

Q2 2024

1. Organic growth drivers

- **Narrative:** Management has outlined a strong emphasis on increasing commercial aerospace revenues as a key driver of organic growth. The strategic focus is on enhancing revenue streams through targeted initiatives that have shown significant improvements over the past years.

- **Management's Guidance:**

- Management is projecting a 27% increase in commercial aerospace revenues, building on a trend of considerable growth over the past three years, which included a 28% increase previously and a 24% year-to-date increase this year.

- **Actual Results:**

['Q3', '2024']:

- Data Not Available

['Q2', '2024']:

- In Q2 2024, the commercial aerospace revenue increased by 27% year-over-year, which aligns with the management's guidance.

- **Evaluation:**

- **Expectations Met:** The commercial aerospace revenue increased by 27% year-over-year in Q2 2024, which aligns with the management's guidance of a 27% increase, indicating that expectations were met.

2. Margin expansion efforts

- **Narrative:** Management has outlined a strategic initiative aimed at margin expansion, focusing on enhancing operational efficiencies and cost control measures. This approach is expected to contribute significantly to the company's profitability in the upcoming quarters.

- **Management's Guidance:**

- The revised guidance suggests an incremental margin in the 40% to 45% range for the current year.

- **Actual Results:**

['Q2', '2024']:

- Adj EBITDA Margin 25.7% Q2 2024; Adj Operating Income Margin 22.0% Q2 2024

['Q3', '2024']:

- Data Not Available

- **Evaluation:**

- **Expectations Not Met:** The management's guidance anticipated a margin expansion to the 40% to 45% range, but the actual Adjusted EBITDA Margin and Adjusted Operating Income Margin for Q2 2024 were significantly below expectations, at 25.7% and 22.0%, respectively.

3. Profit margin analysis

- **Narrative:** Management has demonstrated a strong focus on maintaining and improving profitability, as evidenced by their forward guidance for EBITDA and EBITDA margins. This reflects a strategic emphasis on operational efficiency and cost management to sustain robust profit margins.

- **Management's Guidance:**

- Management has guided an EBITDA of \$1.865 billion, plus or minus \$10 million, marking an increase of \$115 million from the previous guidance. They are also guiding for an approximately 25% EBITDA margin in the second half of the year.

- **Actual Results:**

['Q2', '2024']:

- Adjusted EBITDA for Q2 2024 was \$489 million, with an EBITDA margin of 25.7%. Operating income for the same quarter was \$398 million, with an operating margin of 21.2%.

['Q3', '2024']:

- EBITDA was a record \$487 million, along with a margin of 26.5%, while operating income was \$419 million with a margin of 22.8%.

- **Evaluation:**

- **Expectations Exceeded:** The actual EBITDA margins for Q2 and Q3 2024 were 25.7% and 26.5%, respectively, surpassing the management's guidance of approximately 25% for the second half of the year. This indicates stronger-than-expected operational performance and profitability.

4. Earnings per share trends

- **Narrative:** Management highlighted a significant increase in earnings per share (EPS), reflecting strong financial performance and strategic execution. The company has shown a consistent year-over-year improvement in EPS, indicating robust operational efficiencies and market positioning.

- **Management's Guidance:**

- Management projects earnings per share of \$0.64, with a margin of error of plus or minus \$0.01 for the upcoming quarter. This reflects continued confidence in maintaining the company's upward trajectory in earnings growth.

- **Actual Results:**

['Q2', '2024']:

- Earnings per share (EPS) for Q2 2024 were reported as \$0.67, which exceeded the projected EPS of \$0.64 ± \$0.01. This represents an increase of 52% year-over-year, indicating strong performance relative to management's guidance.

['Q3', '2024']:

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

- **Evaluation:**

- **Expectations Exceeded:** The earnings per share for Q2 2024 were \$0.67, surpassing the projected range of \$0.64 ± \$0.01, indicating a stronger-than-expected financial performance and strategic execution.

5. New product launches

- **Narrative:** Management highlighted the progressive rollout of upgraded products in collaboration with aircraft manufacturers. This strategic move is aimed at aligning with certification requirements and market demand over the next few years.

- **Management's Guidance:**

- Management anticipates these upgrades to be subject to certification requirements later in 2025, followed by a phased launch with aircraft manufacturers over the subsequent years.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

6. Manufacturing optimization

- Narrative: Management is focused on optimizing the manufacturing footprint, which includes strategic decisions to streamline operations and enhance efficiency. This includes exiting certain facilities to concentrate resources and improve operational effectiveness.

- Management's Guidance:

- Management plans to exit two small plants in the UK by the end of the year as part of their manufacturing optimization strategy.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

7. Strategic partnership developments

- Narrative: Management discussed securing agreements that align with investment requirements to solidify market share, indicating a strategic focus on enhancing their position through partnerships.

