Howmet Aerospace Inc. (NYSE:HWM) Q1 2022 Results Conference Call May 3, 2022 10:00 AM ET

Company Participants

Paul Luther - Vice President of Investor Relations
John Plant - Executive Chairman and Chief Executive Officer
Kenneth Giacobbe - Executive Vice President and Chief Financial Officer

Conference Call Participants

Robert Stallard - Vertical Research
Seth Seifman - JPMorgan Chase & Co
Myles Walton - UBS Investment Bank
David Strauss - Barclays Bank PLC
Kristine Liwag - Morgan Stanley
Gautam Khanna - Cowen and Company
Robert Spingarn - Melius Research
Noah Poponak - Goldman Sachs
Matthew Akers - Wells Fargo Securities
Philip Gibbs - KeyBanc Capital Markets

Operator

Good morning, ladies and gentlemen, and welcome to the Howmet Aerospace First Quarter 2022 Results Conference Call. My name is Eli, and I will be your operator for today. As a reminder, today's conference is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Paul Luther, Vice President of Investor Relations. Please proceed, sir.

Paul Luther

Thank you, Eli. Good morning, and welcome to the Howmet Aerospace First Quarter 2022 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 addition, we have included some non-GAAP financial measures 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.

I would also like to point out that starting this quarter, we are moving our segment profitability measure from segment operating profit to segment adjusted EBITDA. We will use this measure to assess the segment's performance going forward.

We will continue to provide depreciation and amortization by segment, giving investors the ability to continue to calculate segment operating profit. EBITDA for previous period segment profitability are included for comparison purposes. You can find these numbers in our earnings press release and on Slides 19 and 20 in today's presentation deck.

With that, I would like to turn the call over to John.

John Plant

Thanks, Pete. Good morning, everyone, and welcome. Please move to Slide Number 4. The first quarter was another strong quarter for Howmet. Revenue was above the high end of guidance and profit was near the high end of guidance, which provided a very healthy start to the year.

As expected, revenue was a little higher than the fourth quarter of 2021 with higher sales to commercial aerospace due to narrow body programs. These were partially offset by sales to the Boeing 787 platform and inventory takeout for structures on the F-35 program. Revenue played out as expected, and the good news is that we now have a new Boeing skyline production plan for the 787.

The other good news is the improved outlook for COVID, with large reductions in cases and deaths in the western world. This has led to reduced testing for international travel, which is an important precursor to the pickup in wide-body commercial aerospace programs. The tragic Russian invasion of Ukraine has led to further increases in commodity inflation, notably for oil and materials. The effects of this will be outlined in my guidance comments.

Moving to specific numbers. Revenue for the quarter was 1.3 billion, an increase of 10% year-over-year, which includes additional material pass-through of approximately $40 million. Clearly, this pass-through is excellent.

However, it does unfavorably reflect in the EBITDA margin percentage by 70 basis points year-over-year. Without this effect, Q1 EBITDA margin was 23.4%, which was well ahead of Q1 of 2021. On a sequential basis, we also had an EBITDA margin improvement of 10 basis points adjusting for material pass-through.

Adjusted EBITDA was strong at $300 million and earnings per share at $0.31, both of which were ahead of the midpoint of guidance. Free cash flow in the first quarter was essentially breakeven and resulted in cash on hand of 522 million after buying back $175 million of shares in the quarter.

This buyback included an additional $75 million over and above the January buyback of $100 million noted in our February earnings call. The average diluted share count improved to 425 million in Q1 with an exit rate of 423 million shares. Lastly, we reduced pension and OPEB liabilities by approximately $200 million year-over-year and reduced cash contributions by approximately 60%.

I will now pass the call commentary over to Ken to detail the market dynamics and provide commentary on segment performance.

