Howmet Aerospace Inc. (NYSE:HWM) Q2 2024 Earnings Conference Call July 30, 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

Douglas Harned - Bernstein
Kristine Liwag - Morgan Stanley
Seth Seifman - JPMorgan Chase & Co.
David Strauss - Barclays Bank PLC
Myles Walton - Wolfe Research, LLC
Sheila Kahyaoglu - Jefferies LLC
Scott Mikus - Melius Research LLC
Noah Poponak - Goldman Sachs Group, Inc.
Gautam Khanna - TD Cowen
Ronald Epstein - Bank of America Merrill Lynch

Operator

Good day, and welcome to the Howmet Aerospace Second Quarter of 2024 Earnings Call. Please note that today's event is being recorded and all participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] On today's call we ask that you please limit yourself to only one question during Q&A. Also, please be aware that today's call is being recorded.

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

Paul Luther

Thank you, Joe. Good morning, and welcome to the Howmet Aerospace second 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

Thank you, PT, and welcome, everyone to the Howmet's second quarter earnings call. Q2 is a strong quarter for the company with metrics exceeding both guidance and prior year results. Year-over-year revenue growth was 14%, building on the 14% growth in the first quarter. Within this number, commercial aerospace growth was an outstanding 27% continuing a strong trend. Other revenue markets will be covered later in the call.

EBITDA was $483 million, with a margin rate of 25.7%, while operating income was $414 million with a margin of 22%. Operating income was up 38% year-over-year and increased 370 basis points with engines and fasteners performing at the high level supported by an increasingly strong set of results in our structures business. Wheels was essentially flat despite the market declines.

Earnings per share were $0.67, an increase of 52% year-on-year. Free cash flow was also strong at $342 million, resulting in a quarter end cash balance of $752 million, after share buybacks of $60 million and furthermore, a $23 million bond repurchases of the 2025 bonds and also dividends of $21 million.

The strong cash balance for an early retirement at par of the remaining $205 million of the 2024 bonds on July 1, one day after the quarter end. These actions will reduce annual interest costs by some $12 million and continue the march to reduce interest rate drag, which is now well below $200 million with its increase in free cash flow yield. I'll provide commentary on the future dividend actions in the outlook section.

You'll also note later in the – the increase in the capital expenditures in 2024 of a $30 million level. This takes the level towards $320 million for the year. And these expenditures are mainly the deposits on future new machine tools, which are required to support even further new capacity growth for our engines business. This is necessary as we have now secured additional market share at the second engine

manufacturer. These revenues will also commence during 2026, albeit at a quarter or so later than the previous discussions on this topic.

I'll now pass the call across to Ken to provide additional details by end market and by business segment.

Ken Giacobbe

Thank you, John. Good morning, everyone. Let's move to Slide 5. So markets continued to be healthy in the second quarter. On a year-over-year basis, performance was as follows: Total revenue was up 14%, driven by strong growth in commercial aerospace, which was up 27%. For the first half, commercial aerospace was up a healthy 25%. Growth continues to be robust this year on top of the 28% growth rate in 2022 and the 24% growth rate in 2023.

Moving to our other markets. First, defense aerospace was also strong, up 11%, driven by fighter programs and engine spares demand. Next is commercial transportation. As expected, the market has weakened with revenue down 4%, although Howmet continues to gain share from Steel Wheels with Howmet's lighter and more fuel-efficient aluminum wheels.

Finally, the industrial and other markets were up 4%, driven by oil and gas, up 14%, IGT up 6%; and general industrial down 6%. In summary, continued strong performance in commercial aerospace, defense and industrial, partially offset by commercial transportation.

Now let's move to Slide 6. So first, the P&L. For the second consecutive quarter, Q2 revenue, EBITDA, EBITDA margin and earnings per share were all records and exceeded the high end of guidance. On a year-over-year basis, revenue was up 14%, and EBITDA outpaced the revenue growth by being up 31%, while absorbing the addition of approximately 190 net new employees in the quarter.

Incremental flow-through of revenue to EBITDA was excellent at 50%. Moreover, the team delivered records for both EBITDA margin of 25.7% and earnings per share of $0.67, which was up a healthy 52% year-over-year.

Now let's cover the balance sheet and cash flow. The balance sheet and liquidity have never been stronger. Cash at the end of the quarter was $752 million, and free cash flow was a record for Q2 at $342 million. The healthy cash balance at the quarter end was used to repay the remaining balance on the 2024 bonds of $205 million.

Payment was at par and was made three months early on July 1. Moreover, in Q2, we opportunistically repurchased $23 million of the 2025 bonds. The combination of these

actions will reduce annual interest expense by $12 million annually, further improving free cash flow yield.

