

## Q3 2022

### 1. Organic growth drivers

- **Narrative:** Management has emphasized its confidence in organic growth drivers, particularly in the commercial aerospace sector. The company is on a trajectory to surpass typical industry growth rates, indicating robust recovery and expansion. This includes a strategic focus on maintaining and potentially exceeding anticipated revenue targets, driven by strong market dynamics in aerospace and other related sectors.

- **Management's Guidance:**

- Commercial aerospace revenue is expected to increase by approximately 20% in 2023. Consolidated Howmet, which includes various sectors like defense and industrial gas turbines, anticipates revenue growth of around 10%, with a margin of plus or minus 2%. The company is positioned to achieve a revenue increase of anywhere from 10% to 12%, driven by a recovery rate more than double the normal aerospace rate. Revenue for Q4 is guided at \$1.47 billion, with potential slight adjustments, and the full year revenue is projected at \$5.62 billion.

- **Actual Results:**

**['Q4', '2022']:**

- Revenue for Q4 2022 was up 18% year-over-year, driven by Commercial Aerospace, which was up 29% YoY. The full-year revenue was \$5.7 billion, up 14% YoY, driven by Commercial Aerospace up 28% YoY.

**['Q1', '2023']:**

- Q1 2023 Revenue was ~\$1.6 billion, up 21% year-over-year, driven by Commercial Aerospace up 29%. This performance exceeded the high end of the guidance.

**['Q2', '2023']:**

- Q2 2023 Revenue up 18% YoY, driven by Commercial Aerospace up 23% YoY

**['Q3', '2022']:**

- Q3 2022 Revenue Up 12% YoY, driven by Commercial Aero Up 23% YoY

- **Evaluation:**

- **Expectations Exceeded:** Management's guidance anticipated a 20% growth in commercial aerospace revenue and a full-year revenue of \$5.62 billion. The actual results surpassed these projections, with commercial aerospace revenue increasing by 28% YoY and full-year revenue reaching \$5.7 billion, thus exceeding expectations.

### 2. Margin expansion efforts

- **Narrative:** Management has outlined a plan to improve margin rates by implementing new pricing strategies that are expected to go into effect from January 1st. This approach is anticipated to yield an improvement in margin rates despite a projected revenue decline.

- **Management's Guidance:**

- The introduction of new prices is expected to lead to a decline in revenue; however, it will not impact EBITDA dollars, thus resulting in improved margin rates.

- **Actual Results:**

**['Q1', '2023']:**

- Adjusted EBITDA Margin for Q1 2023 is 22.5%; Operating income margin (GAAP) for Q1 2023 is 17.8%; Adj EBITDA Margin1 is 22.5%, with a 23.0% margin excluding year-over-year inflationary cost pass through, and a year-over-year Incremental Margin of approximately 25%.

**['Q4', '2022']:**

- Operating income margin for Q4 2022 was 14.5%, and the full year 2022 was 16.2%.

**['Q2', '2023']:**

- Data Not Available

**['Q3', '2022']:**

- Segment Adjusted EBITDA Margin in Q3 2022 was 14.5%, indicating stable performance relative to management's guidance.

- **Evaluation:**

- **Expectations Met:** The management aimed for improved margin rates despite a projected revenue decline, and the actual results showed an increase in the adjusted EBITDA margin from 14.5% in Q3 2022 to 22.5% in Q1 2023, aligning with the stated goals.

### 3. Revenue diversification

- **Narrative:** Management emphasized the importance of strategic initiatives to bolster revenue diversification, specifically focusing on increasing market share within the aerospace sector. They highlighted efforts to manage inventory levels strategically to support anticipated growth in commercial aerospace markets.

- **Management's Guidance:**

- Management anticipates that the higher year-end inventory carried into 2023 will support continued commercial aerospace growth in the first quarter, reflecting a strategic approach to capturing market opportunities.

- **Actual Results:**

**['Q1', '2023']:**

- Revenue for Q1 2023 is \$1.603B

**['Q2', '2023']:**

- Revenue Q2 2023: \$1.648B

**['Q3', '2022']:**

- Revenue Q3 2022 \$1.433B

**['Q4', '2022']:**

- Revenue for Q4 2022 was reported as part of a range, with third-party revenue figures showing an 11% increase, indicating successful revenue growth and diversification efforts within the aerospace sector.

- **Evaluation:**

- **Expectations Exceeded:** The strategic initiatives led to an increase in revenue from \$1.433B in Q3 2022 to \$1.648B in Q2 2023, surpassing management's anticipation of leveraging higher inventory for commercial aerospace growth, indicating successful revenue diversification efforts.

### 4. Earnings per share trends

- **Narrative:** Management has consistently demonstrated a strategic focus on improving earnings per share throughout 2022. They have managed to deliver sequential quarterly increases, highlighting their ability to navigate challenges and optimize performance in key business areas, particularly beyond their core

engine segment.

**- Management's Guidance:**

- For the fourth quarter, management projects earnings per share to reach \$0.38, continuing the trend of sequential growth established throughout the year.

