Q3 2022 and a 26% decline in Q4 2021, which was worse than the flat to slightly down performance projected by management.