Finally, net debt to EBITDA improved to a record low of 1.7x. All long-term debt is unsecured and at fixed rates, which will provide stability of interest rate expense into the future. Liquidity is strong with a healthy cash balance and $1 billion undrawn revolver complemented by the flexibility of a $1 billion commercial paper program.

Finally, capital deployment. We deployed approximately $104 million of cash in the quarter to shareholders, of which $60 million was used to repurchase common stock. This was the 13th consecutive quarter of common stock repurchases. The average diluted share count improved to a record low Q2 exit rate of 410 million shares.

Finally, we continue to be confident in free cash flow. In the first quarter, we deployed $21 million for the quarterly common stock dividend of $0.05 per share. John will discuss the increase in the Q3 dividend as well as our 2025 dividend policy.

Now let's move to Slide 7 to cover the segment results for the second quarter. Engine Products delivered another record performance. Revenue increased 14% in the quarter to $933 million. Commercial aerospace was up 18% and defense aerospace was up 10%. Both markets realized higher OE build rates and spares. Oil and gas was up 14% and IGT was up 6%. Demand continues to be strong across all of our engine markets driven by our differentiated products.

EBITDA increased 31% year-over-year to a record $292 million. EBITDA margin increased 410 basis points year-over-year to a record 31.3%, while absorbing approximately 315 net new employees in the quarter to support future growth. The engines team delivered a record quarter for revenue, EBITDA and EBITDA margin.

Now let's go to Slide 8. Fastening Systems also had another strong quarter. Revenue increased 20% year-over-year to $394 million. Commercial aerospace was up 36%, including the impact of the wide-body recovery. Commercial transportation was up 10%. General industrial was up 3% and defense aerospace, which represents about 9% of Fasteners revenue was down 20%.

Year-over-year, EBITDA outpaced revenue growth with an increase of 58% to just over $100 million. EBITDA margin increased 610 basis points year-over-year to a healthy 25.6%. The team has progressively improved results for four consecutive quarters through commercial and operational improvements, complemented by the wide-body recovery.

Now let's move to Slide 9. Although engineered structures had a favorable comp year-over-year, performance continued to improve sequentially. Revenue increased 38%

year-over-year to $275 million. Commercial aerospace was up 42%, driven by build rates in the wide-body recovery. Defense aerospace was up 45% year-over-year, driven primarily by the F-35 program.

EBITDA doubled year-over-year, while EBITDA margin improved to 14.5%. Sequentially, revenue, EBITDA and EBITDA margin increased for the fourth consecutive quarter. Incrementals continue to improve sequentially at 23%. We continue to optimize the structures manufacturing footprint, and we expect to exit two small plants in the UK this year. The team continues to make progress, and we expect continued improvements throughout 2024.

Finally, let's move to Slide 10. Forged Wheels revenue was down 7% year-over-year, as expected, in a challenging market. EBITDA also decreased by 7%, driven by volume and regional mix. EBITDA margin continues to be healthy at 27%, which is essentially flat year-over-year.

With that, let me turn it back over to John for the outlook.

John Plant

Thanks, Ken, and let's now move to Slide 11, and I'll talk you through the end markets and provide some overview. Firstly, regarding commercial aerospace. Our prior comments regarding strong demand for air travel throughout the world continues to apply. Air traffic growth in Asia-Pacific has strengthened in particular, for international travel. In fact, international travel globally has been increasing in the 20% range, plus or minus.

Freight volumes have also been robust with increases of 10% plus recorded. Domestic travel continues to go gradually in all markets. This travel demand, combined with an aging aircraft fleet is leading to significant orders and an extremely high backlog of total aircraft, or it is leading to a position where aircraft orders placed now cannot be fulfilled until the end of the decade and beyond in certain cases. However, the issue being faced by Howmet is not the demand, but rather that sales are currently constrained to some degree by the ability of aircraft manufacturers to build and deliver aircraft on a consistent basis. These facts are the subject of many press articles and this little point in repeating those facts here.

While Airbus is steadily increasing requirements while building below desired levels and slowing its volume run, the larger concern is Boeing. While parts orders directly from Boeing shows some trimming, they continue to be at levels above the actual 737 and 787 build rates. Engine orders have also been trimmed, albeit by a large percentage.

Given the situation, the question surrounding Boeing and its affiliates inventory positions and liquidation of such inventory remains. We've tried to derisk this to a large extent in our guidance. And notably, update our assumed 737 build rate to 22 aircraft per month in 2024 versus the previous view of 20 per month. Naturally, we hope for a higher build on this and also the future rates increases.

In the case of defense, the outlook continues to be a double-digit increase for the year. Strength is seen in engine spares for the F-35 and for spares and newbuilds for legacy fighters. New orders are also being received for structural parts for Howitzers. IGT demand is for a significant single-digit growth.

