

Q3 2024

1. Organic growth drivers

- **Narrative:** Management's discussion emphasized the upward trajectory in commercial aerospace and engine spare parts markets, projecting significant revenue growth due to strong demand and strategic market positioning.

- **Management's Guidance:**

- Management anticipates a 12% commercial aerospace growth leading to a 7.5% total revenue growth for the company in 2025. They also expect engine spares volumes to reach a record \$1.25 billion in 2024, with a year-on-year increase of 12% and a longer-term trend of increasing aftermarket content to exceed 20% of revenues.

- **Actual Results:**

['Q3', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

2. Revenue diversification

- **Narrative:** Management has highlighted a significant increase in spares revenue, indicating a positive trajectory in their revenue diversification strategy. This growth is attributed to an uplift in spares revenue projections, which is a critical component of Howmet Aero's efforts to broaden its revenue streams across different sectors including commercial aerospace and defense.

- **Management's Guidance:**

- The company expects spares revenue to reach approximately \$1.25 billion, marking an increase from the previously projected \$1.1 billion.

- **Actual Results:**

['Q3', '2024']:

- John Plant reported that they expect their spares revenue for the year to be about \$1.25 billion, which is an increase from the previously quoted number of \$1.1 billion.

- **Evaluation:**

- **Expectations Met:** The management's guidance expected spares revenue to reach approximately \$1.25 billion, and the actual results confirmed this target was met, aligning with their revenue diversification strategy.

3. Earnings per share trends

- **Narrative:** Management has provided specific financial targets that reflect a stable outlook, highlighting expectations for both quarterly and annual performance metrics. These projections are indicative of a well-defined financial strategy aimed at achieving incremental growth and maintaining a strong earnings position.

- **Management's Guidance:**

- For Q3 2024, management expects earnings per share (EPS) of \$0.71, with a possible variance of plus or minus \$0.01. For the full year, management projects earnings per share of \$2.66, with a possible variance of plus or minus \$0.01.

- **Actual Results:**

['Q3', '2024']:

- Earnings per share was \$0.71, an increase of 54% year-over-year.

- **Evaluation:**

- **Expectations Met:** Management projected Q3 2024 EPS to be \$0.71, which aligned exactly with the actual reported EPS of \$0.71, indicating that expectations were met.

4. Manufacturing optimization

- **Narrative:** Management is focused on maintaining high levels of quality and delivery performance while preparing for future production demands. They emphasize the necessity of workforce readiness alongside the integration of new equipment to meet customer expectations efficiently.

- **Management's Guidance:**

- Management anticipates the need to accelerate hiring efforts as they move into 2025. This strategic move is aimed at ensuring that the workforce is adequately trained to handle new equipment, thereby maintaining the company's quality and delivery standards.

- **Actual Results:**

['Q3', '2024']:

- Sequentially, revenue decreased 8% as we continue to optimize the Structures' manufacturing footprint and rationalize the product mix to maximize profitability.

- **Evaluation:**

- Insufficient Info: Data not available.

5. Geographic expansion initiatives

- **Narrative:** Management highlighted strategic initiatives focused on geographic expansion, particularly in North America. This expansion is poised to capitalize on upcoming regulatory changes, which are expected to stimulate market activity. Additionally, there are growth opportunities identified in Europe, projected to significantly increase operations by the decade's end.

- **Management's Guidance:**

- Management anticipates that the North American market will experience an upswing in activity in the second half of 2025 owing to early truck pre-buying, triggered by new environmental regulations set for 2027. In Europe, operations are expected to grow substantially, reaching a target of 600 by the end of the decade.

- **Actual Results:**

['Q3', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

6. Debt reduction strategies

- **Narrative:** Management outlined their approach to capital allocation and financial strategy, focusing on debt reduction strategies. The emphasis was placed on reducing interest expenses through strategic debt actions.
- **Management's Guidance:**
 - Management indicated that combined debt actions completed year-to-date through the third quarter of 2024 are expected to reduce annualized interest expense by approximately \$33 million.
- **Actual Results:**
 - ['Q3', '2024']:**
 - All combined debt actions year-to-date through the third quarter 2024 will reduce annualized interest expense by approximately \$33 million.
- **Evaluation:**
 - **Expectations Met:** Management's guidance expected a reduction in annualized interest expense by approximately \$33 million through strategic debt actions, and the actual results confirmed this expectation was met by the third quarter of 2024.

7. Dividend distribution

- **Narrative:** Management has indicated a commitment to increasing shareholder returns through an enhanced dividend distribution strategy. This aligns with their broader financial strategy to optimize capital allocation and reward shareholders.
- **Management's Guidance:**
 - The plan is to increase the common stock dividend in 2025 by 25% from \$0.08 to \$0.10, with the first payment in 2025, subject to final Board approval.
- **Actual Results:**
 - ['Q3', '2024']:**
 - Data Not Available
- **Evaluation:**
 - Insufficient Info: Data not available.