Kenneth Giacobbe

Great. Thank you, John. Please move to Slide 5 for an update on the end markets. First quarter revenue was up 10% year-over-year. The commercial aerospace recovery continued in the first quarter with commercial aerospace revenue up 29% year-over-year and 4% sequentially, driven by the Engine Products segment and the narrow body recovery. Commercial aerospace was 44% of total revenue, and although an improvement from 2021, it continues to be far forth of the pre-COVID level, which was 60% of total revenue.

Moving to Defense Aerospace. Revenue was down 16% year-over-year and essentially flat sequentially, driven by customer inventory corrections for the F-35. Commercial transportation, which impacts both Forged Wheels and Fastening Systems segment was up 10% year-over-year and 4% sequentially, driven by higher aluminum prices.

Finally, the industrial and other markets, which is composed of IGT, oil and gas and general industrial was flat year-over-year. Going deeper within the industrial and other markets sector, IGT continues to be strong and was up 14% year-over-year and 3% sequentially.

Please move to Slide 6. Let's start with the P&L with a focus on enhanced profitability. In the first quarter, we had a healthy start to the year with adjusted EBITDA of 300 million, which exceeded the guidance midpoint. Margin was 22.7% and in line with guidance.

Excluding the year-over-year revenue impact of higher material pass-through, EBITDA margin was 23.4%. Incremental flow-through of the higher revenue was in line with expectations at 33%. Adjusted earnings per share was strong at $0.31, up 41% year-over-year.

Moving to the balance sheet. Free cash flow for the first quarter was essentially breakeven while building approximately $85 million of inventory in anticipation of the commercial aerospace recovery. Cash on hand was 522 million after buying back $175 million of common stock. The average diluted share count improved to a Q1 exit rate of 423 million shares.

On a year-over-year basis, net pension and OPEB liabilities were reduced by 200 million and cash contributions were reduced by 60% to 13 million. Annual cash contributions are estimated to be approximately 60 million versus expense of $20 million. We continue to focus on reducing pension and OPEB gross and net liabilities.

Comparing to the Europe separation in 2020, annual cash contributions were approximately $240 million and are expected to improve to $60 million this year, a substantial improvement. Additionally, expense is expected to be reduced from 35 million in 2020 to $20 million this year.

Moving to capital allocation. We continue to be balanced in our approach. Howmet's improved financial leverage and strong cash generation were recently reflected in Moody's April 27 credit rating upgrade from Ba2 to Ba1.

Capital expenditures were approximately 94% of depreciation in the first quarter with productivity CapEx focused on automation projects in engines and fastener segments to improve yields and mitigate labor risk.

We purchased approximately five million shares of common stock in the quarter for $175 million with an average acquisition price of $34 per share. Lastly, we continue to be confident in our free cash flow and paid the quarterly dividend of $0.02 per share of common stock.

Now let's move to Slide 7 to cover the segment results. As previously mentioned, starting this quarter we are moving our segment profitability measure from segment operating profit to segment adjusted EBITDA. We will use this measure to assess the segment's performance going forward while continuing to provide segment DNA in the appendix.

Moving to Engine Products. Year-over-year revenue was up 18% in the first quarter. Commercial aerospace was up 45%, driven by the narrow body recovery. IGT was 14%

higher as demand for cleaner energy continues. Defense aerospace was down 9% year-over-year.

Segment adjusted EBITDA increased 31% year-over-year and margin improved 270 basis points while adding approximately 325 employees in the first quarter, which now brings the total adds to 1275 employees since Q1 of 2021.

Now let's move to Slide 8. Fastening Systems year-over-year revenue was 3% lower in the first quarter. Commercial aerospace was flat as the narrow body recovery was offset by continued production declines for the 787.

Defense aerospace was down 24%, while commercial transportation was up 15%. Segment adjusted EBITDA decreased 2% year-over-year, while margin improved 20 basis points. The quarter was impacted by inflationary costs and the addition of approximately 135 employees to support future growth.

Now let's move to Slide 9. Engineered Structures year-over-year revenue was 3% higher in the first quarter. Commercial aerospace was 36% higher as the narrow body recovery more than offset the impact of the declines of the fourth 787.