It's worth noting there is a potential for increasing demand in the future for new IGT turbines as a result of increased requirements emanating farm electricity demand for data centers and AI needs. This potential demand increase is being studied and is worthy of further commentary in the future.

Howmet is well placed in the IGT market being the largest supplier of turbine blades in the world to our customers of Siemens, GE Vernova, Mitsubishi Heavy and Salto. Indeed, further production capacity will be added by Howmet into the IGT market in 2025 to support this increased demand.

Oil and gas continues to be strong with double-digit increases. Spares for commercial aerospace, defense and IGT to continue to grow in aggregate at a pace of approximately 17% year-to-date, with further rate increase expected in the balance of the year.

Commercial truck builds are beginning to abate and the long predicted slowdown, particularly in Europe, has started and will lay on the second half at maybe a 10% reduction in addition to the more normal European summer vacation seasonality. This normal seasonality is also noted in our European aerospace operations and is fully baked into our third quarter guidance.

Before I talk to specific financial numbers, I'd like to cover three topics. First, the capital expenditure required for 2024 has been increased by a further $30 million to the midpoint of $320 million. This is reflective of additional customer contracts achieved with share gain for our engines business. A further exposee will be provided on this topic in our next call.

Despite the additional capital expenditure, the free cash flow guide has been increased by $70 million, having taken account of this expenditure and also the increase for working capital in the revenue guide. The conversion of net income is maintained at the prior guide of approximately 85%. And ultimately, this expenditure leads to further future revenue growth. It's a great outcome, with revenue starting to accrete in late

2025. The guide for capital expenditures for 2024, 2025 is approximately 4% of revenue.

The next topic is the dividend. We will increase the common stock dividend starting with the August payment to $0.08 per share. This is an increase of 60% and a further increase from our expectations discussed during our call in May. Moreover, for 2025, common stock dividends are expected to be in the 15% of net income, excluding special items, plus or minus 5%. Finally, share buyback authorization has also been addressed by the Board and increased by $2 billion to approximately a total of $2.5 billion.

Now moving to specific numbers. In Q3, we expect revenues of $1.855 billion, plus or minus $10 million, EBITDA of $465 million, plus or minus $5 million, and earnings per share of $0.64 plus or minus $0.01. It should also be noted that we have increased revenue guidance for the year both incorporating the Q2 beat and a further additional uplift to the previous assumed second half revenues.

For the year, we now expect revenues to be at $7.44 billion, plus or minus $40 million, which is an increase of $140 million from the prior guide. EBITDA is guided to $1.865 billion, plus or minus $10 million, which is an increase of $115 million from the prior guide.

Earnings per share increased to $2.55, plus or minus $0.02, an increase of 39% year-over-year. And free cash flow is guided to $870 million, plus or minus $30 million an increase of $70 million from the prior guide. And that's after increasing that CapEx requirements by $30 million and the revenue of $140 million. You can see from the numbers shown revenue, profit and free cash flow have lifted again for 2024, and that total annual revenue has increased to a 12% growth rate year-over-year.

Now I'll move to provide a summary. First statement is, we are pleased with our second quarter results. The guide for the year has been raised again on all fronts. We believe we've taken account of the commercial aircraft build rigs and the inventory positions, which is centered on Boeing.

And thank you very much, and now I'll move to the questions.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] At this time, we will take our first question, which will come from Doug Harned with Bernstein. Please go ahead.

Douglas Harned

Good morning. Thank you.

John Plant

Hey, Doug.

Douglas Harned

John, I wanted to see if you could help a little bit in understanding what's been happening at Airbus on the LEAP-1A. They talked about slowing engine deliveries. It's our understanding that relates to airfoils in the hot section at GE, and it's a supplier issue. Howmet's obviously a – the lead supplier for airfoils in the hot section. Has this – have you had any issues on delivery to GE? And if not, does a shortfall by others provide any kind of an opportunity to capture share?

John Plant

Well, Doug, I expect that to be the hot topic of today given the comments on the, I'll say, opening evening of the Farnborough Air Show last week and then followed up by an article in Bloomberg this weekend. And I guess my first reaction to it as an investor in the company. So that's really good news. Because here, we are pumping in a 27% increase in commercial aerospace revenues, and if that exactly is true, then we need to make more. And therefore, this is a really good condition for us. So just getting a little bit more specific than that. You've heard on the call that over the last three years, we've put in a 28% increase in commercial aerospace revenues followed by 24% year-to-date this year of 25%. And if you were to track those increases compared to any form of aircraft build or schedules then you can see that we are increasing significantly above any aircraft production rates. And therefore, it's unlikely that we are providing such constraints.