**- Actual Results:**

**['Q2', '2023']:**

- Adj Earnings Per Share for Q2 2023 was reported as \$0.44, which reflects a 26% year-over-year increase and exceeded the high end of the guidance.

**['Q3', '2022']:**

- Adjusted earnings per share for Q3 2022 was \$0.36, up 33% year-over-year.

**['Q4', '2022']:**

- Earnings per share was at guidance at \$0.38, which benefited from the strong EBITDA and the Q4 tax rate.

**['Q1', '2023']:**

- Earnings per share for Q1 2023 was \$0.42, which was up 35% year-over-year.

**- Evaluation:**

- **Expectations Met:** Management projected earnings per share to reach \$0.38 for Q4 2022, and the actual result was exactly \$0.38, indicating that expectations were met as per the guidance.

## 5. Cost management strategies

- **Narrative:** Management has focused on optimizing operational efficiency through strategic cost management. Their approach includes maintaining current staffing levels to control labor costs and improve productivity without compromising operational effectiveness.

**- Management's Guidance:**

- Management stated that in Q4, they do not expect significant headcount additions, indicating a strategy to control labor costs and maintain operational efficiency.

**- Actual Results:**

**['Q2', '2023']:**

- Data Not Available

**['Q3', '2022']:**

- Data Not Available

**['Q4', '2022']:**

- Data Not Available

**['Q1', '2023']:**

- Data Not Available

**- Evaluation:**

- Insufficient Info: Data not available.

## 6. Manufacturing optimization

- **Narrative:** Management highlighted a strategic decision to temporarily pause recruitment efforts across most plants in order to focus on improving productivity with the existing workforce. This decision reflects an emphasis on optimizing manufacturing operations by allowing recently recruited employees to fully integrate and enhance their efficiency.

**- Management's Guidance:**

- Management outlined plans to continue recruitment in 2 to 4 selected plants, while pausing in others, aiming to enhance productivity with the current workforce of approximately 2,500 new recruits during the recovery phase.

**- Actual Results:**

**['Q1', '2023']:**

- Data Not Available

**['Q2', '2023']:**

- Data Not Available

**['Q3', '2022']:**

- Data Not Available

**['Q4', '2022']:**

- Data Not Available

**- Evaluation:**

- Insufficient Info: Data not available.

## 7. Debt reduction strategies

- **Narrative:** In the third quarter of 2022, Howmet Aerospace management focused on capital allocation strategies with a specific emphasis on debt reduction. The company is strategically aiming to manage and reduce its legacy liabilities, ensuring a more robust financial position moving forward. This focus on liability reduction is intended to strengthen the company's balance sheet and optimize capital structure over time.

**- Management's Guidance:**

- Management expressed confidence that there will be no increase in interest rate costs over the next two to three years. Additionally, they anticipate a further reduction in liabilities in the fourth quarter, which is expected to significantly impact the reduction of legacy liabilities.

**- Actual Results:**

**['Q2', '2023']:**

- Data Not Available

**['Q3', '2022']:**

- Year-to-date, net pension and OPEB liabilities were reduced by approximately \$85 million and cash contributions were reduced by approximately 45% or \$35 million.

**['Q1', '2023']:**

- In Q1 2023, Howmet Aerospace reduced its 2024 debt by approximately \$176 million using cash on hand, resulting in annualized interest expense savings of about \$9 million. The net debt-to-LTM EBITDA ratio was maintained at 2.6x, with all long-term debt unsecured at fixed rates and a \$1 billion revolver undrawn.

**['Q4', '2022']:**

- In Q4, \$9 million of debt was repurchased with cash on hand, resulting in a full-year total of \$69 million in debt repurchases. There were also significant reductions in pension and OPEB liabilities by approximately \$180 million. The company's leverage improved to a record low of 2.6 times net debt-to-EBITDA.

**- Evaluation:**

**- Expectations Met:** Management aimed to reduce liabilities and anticipated no increase in interest costs, which aligned with the actual results of significant debt and liability reductions, maintaining a stable net debt-to-EBITDA ratio.

## 8. Dividend distribution

**- Narrative:** During the third quarter of 2022, management highlighted a significant shift in their capital allocation strategy by announcing an increase in dividend payouts. This decision underscores the company's commitment to returning value to shareholders and reflects a confident outlook on cash flow generation and financial stability.

**- Management's Guidance:**

- The company announced that the quarterly dividend was doubled to \$0.04 per share, with the first increased payment scheduled for November 2022.

**- Actual Results:**

**['Q2', '2023']:**

- Paid Quarterly Dividend at \$0.04 per share of Common Stock in Q2 2023

**['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 Q4 2022, management reported that the quarterly dividend was doubled to \$0.04 per share of common stock, with total dividends in 2022 amounting to \$44 million.

**['Q1', '2023']:**

- Paid Quarterly Dividend 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.

**- Evaluation:**

**- Expectations Met:** The company fulfilled its guidance by doubling the quarterly dividend to \$0.04 per share in Q4 2022 and maintaining this level through Q2 2023, aligning with management's commitment to increased dividend payouts.