The defense aerospace market was down 26% year-over-year, driven by customer inventory corrections for the F-35. Segment adjusted EBITDA increased 5% year-over-year, while margin improved 10 basis points.

Finally, please move to Slide 10. Forged Wheels year-over-year revenue was 9% higher in the first quarter. The $20 million increase in revenue year-over-year was driven by higher aluminum prices of $29 million, somewhat offset by lower volumes.

Pass-through of higher aluminum prices did not impact EBITDA dollars, but unfavorably impacted margin by approximately 360 basis points. Commercial transportation demand remained strong, but volumes continue to be impacted by customer supply chain issues limiting commercial truck production.

One final comment on the segments. Consistent with our expected revenue growth, we are now hiring in every segment except for Engineered Structures, which is expected to commence in the second half of the year.

Before turning it back over to John to discuss guidance, I would like to point out one additional item related to tax. There is a slide in the appendix that covers the operational tax rate. In 2021, the annual operational tax rate improved to 25%. The rate further improved to 24.6% in the first quarter of 2022.

When comparing sequential performance, the Q1 rate of 24.6% compared to 20.7% in Q4 of 2021. The 390 basis point sequential increase in operational tax rate unfavorably impacted first quarter earnings per share by approximately $0.015.

Now let me turn it back over to John.

John Plant

Thanks, Ken. Let's move to Slide Number 11. Moving to ESG. I would encourage you to read our sustainability report found at howmet.com in the Investors section. Howmet is committed to improving our environmental footprint, and actions taken in 2021 have reduced Howmet's greenhouse gas emissions, energy consumption, wastewater use and landfill waste. We have funded approximately 100 projects, which are expected to reduce Howmet's Scope 1 and Scope 2 greenhouse gas emissions by 21.5% by 2024 compared to our 2019 baseline.

Howmet is also committed to a safe workplace while fostering a diverse, equitable and inclusive work environment where all of our employees can thrive. Our safety record is five times better than the industry average. Moreover, Howmet was named one of the best places to work for LGBT equality by the Human Rights Campaign Foundation.

Regarding governance, the company was recognized by 50/50 Women and Boards for having 40% of our Board of Directors made up of women. Lastly, 81% of our key suppliers have sustainability programs considered to be leading or active.

Howmet's portfolio at advanced energy-efficient projects ban several markets and contribute to substantial reductions in emissions. We will discuss Howmet's IP-rich portfolio and several of our differentiated products at Howmet's Technology Day on Monday, May 23rd, in New York.

Let's move to Slide Number 12 and our second quarter guidance. The revenue outlook continues to show improvement. Let me start with commercial aerospace. Airline load factors show improvements in North America and Europe. China is lagging but is expected to show improvements later in 2022. This is leading to solid narrow body build projections for the Airbus A320 and 321 and the Airbus 321-XLR family of aircraft.

Moreover, there is a notable order input for the Airbus 220 aircraft, for which Howmet has a very healthy shipset value roughly in line with the A320. We also expect to see further value content improvements later in 2022 when we begin to transition to the improved Pratt & Whitney geared turbofan engine having both increased thrust and fuel efficiency.

The volumes for the Boeing 737 MAX continued to grow with the rate improving to 31 per month compared to the exit rate in 2021 of 17 per month. As the rate moves towards this 31 per month range, the remaining inventory overhang will be extinguished.

We also note by the middle of 2023, the Airbus A320, 321 rate of 65 per month will require Howmet to be at this rate as we transition into 2023, which is another pickup from the mid-50s rate in the middle of 2022.

Revenue for the defense sector is solid, and after destocking of the structural buckets for the F-35, driven by lower-than-planned Lockheed build in 2020 and 2021, we expect growth will resume in 2023. We note the selection of the F-35 programs for the Air Forces in Germany, Switzerland, Canada and Finland in recent months, which is going to drive future volume projections.