And then just to peel it a little bit further is that we have significantly increased our production of turbine blade and hot section. And if you look at it six months ago and over the last few months, we've probably put a 40% increase through in terms of production. And therefore, that's really good in terms of a rate increase for anybody in the aerospace industry. And probably effectively operating at capacity or possibly even above it on the current set of yields that we have. So the way I look at it is that we are producing well above engine build rates. And then we don't know, first of all, the outcome of what the subsequent processing is for our [indiscernible] and nor do we get to have any view about where do they go in terms of how we build versus MRO, so you'd be – sort of sales.

And so I guess the way I look at it is, for Howmet, the opportunity appears to be there to sell even more if we're able to make a few more. But at the same time, there are adverse consequences upon us because if engine build is down, and you heard it in our guidance, that we've taken the engine build assumptions down to be in line with what we've heard from the engine manufacturers in recent times. And you've seen that those have been significant rate reduction, whereas previously, we've been prepared to meet those.

And so when you get that, even though we have the demand opportunity to supply into the MRO market through our customer. We also suffer because if a lack of an engine build, then obviously, we're not able to supply any structural castings that we indeed manufacture. Nor are we able to supply parts in the low-pressure part of the turbine. And so given the recent, I'll say, build restrictions, we actually have some excess label short-term working in some of our French plants because of the LPT demand. So we're not unaffected. And clearly, we would like to make even more because there is the outlet into the service area which is not into the OE build. So it's a long way of saying to you, we are increasing. We have been – had a massive increase in the last few months and doing our best to satisfy everybody. And that's about as far as I can take it. And don't know what else to say to you to provide any further color.

Douglas Harned

Okay. That's very helpful. Thank you.

Operator

And our next question will come from Kristine Liwag with Morgan Stanley. Please go ahead.

Kristine Liwag

Hey, thank you for the question. John, very helpful color regarding the LEAP engine blades as you spelled out. I mean, I guess, if we take a step back with the new engine technology, both for the GTF and for the LEAP. It's clear that the hot section is getting a lot more, it's getting used more, it's hotter, higher performance. And from our visit at Whitehall, you've clearly invested in this space. Can you quantify how much more market share you could potentially get? It seems like you're not the bottleneck for production and you've got content. And then also as a follow-up, in terms of the newbuild, you said you're not seeing the reduction there. Does that mean that one for one, you're seeing spares pick up to? Or are the OEs maintaining the rate at a higher level?

John Plant

Again, at the moment, nothing is that easy to explain. And so what I did want to present to you, complex pictures, it probably becomes necessary to do so. Clearly, the investment that I've talked about, both in the last two calls and then today, a third time. But today, introducing the fact that we are further increasing our capital expenditure to meet demand for a second engine manufacturer. Then that was previously mentioned and then mentioned as a result of additional contract and share that we are able to fulfill in the future – fulfilled with the introduction of that new capacity.

When we bring that new capacity online, then we're going to take the next plant, so we're building out footprint in two particular plants at the moment. And that when we finish that footprint, the level of, I'll say, sophistication, automation and quality and use of, for example, AI and our tests [indiscernible] are going to be taken to another level because to achieve the levels of production that we see, the only way to do it with the consistency in yields that we do is automation because you can't easily do it using a lot of labor. And so yes, we are taking the technology to another level in terms of manufacturing. And we're also able to help our customers in meeting what they would like to see by way of elevated temperature performance and increased pressures. So when the original developments and uplifts for the two most recent engines, they move from being more focused on from fuel efficiency to more robustness, and that's something that we're able to work with them to try to achieve.

So all of that is in play. And you've read articles that some of those upgrades will be available subject to the certification requirements later in 2025. And then progressively, I'll say, launched with each of the aircraft manufacturers over the next couple of years. And it doesn't matter whether it's a LEAP-based engine or a GTF engine, and we're working on the upgrades for all of those. And again, we'll be providing those new products into the service market as well. So as an example, included or maybe it's over and above the increases in volumes that I've talked about, we've built already some tens of thousands of parts ready for the new improvements for engine manufacturers and those are currently sitting in inventory awaiting certification signoff, and then they'll be assembled into engines.

Kristine Liwag

Great. Thanks, John.

John Plant

Thank you.

Operator

And our next question will come from Seth Seifman with JPMorgan. Please go ahead.

Seth Seifman

Hey. Thanks very much and good morning. I wonder, John, if you could talk a little bit about 787. We've seen some mixed messages here. It seems like some of the Japanese structure suppliers may be preparing to increase their rates. Boeing deliveries are low, one of the European suppliers shutting down for a little while. When you think about the trajectory in the fasteners and structures business. How are you thinking about 787?

John Plant

On the structure side. So far, we've been seeing our deliveries from Howmet in line with the previous guidance. At the same time, we do note that one of the European manufacturers is now saying they're going to cut back over the summer. And we've taken account of that in our – in the guide that we provided to you in the same way, as I said, that we covered out the reduction in LPT turbine blades and also substructural castings.