## 9. Cash balance management

**- Narrative:** In the Q3 2022 earnings call, Howmet Aerospace's management discussed their approach to managing cash balance in alignment with their capital allocation and financial strategy. They highlighted their ongoing efforts to maintain consistent annual cash contributions, aiming to sustain or potentially reduce these contributions in the future. This reflects their strategic focus on efficient cash management and operational optimization.

**- Management's Guidance:**

- Management expects annual cash contributions to remain approximately \$60 million, with a possibility of maintaining or reducing this figure next year, as a result of their strategic initiatives over the years.

**- Actual Results:**

**['Q1', '2023']:**

- Data Not Available

**['Q2', '2023']:**

- The ending cash balance was healthy at \$536 million after generating \$188 million of free cash flow, which was the best Q2 of free cash flow generation.

**['Q3', '2022']:**

- Pension/OPEB Contributions of ~\$60M were reported, aligning with management's guidance regarding cash contributions.

**['Q4', '2022']:**

- Data Not Available

**- Evaluation:**

**- Expectations Met:** Management's guidance for annual cash contributions of approximately \$60 million was aligned with actual results, as reported pension/OPEB contributions were around \$60 million, which meets their cash management strategy expectations.

## 10. Inventory management strategies

**- Narrative:** During the earnings call for Q3 2022, management emphasized their strategy to maintain higher inventory levels. This approach is intended to buffer against potential supply chain disruptions and ensure steady production capabilities, suggesting a proactive stance in managing inventory to support operational stability.

**- Management's Guidance:**

- Management indicated that they plan to carry approximately \$70 million of additional inventory, which is expected to impact the company's cash balance by the end of the year.

**- Actual Results:**

**['Q2', '2023']:**

- Data Not Available

**['Q3', '2022']:**

- Kristine Liwag - \$80 million inventory headwind in this quarter

**['Q4', '2022']:**

- In Q4 2022, management reported carrying probably \$70 million to \$100 million of additional inventory.

**['Q1', '2023']:**

- John Plant - "we carried, let's call it, \$100 million- plus of inventory from '22 into '23." John Plant - "we chose not to reduce inventories in the first quarter."

**- Evaluation:**

**- Expectations Exceeded:** Management planned to carry \$70 million of additional inventory, but by Q4 2022, they reported carrying \$70 million to \$100 million, and by Q1 2023, they maintained over \$100 million, surpassing initial expectations to buffer against supply chain disruptions.

## 11. Production rate guidance

**- Narrative:** Management provided insights into their production rate guidance, emphasizing their strategic planning in coordination with Boeing. They are

anticipating an increase in production rates, with specific improvements in their assembly lines and a significant ramp-up in recruitment to support these changes. This reflects an optimistic outlook towards scaling operations to meet anticipated demand.

**- Management's Guidance:**

- Management communicated that they were prepared for Boeing's production rate of 31 units per month, with expectations for this rate to increase in the first quarter of 2023. Additionally, they projected improvements in the 787 build rate towards the end of the next year, aiming for approximately 5 aircraft per month. Furthermore, they plan to significantly increase recruitment starting January to accommodate the expected rise in build rates.

**- Actual Results:**

**['Q2', '2023']:**

- Data Not Available

**['Q3', '2022']:**

- Data Not Available

**['Q4', '2022']:**

- John Plant "Compared to one a month, you can call it, more like half a month."

**['Q1', '2023']:**

- Data Not Available

**- Evaluation:**

- Insufficient Info: Data not available.

## 12. Commercial aerospace trends

- **Narrative:** Management highlighted that the commercial aerospace sector is anticipated to experience robust growth in the upcoming years. This growth is expected to outpace normal rates, driven by increasing demand and market dynamics.

**- Management's Guidance:**

- Management expects the commercial aerospace market to perform above normal growth rates through 2023, 2024, and 2025, before normalizing to a 4% annual growth rate thereafter.

**- Actual Results:**

**['Q2', '2023']:**

- Commercial aerospace increased by 23% year-over-year, as reported by John Plant, and Ken Giacobbe stated that commercial aerospace continued to lead the growth with an increase of 23% year-over-year. Additionally, commercial aerospace has grown for 9 consecutive quarters and stands at 47% of total revenue.

**['Q3', '2022']:**

- In Q3 2022, management reported that the commercial aerospace revenue was up 23% year-over-year and 7% sequentially, indicating robust growth in the commercial aerospace sector.

**['Q4', '2022']:**

- In Q4 2022, management reported that commercial aerospace revenue was up 29% year-over-year. Commercial aerospace has grown for seven consecutive quarters and constitutes 48% of total revenue, though it remains below the pre-COVID level of 60% of total revenue.

**['Q1', '2023']:**

- John Plant reported that Commercial Aerospace increased 29% year-over-year and 4% sequentially. Additionally, Commercial Aerospace was up 15% driven by the narrow-body recovery.

**- Evaluation:**

- **Expectations Exceeded:** The commercial aerospace market showed robust growth with year-over-year increases of 23% to 29% across multiple quarters, surpassing management's expectations of above-normal growth rates for 2023 and beyond.