

Q2 2021

1. Organic growth drivers

- **Narrative:** Management has provided insights into the company's trajectory towards achieving significant revenue growth, particularly in the commercial aerospace sector. The company is strategically focusing on increasing its revenue and market presence by leveraging its existing content and expected price benefits.

- **Management's Guidance:**

- Howmet anticipates transitioning into revenue growth in the third quarter, with projected growth of approximately 15% in commercial aerospace and a total revenue growth of approximately 9%. Revenue for the second half is expected to increase by approximately 12% compared to the first half, driven by sectors such as commercial aerospace, defense, and IGT (Industrial Gas Turbine). The company plans for a substantial increase in the second half for airfoil aftermarket through key customers, projecting a well into double-digit percentage increase.

- **Actual Results:**

['Q1', '2022']:

- First quarter revenue was up 10% year-over-year. Commercial aerospace revenue increased 29% year-over-year and 4% sequentially.

['Q2', '2021']:

- Data Not Available

['Q4', '2021']:

- Revenue for Q4 2021 was \$1.285 billion, representing a 4% year-over-year increase and flat sequentially for the quarter. Commercial Aerospace revenue grew by 13% year-over-year, although this was below the anticipated 15% growth target. Overall, the total revenue growth was less than the projected 9%, with actual growth reported at 4% year-over-year.

['Q3', '2021']:

- In Q3 2021, Howmet Aero reported a total revenue increase of 13% year-over-year and 7% sequentially. Commercial aerospace revenue increased by 15% year-over-year and 16% sequentially, aligning with the management guidance provided.

- **Evaluation:**

- **Expectations Not Met: While commercial aerospace revenue met the 15% growth guidance in Q3, overall total revenue growth in Q4 was only 4% year-over-year, falling short of the 9% target set by management.**

2. Margin expansion efforts

- **Narrative:** Management has highlighted their efforts in overcoming challenges related to low revenue and increased employee costs to meet rising production demands. These efforts are directed towards achieving substantial margin improvements in the forthcoming quarters.

- **Management's Guidance:**

- Management projects year-over-year incremental margins to exceed 50% in the second half of the year. They anticipate these improvements despite the expectation of additional costs during the period. Margins are expected to improve as outlined for the second half of the year, indicating a positive outlook for future financial performance.

- **Actual Results:**

['Q4', '2021']:

- Data Not Available

['Q1', '2022']:

- Incremental Margin was reported at 33% in Q1 2022, which is below the management guidance of exceeding 50% year-over-year in the second half of the year. Additionally, segment adjusted EBITDA increased 31% year-over-year, and margin improved by 270 basis points while adding approximately 325 employees in the first quarter.

['Q2', '2021']:

- Adjusted EBITDA Margin 22.8% Q2 2021; Up 310 Basis Points YoY on Less Revenue

['Q3', '2021']:

- Howmet's adjusted EBITDA margin expanded a full 800 basis points year-on-year. Incremental operating margins were approximately 70% for Engine Products and approximately 45% for Forged Wheels. Fasteners had an operating margin expansion of some 630 basis points, and Structures was up 210 basis points. Adjusted EBITDA margin was 22.8%, up 800 basis points YoY driven by volume, price, and structural cost reductions.

- **Evaluation:**

- **Expectations Not Met: Management projected incremental margins to exceed 50% year-over-year in the second half of the year, but Q1 2022 reported a 33% incremental margin, falling short of expectations.**

3. Profit margin analysis

- **Narrative:** Management has provided forward-looking insights into the company's profitability, emphasizing the stabilization and improvement of EBITDA margins. This positions the company for a potentially strong performance in the upcoming year, underlining their focus on financial stability and strategic growth.

- **Management's Guidance:**

- Consolidated EBITDA margins for the second half are expected to be 22.6% to 23.2%, setting a platform for a healthy 2022.

- **Actual Results:**

['Q4', '2021']:

- Adjusted EBITDA for Q4 2021 was \$296 million, with an EBITDA margin of 23%, aligning with the management's guidance expectations of 22.6% to 23.2% for the second half.

['Q1', '2022']:

- Adjusted EBITDA for Q1 2022 was \$300 million, which exceeded the guidance midpoint, with a margin of 22.7%, in line with guidance.

['Q2', '2021']:

- Adjusted EBITDA Margin for Q2 2021 was reported at 22.8%, which aligns with the higher end of the management's guidance range of 22.6% to 23.2%.