In the case of Fasteners, again, we note that Boeing are not building 787 that they stated rates, that they wanted to have in their skyline. And so in the same way as we've done with the 737 in using Fasteners, which are on a Min/Max system rather than, I'll say, directly schedule part is that we've taken those inventory levels down to the minimum such that we're in accordance with our contract with Boeing, but not seeking to put inventories above that level, such that we get caught with in, but you take out later in the year or next year should that happen.

Seth Seifman

Great. Thank you very much.

John Plant

Thank you.

Operator

And our next question will come from David Strauss with Barclays. Please go ahead.

David Strauss

Thank you. Good morning.

John Plant

Hey, David.

David Strauss

Hey, John. So in the past, John, I think you've talked about targeting a 30% or so incremental margin, plus or minus 5%. It looks like this year, your revised guidance implies something in the 40% to 45% range. So just wanted to get some updated comments about how to think about incremental margins for the business? Thanks.

John Plant

Yes. We've have increased the balance of year. I think it's just fractionally over 40% in Q3, and that takes account of both the seasonality plus the reduction in our Wheels business that we envisage at the moment, principally coming from Europe, but also affecting Class 8 trucks in the U.S. as well. So that's how we've put that incremental into Q3. And essentially in Q4, Wheels should be rather stronger than that to end up the year at a higher level.

Continuing the theme from our last earnings call, David, is that, if you look at the rate of increase in employee headcount, which I think last quarter, we said it's about a net – just over 400, which in itself was a slightly reduced rate. While we've still been hiring, it's now down to just fractioning below 200. And yet, if you look at the increase in revenue, and it's significantly above that in terms of percentage.

So you can assume that productivity is being achieved and in the case of our Fasteners business on top of it, I think there's a 28% increase in revenue in Q1, 20% in Q2. We've actually taken zero incremental headcount. So, here we are pumping out 20%-plus revenues with no incremental peak, which obviously helps a lot towards the, I'll say, bottom line and the efficiency within the business.

And so at the half year, on a net basis, we're up probably 600 people in the company, and all of that is in our Engine business. And that's because of both the demand level that we have, plus also we do need to begin to prepare for the increased capacity because headcount is going to be required or go through all the recruitment and training that we've talked about in the past, because it takes a lot of efforts to gain the skills that are requisite for it to be an employee in our engines business.

So we're pleased with where we've got to, by way of efficiency. We're seeing it on the people side. We're seeing it also a slight calming in the inflation. And so in fact, in Q2, we had a tiny deflation in our metals input, which was good for the aerospace business, but it was not worth talking about in terms of probably wasn't even – I'll say we didn't even get to 10 basis points. And so – but it was good that we didn't have a headwind.

And then the only area we have a current headwind is the increase in price of aluminum which obviously affects our Wheels business. And so we'll see that small drag getting $1 recover for $1 of cost that always provides a margin drag, and we'll add that margin drag to the reduced sales affecting our Wheels business. So really signaling that

Wheels revenues will be down and the margin will be down a little bit more in the third quarter because of seasonality and the demand factor plus the aluminum.

But if you put together as a company, we are seeing, I was saying, good stability across the piece in terms of input metals and increase in labor productivity and good demand of parts with giving us I'd say, fairly, I'd say, good mix, which are reflected in the guidance where we're guiding at about 25% EBITDA margin in the second half as well.

Operator

And our next question will come from Myles Walton with Wolfe Research. Please go ahead.

Myles Walton

Thanks. Good morning.

John Plant

Hey, Myles.

Myles Walton

Hey, John, you stopped specifying pricing but I have to imagine, given the sort of breakaway moment here in the quarter pricing must be accelerating. Can you give any comment on that front? And also, just to take it at a higher level, you talked about the Airbus and Boeing not being able to achieve their production objectives. But it did seem like GE had more of a material shortfall on their own. And I'm curious, do you see this as a blip in their ability to get production up and maybe the risks are shifting to the engine as opposed to the airframe? Thanks.

John Plant

Okay. So rate changes, the aircraft manager, manufacturers are well publicized. So in the case of Airbus, I think they've taken the annual expectations of deliveries down by 30 aircraft, which I assume the majority are narrow bodies. And they did talk about some engine availability issues on their discussions at Farnborough last week. In the case of Boeing, again, it's all well publicized and we took a little bit of encouragement from what the Head of Boeing Commercial Aerospace said by way of increased stability within the manufacturing plant in Seattle. So with expectation of them achieving rates 38 by the end of the year, which is great. And clearly, we haven't assumed that they get that far, but we did feel bold enough to go from our previous assumption of 22 production, 20 production to a 22 rate albeit probably still significantly below where the majority are expecting that to be.