Moving industrial and other markets. Revenue for IGT remain strong, notably with average shipset values increasing with the larger, more sophisticated turbine blades for the aging J class turbines. One good aspect of the oil price increase is the expectation for Howmet - that this will show growth later in the year. Class A truck and trailer manufacturing are also expected to begin to grow as the supply chain constraints begin to ease, especially in the second half, but in fact, beginning in the second quarter.

Specifically to address numbers for Q2 and the year. Revenue is expected in Q2 to be 1.37 billion, plus or minus 20 million; EBITDA of 310 million plus or minus eight million; EBITDA margin of 22.6%, plus 30 basis points minus 20 basis points; and earnings per share of $0.32 plus or minus $0.01.

For the year, revenue of 5.64 billion, plus or minus 80 million; EBITDA of 1.3 billion, plus or minus 35 million; EBITDA margin of 23%, plus 30 basis points minus 20. Earnings per share are expected to be in the range of $1.39, plus or minus $0.06; and free cash flow of 625 million, plus or minus 50 million. Implicit in these numbers is capital expenditure of approximately 235 million and an improved tax rate of approximately 24.5%.

In order to provide color on the near-term, revenues reflect the reduction of the Boeing 787 volumes and also increases for commodity inflation recoveries, there is a similar impact on EBITDA and EBITDA margin.

You will note that the guidance leads to another very solid year for Howmet with growth and profit improvement and is setting the company up well to address the further growth expected in 2023 across all of our markets and especially the start of growth in the wide-body market. Also, as Ken mentioned, notably, we are now recruiting in three of our four segments.

Move to Slide 13. The first quarter was a healthy start to the year. We delivered strong results that met or exceeded guidance. Year-over-year revenue grew 10% and earnings per share grew 41%. Free cash flow was essentially breakeven after approximately 85 million increase in inventory to support the aerospace recovery plus the commensurate increase in AR as a result of the increased sales.

Liquidity is strong, and cash generation is expected to be very positive in the remaining quarters of 2022. The Q2 outlook for revenue is expected to be approximately 45 million higher than in Q1, with margins of approximately 22.5% to 23%, setting a platform for a healthy 22. Full-year adjusted earnings per share guidance has also been increased.

And now we can move to Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question is from Robert Stallard from Vertical Research. Your line is open.

Robert Stallard

John, there has obviously been a lot of talk about titanium and the Russian sanctions on VSMPO. It sounds like you are in discussions with a lot of potential customers. But I was wondering if you could give us an idea firstly of the timing on this, when you think these things will be sorted out? And then secondly, do you think you will be needing to spend more CapEx to add additional capacity?

John Plant

Okay. So titanium, let me provide a slightly broader context for everybody on the call. I think everybody knows that Russia has been historically the largest supplier of titanium products in the world, coming from a low-cost country base.

The business of VSMPO is contained with their industrial and military complex and clearly, it is pretty tough for companies to support this at this time given the invasion and, I will say, casualties as resulting from that invasion.

Specifically regarding inquiries, we have been responsive to many RFQs, of which we expect to update you later in the year. Our thought is it is more likely to be a fourth quarter item and then increasingly a pickup of sales into 2023.

Currently, we have not built any sales into our guidance for the year, but expect to update you in August when we provide our Q2 earnings. So zero in the revenue currently, but we do expect to show that when we have got things that we are clear on a guide that we would give you.

Currently, our thought is that the aerospace customers, both aircraft builders and engine builders and other industrial markets, they are currently building product living off their inventories, albeit some of those customers do continue to buy from VSMPO just as normal.

Regarding capital expenditure, Rob, we have no need to buy capital. Our thought is that we have enough available capacity to provide a very substantial supply to the industry, and not just the aerospace industry, maybe also for some industrial markets as well.

It is unlikely that at this point until I knew the full outcome of the trajectory of this conflict, that we place capital. So I don't want to do that and then have people forget the current situation and rush back to sourcing in Russia.