['Q3', '2021']:

- In Q3 2021, Howmet Aerospace reported revenue of \$1.28 billion and an adjusted EBITDA of \$292 million, with an EBITDA margin of 22.8%. This performance aligns with the management's guidance range of 22.6% to 23.2% for EBITDA margins.

- **Evaluation:**

- **Expectations Met:** The company's EBITDA margins consistently aligned with management's guidance range of 22.6% to 23.2% for the second half of 2021,

indicating that expectations were met.

4. Revenue diversification

- **Narrative:** Management highlighted their focus on expanding revenue streams through strategic initiatives. They discussed expectations for increased revenue in the upcoming quarters, driven by diversification efforts aimed at strengthening their market position.

- **Management's Guidance:**

- Management provided guidance that revenue for the third quarter is expected to be approximately \$100 million higher than the second quarter, reflecting their efforts towards revenue diversification.

- **Actual Results:**

['Q3', '2021']:

- Data Not Available

['Q4', '2021']:

- Data Not Available

['Q1', '2022']:

- Revenue \$1.324B Q1 2022

['Q2', '2021']:

- Revenue for Q2 2021 was reported at \$1.195 billion, which was a decline compared to previous performance metrics and management guidance indicating a revenue increase. This performance was driven by commercial aerospace, representing approximately 40% of total revenue, and was in line with reduced expectations due to external factors such as COVID-19.

- **Evaluation:**

- Insufficient Info: Data not available.

5. Earnings per share trends

- **Narrative:** During the second quarter of 2021, Howmet Aero's management provided guidance on the company's financial outlook, specifically focusing on earnings per share (EPS) trends. The discussion highlighted expectations for consistent growth in EPS, driven by strategic financial management and operational efficiency improvements.

- **Management's Guidance:**

- Management anticipates earnings per share for the third quarter to be \$0.25, with a potential variance of plus or minus \$0.02. For the full year, an increase in earnings per share is expected to \$0.99, with a possible variance of plus or minus \$0.03.

- **Actual Results:**

['Q4', '2021']:

- Adj Earnings Per Share³ for Q4 2021 was \$0.30, and for the full year 2021, it was \$1.01, indicating an increase compared to the guidance of \$0.99 for the full year, with the Q4 result exceeding the projected Q3 EPS of \$0.25 (± \$0.02).

['Q1', '2022']:

- Adjusted earnings per share was strong at \$0.31 for Q1 2022, up 41% year-over-year, which was ahead of the midpoint of guidance.

['Q2', '2021']:

- Adjusted Earnings Per Share from Continuing Operations was \$0.22 for Q2 2021, which is ahead of management's expectations.

['Q3', '2021']:

- Adjusted earnings per share, excluding special items, was \$0.27.

- **Evaluation:**

- **Expectations Exceeded:** Management guided for a full-year EPS of \$0.99 with a variance of plus or minus \$0.03, while the actual full-year EPS was \$1.01. Additionally, Q3 EPS of \$0.27 exceeded the expected range of \$0.23-\$0.27, and Q4 EPS was \$0.30, surpassing expectations for Q3.

6. Cost management strategies

- **Narrative:** Management has outlined a series of initiatives aimed at enhancing operational efficiency through strategic cost management. The focus is on reducing pension and operational expenses significantly compared to the previous year. Additionally, there are efforts to optimize the workforce by planning strategic hires to support anticipated growth, indicating a proactive approach to managing human resources in alignment with expected business expansion.

- **Management's Guidance:**

- Year pension and operational expenses are expected to improve approximately 50% compared to last year. Plans are in place to recruit a net of 500 additional people in the second half, contributing to a total of around 1000 for the year to support growth. Decremental margins for engines were 12% for the quarter, as 300 workers were hired back to prepare for anticipated growth in the second half of the year. Management expresses confidence in operating with capital expenditures below depreciation for a year or so, as existing capacity is deemed sufficient.

- **Actual Results:**

['Q1', '2022']:

- Headcount Adds for Growth; Defense Aerospace Decline Increased Headcount ~325 in Q1 2022; up ~1,275 since Q1 2021

['Q2', '2021']:

- Structural cost reductions maintained with a \$37 million year-over-year benefit in Q2 2021; \$98 million in the first half of 2021.

['Q3', '2021']:

- ~\$180M YTD 2021 reduction in Pension / OPEB Liability; YTD 2021 Pension and OPEB Expense reduced by ~50% YoY

['Q4', '2021']:

- Reduced YoY Pension / OPEB Liability by ~\$275M; Expense by ~54%; Cash Contribution by ~54%

- **Evaluation:**

- **Expectations Exceeded:** The management's goal to reduce pension and operational expenses by approximately 50% was surpassed with a reduction of 54% by year-end. Additionally, the headcount increase exceeded the target with 1,275 new hires compared to the planned 1,000.