In the case of engine manufacturer, those rates are far less, really discussed. And from what I saw and read is that the expectation is that the LEAP engine output will increase significantly in the second half of the year, which is really good. And so that will ramp up some of our current RC inventory in, say, structural casting and the low-pressure turbine, combined with obviously still the very high rates of production in the high-pressure turbine. So I think that covers that part of the question adequately.

In terms of price, we haven't given any further guidance to the price topic and from what we gave at the end of last year, which was that instead of 2024 being of a similar level, plus or minus 2023 and that level has reached, I think at just about a $100 million across the whole of the company. Then we said it would be that or a little bit more. And no change from that guidance at all that we have given. And so you can assume it's exactly as we previously indicated, but really not commenting further on the topic.

Myles Walton

Okay. All right. Thank you.

John Plant

Thank you.

Operator

And our next question will come from Sheila Kahyaoglu Jefferies. Please go ahead.

Sheila Kahyaoglu

Thank you. Congrats guys on a great quarter and securing the second engine win. So John, maybe you could help elaborate on the terms there. And what Ken agreed on that. So if you could just talk about how we think about that second engine OEM. I think you said the volumes start up a quarter later than the first OEM in 2026. So how do we think about that incremental volume that comes through the return profile with the additional CapEx? And I'm guessing it's better than the 31% engine margins you have today? And any thoughts on the first versus the second deal?

John Plant

Yes. It's obviously good business, otherwise we wouldn't take it. At the same time, whenever you put down new engine capacity. As you know, engine manufacturing is very capital-intensive. And so we will be facing elevated depreciation charges because the average you'll get on, I'll say, your written down asset base compared to putting in new capital is very different. And in an earlier part of this call, I talked about, in fact, the extraordinary levels of automation to which we're having to go to basics to achieve this

consistency of quality and yields that are so vital to being able to produce effectively for the, I'll say, new special requirements for these turbine types of products.

And so I didn't really want to get into specifically pinpointing any particular margin. We can assume that it's satisfactory. Otherwise, we're going to achieve an adequate return on capital. And sufficient that I think will make our investors very satisfied. At the same time, the margin rates will be adequate. But I'll say, we'll be pumping them through with adding as little fixed cost as possible but at the same time, we recognize that we'll be adding depreciation costs. But it's a long way of saying it's okay Sheila.

Sheila Kahyaoglu

Thank you so much. Can you comment on the volume?

John Plant

Clearly, volumes are up because we said we'd be taking additional share as part of this. I don't really want to comment on specific market shares that we have on any particular customer. I don't think that's an appropriate thing to be talking about publicly. But the important thing is the share gain is pretty healthy. And it is similarly in line with the previous increase that in share that we talked about for the earlier investments.

So basically, this one is the investments are about six months – kicking off them six months later than the previous investment. And now clearly, our job is to try to place all of those new machine tools, get that as quickly as possible and place them and commission them as soon as possible because the demand is clearly there for them. And so our customers would like to see them come on as early as possible. And it's all going to be tied up with not just what they want for them, what they see is volumes today. But also the certification of the changes going on in the engine world, which the FAA and the EASA will have to sign off both for Airbus and Boeing where these new engine upgrades are – as they have to be certified as well. So we await that. It could be different for each of the manufacturers we feel.

Sheila Kahyaoglu

Thank you.

John Plant

Thank you.

Operator

And our next question will come from Robert Spingarn with Melius Research. Please go ahead.

Scott Mikus

Hi. This is Scott Mikus on for Rob Spingarn. John, I hate to put you on the spot and ask for a long-term margin target here, but your operating margins were quite strong in the quarter. They're in the low-20s now and precision cash parts, there is always noise in the numbers due to metal pricing and LIFO reserves, but it's operating margins before it was acquired, we're in the high-20s. Do you think Howmet has the potential to eventually get there long-term?

John Plant

Well, first of all, I wasn't quite sure whether those cash parts were operating margins or EBITDA margins, but it doesn't really matter because I don't really comment on margin at all. Aerospace is a cyclical industry and anybody who has the absolute knowledge and precedence to know exactly what volumes will be next year and the year after and the year after that and what the rate of increase will be is something that I don't have. And therefore, I've never been comfortable talking about what I think margin rates will be in the future.

I think all we can do is to say this is what we're doing – these are the changes we're trying to make to improve our company. And I don't follow some I'll say false guard of whatever happened over a decade ago, one company, whether those were real or not real margins at the time and what type of margin rate was covered. So I choose not to do it, Scott. So I don't think I ever have, and I don't think I ever will comment on margin rates. It's something which like how do you know? And so I recognize that some companies do say what their margins are going to be two or three years from now. Whether they're achieved or not seems to get lost, but you won't find me doing it.

Scott Mikus

Okay. Got it. I'll stick with one. Thanks, John.