- Management's Guidance:

- Management has indicated that these agreements are designed to lock in market share, suggesting a stable or possibly growing presence in their target markets moving forward.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

8. Debt reduction strategies

- Narrative: During the Q2 2024 earnings call, Howmet Aerospace's management emphasized their commitment to debt reduction as a key component of their capital allocation and financial strategy. The company is strategically leveraging its robust cash position to improve financial health and optimize interest expenses, thereby enhancing free cash flow yield.

- Management's Guidance:

- Management announced plans to utilize their strong cash balance for the early retirement of the remaining \$205 million of the 2024 bonds on July 1, which is just after the quarter's end. This action is expected to reduce annual interest expenses by \$12 million, supporting the company's objective of improving its free cash flow yield.

- Actual Results:

['Q2', '2024']:

- The early retirement of the remaining \$205 million of the 2024 bonds was completed on July 1, 2024, as per the management's plan. This action led to a debt reduction and is expected to provide annualized interest expense savings of approximately \$12 million. Additionally, net debt to EBITDA improved to a record low of 1.7x.

['Q3', '2024']:

- In Q3 2024, Howmet Aerospace reported that they redeemed the remaining \$205 million balance of the 2024 bonds with cash on hand. This action was part of a series of debt reduction measures that altogether reduced annualized interest expense by approximately \$33 million.

- Evaluation:

- Expectations Exceeded: Howmet Aerospace's debt reduction strategy exceeded expectations as the early retirement of the 2024 bonds not only achieved the anticipated \$12 million in annual interest savings but also contributed to a total reduction in annualized interest expense by \$33 million, surpassing initial guidance.

9. Share buyback program

- Narrative: Management has outlined a clear focus on enhancing shareholder value through an expanded share buyback program. This program is part of a broader capital allocation strategy aimed at optimizing the company's financial structure and returning capital to shareholders.

- Management's Guidance:

- The Board has authorized an increase in the share buyback program by \$2 billion, bringing the total authorization to approximately \$2.5 billion. This reflects a significant commitment to utilizing excess cash flows for shareholder returns, indicating confidence in the company's financial position and future cash generation capabilities.

- Actual Results:

['Q3', '2024']:

- In the third quarter, we repurchased \$100 million of common stock at an average price of approximately \$94 per share. Year-to-date through September, we repurchased \$310 million of common stock at an average price of approximately \$77 per share. Q3 was the 14th consecutive quarter of common stock repurchases. The average diluted share count improved to a record low Q3 exit rate of 409 million shares.

['Q2', '2024']:

- Repurchased \$60M of Common Stock in Q2; \$210M at ~\$71 Avg Price per Share YTD

- **Evaluation:**

- **Expectations Not Met:** Despite the authorization of a \$2.5 billion share buyback, only \$310 million was repurchased year-to-date through the third quarter of 2024, indicating a slower pace of buybacks than the substantial commitment suggested by management guidance.

10. Dividend distribution

- **Narrative:** Management has outlined a capital allocation strategy that includes an increase in the common stock dividend starting with the August payment. This reflects a commitment to returning value to shareholders through dividends.

- **Management's Guidance:**

- The common stock dividend will increase to \$0.08 per share beginning with the August payment. For the year 2025, the common stock dividends are projected to be approximately 15% of net income, adjusted for special items, with a possible variation of plus or minus 5%.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- In the third quarter, we paid \$34 million in dividends as we increased the common stock dividend 60% from \$0.05 per share to \$0.08 per share.

- **Evaluation:**

- **Expectations Met:** The increase in the common stock dividend to \$0.08 per share was implemented as guided, aligning with management's capital allocation strategy and reflecting a commitment to shareholder value.

11. Cash balance management

- **Narrative:** Management has highlighted an increase in capital expenditures for 2024, indicating a strategic approach toward managing cash balances. The decision underscores a commitment to invest in growth opportunities and enhance operational capabilities.

- **Management's Guidance:**

- Management has announced an additional \$30 million increase in capital expenditures for 2024, bringing the total expected spend to around \$320 million for the year.

- **Actual Results:**

['Q2', '2024']:

- Cash at the end of Q2 2024 was reported at \$752 million, with a strong free cash flow of \$342 million for the quarter. Capital expenditures for Q2 2024 were \$(55) million, contributing to a year-to-date total of \$(137) million.

['Q3', '2024']:

- Data Not Available

- **Evaluation:**

- **Expectations Not Met:** Management anticipated total capital expenditures of \$320 million for 2024; however, by the end of Q2, the year-to-date expenditures were only \$137 million, indicating a shortfall in the expected spending trajectory.

12. Inventory management strategies

- **Narrative:** Management highlighted their strategic approach to inventory management by aligning their inventory levels with contractual obligations, especially in the Fasteners segment. They have adopted a Min/Max system to adjust inventory levels in response to Boeing's production rates, ensuring they do not exceed necessary inventory levels despite fluctuations in demand from Boeing's 787 production schedule.