7. Manufacturing optimization

- **Narrative:** Management has articulated a focus on optimizing manufacturing processes to enhance operational efficiency. This includes ensuring that current plant and machinery capacities are maximized and addressing labor onboarding and training as key components of this strategy.

- **Management's Guidance:**

- Management anticipates that over the next couple of years, there will be no limitations in plant and machinery capacity. The primary focus will be on effectively

onboarding and training labor, which is crucial for optimizing manufacturing operations. The company is also considering strategies to increase tooling capacity to meet future demands.

- Actual Results:

['Q3', '2021']:

- Engine Products added approximately 500 employees net. Total to 800 net additional employees hired for that segment during the second and third quarters.

['Q4', '2021']:

- Data Not Available

['Q1', '2022']:

- Data Not Available

['Q2', '2021']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

8. Geographic expansion initiatives

- Narrative: Management outlined plans for strategic growth in the company's structures business, emphasizing selective additions to enhance their market footprint.

- Management's Guidance:

- In the fourth quarter, management aims to selectively expand their structures business, indicating a focused approach to geographic expansion.

- Actual Results:

['Q1', '2022']:

- Data Not Available

['Q4', '2021']:

- Data Not Available

['Q2', '2021']:

- Data Not Available

['Q3', '2021']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

9. Debt reduction strategies

- Narrative: Management has emphasized the importance of strategically reducing debt as part of their capital allocation and financial strategy. The focus has been on minimizing interest expenses to enhance free cash flow, which is crucial for the company's financial health and future growth plans.

- Management's Guidance:

- Management highlighted that the transactions completed are expected to reduce the 2021 interest expense by approximately \$28 million and further contribute to an annual run rate reduction of approximately \$47 million. This is anticipated to result in increased free cash flow for 2022.

- Actual Results:

['Q3', '2021']:

- We have lowered our annualized interest cost by approximately \$70 million.

['Q1', '2022']:

- Data Not Available

['Q2', '2021']:

- John Plant [Year to-date, we have reduced debt by approximately \$835 million by completing the early redemption of 2021 notes in Q1 and the 2022 notes in Q2 with cash on hand.]

['Q4', '2021']:

- During Q4 2021, management reported a debt reduction of approximately \$845 million with cash on hand, and a reduction in annualized interest costs by approximately \$70 million.

- Evaluation:

- Expectations Exceeded: The management's guidance anticipated a reduction in annual interest expenses by approximately \$47 million, but the actual results showed a reduction of approximately \$70 million, surpassing the expected outcomes.

10. Dividend distribution

- Narrative: Management has indicated a commitment to returning value to shareholders through dividend reinstatement, reflecting confidence in the company's financial stability and future prospects.

- Management's Guidance:

- Management announced the reinstatement of a quarterly dividend of \$0.02 per common stock starting in the third quarter, signaling a positive outlook on cash flow and earnings stability.

- Actual Results:

['Q4', '2021']:

- We also reinstated the quarterly dividend of \$0.02 per share of common stock in Q3 of 2021.

['Q1', '2022']:

- Paid Quarterly Dividend of \$0.02 per share of Common Stock

['Q2', '2021']:

- Reinstated Quarterly Dividend of \$0.02 per Share of Common Stock in Q3 2021

['Q3', '2021']:

- Reinstated Quarterly Dividend of \$0.02 per share of Common Stock in Q3 2021

- Evaluation:

- Expectations Met: Management announced the reinstatement of a quarterly dividend of \$0.02 per common stock starting in Q3, and the actual results confirm that the dividend was reinstated and paid as planned, aligning with management's guidance.

11. Cash balance management

- **Narrative:** During the Q2 2021 earnings call, Howmet Aerospace's management discussed their approach to cash balance management as part of their broader capital allocation and financial strategy. The focus was on ensuring robust cash flows to support the company's ongoing operations and strategic initiatives.

- **Management's Guidance:**

- Management anticipates continued cash generation in the third and fourth quarters of the year.

- **Actual Results:**

['Q3', '2021']:

- Q3 2021 Ending Cash balance of \$726M; Adjusted Free Cash Flow for the quarter was strong at \$115 million, resulting in a Q3 year-to-date free cash flow at a record \$275 million.

['Q4', '2021']:

- In Q4 2021, the ending cash balance reported was \$722 million. Adjusted free cash flow was a record \$517 million, with a conversion of 117% of net income. Excluding voluntary pension contributions, the adjusted free cash flow conversion was 123% of net income.