John Plant

Okay. Thank you.

Operator

And our next question will come from Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak

Hey. Good morning, everyone.

John Plant

Hey, Noah.

Noah Poponak

John, you had explained that the incrementals were strong in the first half because you didn't have to higher as fast while the revenue growth is still pretty good. I guess that begs the question of when you suspect you'll be back to hiring. And then I guess when I look through how the segments have evolved, Engine is up like 1,000 basis points versus pre-pandemic. Fastening is still lower than pre-pandemic. Obviously, that's – we know why that has a lagged revenue recovery. I guess does Fastening have as much potential as engine as it continues to get its revenue recovery?

John Plant

As you know, Noah, in commercial aero, nothing is ever exactly the same. Pre-pandemic, we were at time, I think, producing something like nine A350s a month and 13 or 14 787s a month. And as you know, we produce a completely different set of Fasteners for a composite-based aircraft than a metallic-based aircraft. And to some degree, you saw that when the 787 was halted at one point, we moved down to zero because of the clearing out of inventories, and we've been climbing back from there, both in terms of a favorable mix, but also the effects of trying to drive productivity in that business and also being probably a little bit better commercially.

At this point, I don't know what eventual rate Wide Body will get to. And therefore, the future mix is going to be different. I note the increase in A350. And I suspect that the A350 would be the higher rating – wasn't for some also supply constraints, particularly in the structures area. And that's slated to go to, I think, is it 12 a month by 2027, which would be great because that will be above the previous rate. On 787, the only ambitious number I've heard is rate 10, which was slightly plus 2025, 2026, but then the thing is being modified now to 2026. But I think we've got to wait and see what happens in 2025 first. And getting up from where I think our current production is maybe three a month, four a month levels, what I've read. And it would be great to get back to five and then seven next year.

And I think that's tied up with maybe a few particular parts I've read about probably also the same thing as we had previously. I mean, supply chain is often quoted, but often, there's also issues within the assembly processes for some of these aircraft. And so

that all needs picking apart in much greater detail. And let's see the rates progress during obviously, balance of 2024 into 2025 before we get to what's the real rate going to be in 2026 and 2027. But should we get back to, let's say, 14 a month of 787s and if it gets 12 a month, stated for the A350. And I guess it depends on – then what the volume of the metallic-based narrow bodies will be but that would be a very positive factor for us. But I don't feel like saying that we move back to any particular previous margin level. I think the most important thing is if you just look at the track of our margin for the fastener business during the recent quarters. I think it's been truly impressive in terms of sequential improvement and that's as far as I'll go.

Noah Poponak

Okay. Thank you.

John Plant

Thank you.

Operator

And our next question will come from Gautam Khanna with TD Cowen. Please go head.

Gautam Khanna

Hey, John, Ken and PT and congrats on the results.

John Plant

Thanks, Gautam.

Gautam Khanna

Hey. Just, John, maybe to put a finer point on it, where, if anywhere, do you see excess inventory in the channel of your products? Has there been any deferral requests or anything incrementally that is weakening some of the outlook beyond maybe 2024. Obviously, you've raised 2024, but anything that gives you pause in 2025? And then lastly – relatedly I just wanted to ask that Asheville RTX facility, has that had any negative impact on the longer-term outlook for – after 135 or any other programs you service? Thanks.

John Plant

Okay. So maybe I'll deal with the Asheville question first. I haven't heard any commentary coming out of RTX in the last 30 years or so on that facility. I believe it's coming up to rate on machining work, and that's probably necessary to get through the

disc inspection and recall. On the investment castings process, I haven't really heard anything that's material in that area. And so I'm still all of my previous comments about that facility, you just stand there on the record as is. The moment we're not seeing that reflected in any change of our requirements over the next few years.

And at this point, don't expect it to – I mean what happens, let's say, after, I don't know, 2030 compared to the $650 million that was the announced investment, which doesn't go far across coating and machining and building online on investment castings. I think you've got a few more billion, several billions to go yet to – for that to become sufficiently equipped at scale to be cost effective. And it's not clear to me that Pratt & Whitney are emphasizing that investment compared to getting through the, I'll say, current GTF issues and servicing the cash costs of that provision that was made last year of I think it's $6 billion, obviously shared between them and some partners. But that's a big nugget to absorb. So I don't know more than that. And just because I've been spending so much time focused on that question. What was the first part of it? Sorry, was it excess inventory in the channel?

Gautam Khanna

Yes. Excess inventory.