8. Production rate guidance

- **Narrative:** Management highlighted their expectations for a significant increase in production rates, emphasizing the robustness of both engine production and spares requirements in the upcoming year. This indicates a strategic focus on scaling up operations to meet anticipated demand.
- **Management's Guidance:**
 - Management expects both the increase in engine production next year to be robust and also the increase in spares requirements, which are also going to be robust.
- **Actual Results:**
 - ['Q3', '2024']:**
 - 06f43fe19cfb1c4d4976f984c6126759 --> [Anonymous] "while also producing many tens of thousands, and in fact, 500 engine sets of blades for the new type pending approval." 06f43fe19cfb1c4d4976f984c6126759 --> [Anonymous] "And those castings have left Howmet and been delivered to the customer." dc638b0ffb678e0daaca9fd0a46e9ad8 --> We have, as I said, provided some several hundred engine sets this year in addition to manufacturing all of the increase in production to the existing type of turbine blade.
- **Evaluation:**
 - **Expectations Exceeded:** The actual results indicate that Howmet Aero produced several hundred engine sets in addition to meeting increased production demands for existing turbine blades, surpassing the robust expectations set by management for engine production and spares requirements.

9. Commercial aerospace trends

- **Narrative:** Management highlighted the anticipated growth in the commercial aerospace sector, projecting a significant upward trend in the latter part of the year. This suggests optimism about the sector's recovery and expansion potential.
- **Management's Guidance:**
 - Management projects commercial aerospace growth to be approximately 12% with overall growth estimated at around 7.5%, subject to a variance of plus or minus 1%. The expectation is for stronger growth in the second half of the year compared to the first half. Additionally, the peak demand for specific engine models, CFM56 and V2500, is now anticipated to be delayed until 2026, 2027, or even beyond.
- **Actual Results:**
 - ['Q3', '2024']:**
 - Commercial aerospace revenue was reported to be up 17%.
- **Evaluation:**
 - **Expectations Exceeded:** Commercial aerospace revenue grew by 17%, surpassing the management's projection of approximately 12%, indicating stronger-than-expected performance in the sector.

10. Defense sector opportunities

- **Narrative:** Management highlighted the robust growth prospects within the defense aerospace sector, emphasizing continued strength in demand for both F-35 spares and legacy aircraft production. This indicates a strategic focus on capitalizing on existing defense contracts and expanding their footprint in this sector.
- **Management's Guidance:**
 - For 2025, the company forecasts defense aerospace growth at mid-single-digits, leveraging ongoing demand in both F-35 spares and legacy aircraft production.
- **Actual Results:**
 - ['Q3', '2024']:**
 - ba47879faab705b8c7e20e082b247cec --> Ken Giacobbe [Defense Aerospace up 15%]
- **Evaluation:**
 - **Expectations Exceeded:** The management guided for mid-single-digit growth in the defense aerospace sector for 2025, but the actual results in Q3 2024 showed a 15% increase, significantly surpassing the expected growth rate.

11. Oil and gas sector outlook

- **Narrative:** Management expressed optimism about the growth prospects within the oil and gas sector, indicating that they anticipate a slightly higher growth rate in this segment compared to other areas of their business.
- **Management's Guidance:**

- Management expects the oil and gas sector to experience growth at a rate slightly above mid-single-digits in upcoming quarters.

- **Actual Results:**

['Q3', '2024']:

- Oil and gas was up 26%.

- **Evaluation:**

- **Expectations Exceeded:** Management anticipated growth slightly above mid-single-digits, but the oil and gas sector experienced a significant increase of 26%, surpassing expectations.

12. Industrial market dynamics

- **Narrative:** Management highlighted ongoing challenges in the commercial truck wheels market, noting a current subdued demand which is expected to persist in the immediate future.

- **Management's Guidance:**

- Management anticipates continued muted demand for commercial truck wheels in the fourth quarter of this year and the first two quarters of 2025, with potential for improvement in the latter half of 2025.

- **Actual Results:**

['Q3', '2024']:

- John Plant Wheels revenue was approximately \$30 million below Q2, principally due to notably weaker European market. Commercial transportation revenue down 12%. Commercial transportation, which represents 16% of fasteners revenue was down 3%.

- **Evaluation:**

- **Expectations Not Met:** Management anticipated continued muted demand for commercial truck wheels, but actual results showed a significant revenue decline, with commercial transportation revenue down 12%, indicating a more severe drop than expected.