['Q1', '2022']:

- In Q1 2022, cash provided from operations was reported as \$55 million, with cash used for financing activities at (\$194 million) and cash used for investing activities at (\$61 million).

['Q2', '2021']:

- Q2 2021 Ending Cash balance of \$716M; Q2 2021 Adj Free Cash Flow of \$164M; Cash provided from operations = \$85M, Cash used for financing activities = (\$700M), Cash provided from investing activities = \$91M

- **Evaluation:**

- **Expectations Exceeded:** Howmet Aerospace's management anticipated continued cash generation, and the actual results showed a record adjusted free cash flow in Q4 2021, with a conversion rate exceeding expectations at 123% of net income, indicating stronger cash flow performance than initially guided.

12. Inventory management strategies

- **Narrative:** Management outlined plans to address the issue of trapped inventory within the system, aiming for a liquidation of these inventories in the upcoming year. Additionally, they are preparing for a shift to an inventory build situation by the end of the year, particularly for narrow-body segments, anticipating no leftover inventory and pinpointing only isolated pockets where inventory might remain.

- **Management's Guidance:**

- Management anticipates liquidating approximately \$50 million of trapped inventory during 2022. They also foresee a complete transition to an inventory build scenario for narrow-body segments by the end of the current year, with minimal leftover inventory.

- **Actual Results:**

['Q4', '2021']:

- Data Not Available

['Q1', '2022']:

- In Q1 2022, Howmet Aerospace reported an \$85 million increase in inventory to support the aerospace recovery, with a significant portion of this inventory allocated to their engine business. This indicates a transition towards building inventory, aligning with the management's guidance for an inventory build scenario.

['Q2', '2021']:

- Data Not Available

['Q3', '2021']:

- Data Not Available

- **Evaluation:**

- **Expectations Met:** The actual results in Q1 2022 show an \$85 million increase in inventory to support aerospace recovery, aligning with management's guidance for transitioning to an inventory build scenario, particularly for narrow-body segments.

13. Production rate guidance

- **Narrative:** Management's discussion focused on the anticipated production rate increases by major aerospace manufacturers, which are expected to drive demand for HowmetAero's products. This is aligned with the forecasted recovery in the aerospace sector.

- **Management's Guidance:**

- Management expects that during 2022 and into 2023, there will be benefits above the current rate as inventory levels need to be replenished to support increased aircraft production levels. Airbus plans to increase production to 47 in January and then to 55 by mid-year. Boeing is planning to increase production to just over 30, reaching around 31 in January 2022. It is expected that by mid or the end of 2023, Airbus production rates might reach the mid-60s. Some product ranges are expected to have extended lead times, potentially reaching six to twelve months as we move into 2022.

- **Actual Results:**

['Q4', '2021']:

- John Plant - While we supplied to schedule during 2021.

['Q1', '2022']:

- Data Not Available

['Q2', '2021']:

- Data Not Available

['Q3', '2021']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

14. Commercial aerospace trends

- **Narrative:** Management indicated that the commercial aerospace sector is currently experiencing muted performance with minor improvements. They highlighted a strategic expectation for this segment to become more materially significant in terms of financial contribution as we move into 2022.

- **Management's Guidance:**

- The company anticipates sequential increases in its businesses, with noticeable growth in the engine segment beginning in the third quarter, structures in the fourth quarter, and fasteners by the first quarter of 2022. Additionally, while the commercial aerospace sector showed only minor gains in the first half of the year, these are expected to translate into more substantial dollar impacts in 2022.

- **Actual Results:**

['Q3', '2021']:

- Commercial Aerospace was up 15% year-over-year and 16% sequentially, marking the start of the Commercial Aerospace Recovery with revenue up 16% sequentially.

['Q4', '2021']:

- Commercial Aerospace was 39% higher driven by the narrow-body recovery.

['Q1', '2022']:

- Commercial aerospace was up 45%, driven by the narrow body recovery.

['Q2', '2021']:

- In Q2 2021, the commercial aerospace sector was reported to be 31% less year-over-year, primarily due to COVID-19 impacts and production declines for the Boeing 787, as well as lingering effects of customer inventory corrections.

- **Evaluation:**

- **Expectations Exceeded:** The commercial aerospace segment showed significant recovery surpassing expectations, with revenue increasing by 39% and 45% in Q4 2021 and Q1 2022, respectively, driven by the narrow-body recovery, which was more substantial than initially anticipated.