John Plant

Not really. I mean it’s a bit superior. So as I said, we were a little bit surprised when we got cut back recently on the low-pressure turbine parts because those LEAP engines weren't assembled. And so we've probably got more than we would like and therefore, trying to manage that through the next quarter or so. And according to what we can do by way of changing the employment, I'll say, ours facilities into one plant in France. But its nothing of great note. And because I said earlier, if you think about it, there's so many moving parts going on at the moment in the industry, like what's – we see what aircraft manufacturers delivery rates are, how much comes out of production compared to how much comes out of inventory? What's the state of how many aircraft have started to [indiscernible] roll out plans, that's pretty opaque? And we don't really have and you don't have good production level information.

And then you get from that, all of the engines, you've got all the image they got. So there's so many different aspects to it, and it must be really difficult for you to model because it's difficult for us. And so what I would advise you to do is just take our guide in the way we've tried to set it out. We've been cautious where we need to. We've called out reductions, for example, in the Wheels business, where we see now that reduction in market activity very clearly started in Q2 and it's going to be significant in Q3,

exacerbated by the seasonality because, as you know, the European plants tend to go [indiscernible] for several weeks in July and August.

And so we've got all of that. And the best I think we can do is to say, look at the guide, it takes account to the best level of knowledge. It keeps pace with all of the previous production quantities we talked about on the first quarter earnings call and adjusted for the Boeing rates only. And we've taken engine right down to match what we've been advised in the case of the engine manufacturers.

Gautam Khanna

Thank you.

John Plant

Thank you.

Operator

And our next question will come from Ron Epstein with Bank of America. Please go ahead. Ron, your line is unmuted.

Ronald Epstein

Hey, guys. Sorry about that. I was muted.

John Plant

Hi, Ron. I thought that was the best question all day because I thought I haven't going to answer it.

Ronald Epstein

Yes. The easy one, right?

John Plant

Yes. The easy one.

Ronald Epstein

The ones that don't show up. So just a quick, just a broad one. A lot of stuff has been asked, but what are the feedback we picked up over at Farnborough and probably every meeting we went into was just a shortage of castings kind of across the industry. So maybe more broadly, I mean, you do casting, right? I mean, what kind of opportunity is that for Howmet to pick up share or more business because of what's going on in the

casting world? I mean is there an opportunity? Is it not? Do you see it resolving itself? If you could talk on that?

John Plant

Yes. Again, you got to pick it apart between that which is the casting for structural castings, compare to high pressure turbine castings and low-pressure turbines. And the case of where we've seen OE engine cutbacks, and that's, I'll say, negatively affected to a small degree, our structural casting and the LPT castings we do.

And so I guess that just goes to the territory. The capacity isn't fungible. So you can't just say I'll now make high-pressure turbine castings and with that because there's different dyes, different I'll say, different casting techniques, et cetera. And so it's not immediately transferable at all. So the key to, let's say, is can we produce any further high-pressure turbine castings because the service demand seems to be high and possibly higher than certainly that we have been advised six months or a year ago.

And so we put all our shoulders to wheel and trying everything we can to increase that while also stating that we know we're well above engine rates. I'm not giving you any specific quantities, but you can assume that, that seems absolutely correct, we're well above engine rate. And then it's – what goes to service at the MRO shops and what goes to the, I'll say, OE production, that's not our decision.

So we're going to try to improve once again, and it will go to yield in the short-term that will go to fresh capital expenditure in that medium term. And so we've been clear that for us to put down fresh capital because of its high capital intensity, and you got to have a surety return is that's why we've struck agreements which lock in market share commensurate with those investment requirements for future.

So we're positioned well for the future. But if you said to us, can we produce another 30% high-pressure turbine casting during the next two months? The answer would be, no, we can't. We'll be well above engine rate. And then that's about all we can say. And it's going to go, can we improve our internal yields, and obviously, we'll be talking to our customers about how they can help with that. And we've got some really good collaboration with our customers at the moment trying to achieve improvements over and above the improvements in volumes that we've already achieved.

So I'm feeling pretty positive about it. I like the dynamic. I like the fact that we've got significant demand. But I've also got to be realistic. I just don't have a knob I can turn and say, I'll go and produce another 30%, it doesn't work like that. We've got new tools to put down. We've got new casting machines. We've got new presses, new everything to fundamentally change that. That's what I said. We'll bring that capacity on and we'll see the fruits of that in 2026.

Ronald Epstein

Got it. And if I may, just on that along that same question. How much better could you get in yields? Because my understanding already is you guys are pretty good.

John Plant

It's going to be at the margin. Where we are – from where we are today, the only way is to where – sometimes this may be excessive requirements on drawing whether those can be relaxed anyway, which don't go to performance. But it's those sort of tiny things, which matter, but don't matter that to your product performance. There's possibly something in that, and call it, clearly, we will study that. But while always protecting the quality of the product that we produce.

Ronald Epstein

Got it. Thank you.

John Plant

Thanks, Ron.

Operator

That is all the time we have today for questions. Thank you all for attending and participating in today's conference call. You may now disconnect your lines, and have a great day.