- **Management's Guidance:**

- Management indicated that they have reduced inventory levels to the minimum required by their contracts with Boeing. This approach is designed to prevent excess inventory accumulation, which could be burdensome if Boeing does not meet its projected production rates later in the year or the next year.

- **Actual Results:**

['Q3', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

13. Production rate guidance

- **Narrative:** Management has outlined a strategic plan focusing on increasing production rates across various aircraft models. This includes adjustments to production forecasts to align with market demands and capacity enhancements to support future growth. The emphasis has been on derisking production assumptions and gradually increasing output levels over the coming years.

- **Management's Guidance:**

- Management has updated their assumed 737 build rate to 22 aircraft per month in 2024, compared to the previous view of 20 per month. There is a significant increase in production of turbine blades and hot sections, with a noted 40% increase in production capacity. The company plans to bring additional production capacity online, with expected outcomes visible by 2026. For the 787 production, there is an expectation to achieve a production rate of 10 by 2026, with intermediate targets set for the coming years.

- **Actual Results:**

['Q2', '2024']:

- John Plant - "we have significantly increased our production of turbine blade and hot section"

['Q3', '2024']:

- 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 management's guidance on increasing production rates, particularly for turbine blades and hot sections, was exceeded as evidenced by the significant increase in production and the provision of several hundred engine sets, surpassing the expected production enhancements.

14. Commercial aerospace trends

- **Narrative:** Management provided insights into the ongoing trends within the commercial aerospace sector, highlighting a robust demand for spares across various segments including commercial aerospace, defense, and industrial gas turbines (IGT). This demand is indicative of a healthy market trajectory, suggesting a positive outlook for the company's performance within these segments.

- **Management's Guidance:**

- Management anticipates that the growth in spares for commercial aerospace, defense, and IGT will continue at a cumulative rate of approximately 17% year-to-date, with expectations for further rate increases in the remaining part of the year.

- **Actual Results:**

['Q2', '2024']:

- John Plant reported that commercial aerospace growth was an outstanding 27%. Engine Products saw commercial aerospace up 18% and defense aerospace up 10%. Fastening Systems experienced a 36% increase in commercial aerospace, including the impact of the wide-body recovery. An unknown source noted that commercial aerospace was up 42%, driven by build rates in the wide-body recovery. Ken Giacobbe stated that for the first half, commercial aerospace was up a healthy 25%. John Plant mentioned that international travel globally has been increasing in the 20% range, plus or minus. In Q2, revenue by market was 5% for Industrial & Other, 22% for Defense Aerospace, and 73% for Commercial Aerospace.

['Q3', '2024']:

- Commercial aerospace revenue was up 17% in Q3, 2024, with engine spares growth contributing to a 20% increase in commercial aerospace and a 15% increase in defense aerospace.

- **Evaluation:**

- **Expectations Exceeded:** The management's guidance predicted a 17% growth rate in spares for commercial aerospace, defense, and IGT, while the actual results showed a commercial aerospace growth of up to 27% and a significant increase across various segments, surpassing the anticipated rate.

15. Defense sector opportunities

- **Narrative:** Management has expressed optimism about the defense sector, highlighting expectations of strong growth driven by increasing demand. The company is strategically positioned to capitalize on this opportunity through enhanced product offerings and targeted market strategies.

- **Management's Guidance:**

- Management expects a double-digit increase in the defense sector for the year.

- **Actual Results:**

['Q2', '2024']:

- Defense aerospace was up 45% year-over-year, driven primarily by the F-35 program. Defense aerospace was also strong, up 11%, driven by fighter programs and engine spares demand.

['Q3', '2024']:

- Ken Giacobbe [Defense Aerospace up 15%]

- **Evaluation:**

- **Expectations Exceeded:** Management expected a double-digit increase in the defense sector, and actual results showed a significant 45% increase in Q2 and 15% in Q3, surpassing the initial expectations.

16. Industrial market dynamics

- **Narrative:** Management highlighted a noticeable shift in the industrial market dynamics, particularly with regard to the commercial truck sector. They acknowledged the onset of a predicted slowdown, with a focus on European markets, which could impact overall performance.

- **Management's Guidance:**

- Management anticipates a 10 percent reduction in commercial truck builds in Europe during the second half of the year, compounded by typical seasonal slowdowns during the European summer vacation period.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- John Plant Wheels revenue was approximately \$30 million below Q2, principally due to notably weaker European market. Commercial transportation revenue was down 12%. General industrial was up 26%, defense/aerospace was up 5%, and commercial transportation, which represents 16% of fasteners revenue, was down 3%.

- **Evaluation:**

- **Expectations Met:** Management anticipated a 10% reduction in European commercial truck builds, and the actual results showed a 12% decline in commercial transportation revenue, aligning with management's projected slowdown.