So basically, we are treating this as a serious opportunity and should see benefits in the back end of the year going into 2023. And more specifically, I will give you a revenue picture of that on the next call, hopefully.

Robert Stallard

That is great. Thanks a lot John.

John Plant

Thank you.

Operator

Next, we have Seth Seifman from JPMorgan. Your line is now open.

Seth Seifman

Thanks very much and good morning everyone. John, you mentioned I think early on in the call, you talked about 787 production plan, you talked about widebody as a driver into 2023. And I think said relatively shortly that you would be hiring in all of the segments. And so what can you tell us about that 787 outlook? What gives you confidence that this schedule will stick? And also that given the level of inventory at Boeing, that we will be able to see a meaningful increase in production?

John Plant

Okay. Clearly, as each month goes by and each quarter goes by, our assumption is that Boeing are getting that much closer to resolution of this. We follow closely what they say. And I noticed, for example, CNBC interviews held recently at the South Carolina plant showing 787 tails on that. And so I think we can be a little bit more optimistic that things are gaining pace to get resolution.

Clearly, certification is not yet there, although we again follow what the FAA say and say they will certify each individual plane delivered to the customers. We have heard that those deliveries are going to commence by the end of the second quarter and so we have revised our guidance and also future outlook in accordance with the Skyline issued by Boeing.

And essentially, that has taken down the total number of 787 aircraft produced this year from, I think, 35 down to 24 or 25, something like that, and taking that revenue hit, but as you see, maintained our guide for the year.

Clearly, we will feel a lot more comfortable when we see those deliveries actually commence rather than to say they are going to be commenced, because that will be then an absolutely clear sign that those, I will say, retrofitting and correction of their planes and then the current production is in, just call it, an okay condition.

So I think we should be optimistic for the future. As I said before, it is a great aircraft. There is clearly a customer need for it. And I think to gain the economics around wide-body, long-haul transportation or passenger transportation for the world, we need that aircraft. And so optimistic that the current skyline is the one that is going to happen.

Seth Seifman

Great. Thanks very much.

John Plant

Thank you.

Operator

Next, we have Myles Walton from UBS. Your line is now open.

Myles Walton

Thanks. Good morning. John, you mentioned inflationary effects running through the business. I wonder if you can just delve a little bit deeper on what maybe is not getting covered in your pricing. And then also, I noticed that the metal pass-through outside of the wheels segment, I guess, it is about $11 million and growing, where is that disproportionately falling?

John Plant

Well, we have seen increases in the last year from aluminum, nickel, cobalt and more recently, titanium. And plus you say, rare metal like [rhemium] (Ph), et cetera. So it has been pretty widespread the commodity inflation. And you will have noted the fact halting and nickel trading during the last quarter, although that is now sort of recommenced. Our statements that we have made previously that we pass through 95% of metal holds and has been seen to hold as we have moved through the last few quarters, and so that is to the good.

On the labor side, clearly, we seek to offset that in terms of productivity, as we do each year. And then clearly, some of the other costs, we are seeking to pass through as well and indeed have some agreements. But again, I have not really detailed those out and don't plan to do so today. But they do cover things like the cost of natural gas and electricity and freight, et cetera, et cetera.

So clearly, the management of inflation is key. And I think the good news is you have seen Howmet maintain its margins, and in fact, without, it would have posted increased margins. So I think the secret or the key to all of this is can you move through this inflationary period, stay whole in terms of your absolute profits and if you can also increment margin or at least not go backwards fundamentally, then that is a huge success in this environment. And that is what we are seeking to do.

Myles Walton

Okay. And the 125 million placeholder, what is that currently in 2022 for -.

John Plant

You can assume it is probably up 50 million at this stage, give or take, these are very approximate numbers because it will change on a daily basis. But clearly, the 125 million was correct three-months ago or two-months ago. And since then, things have moved on.

I think you know that the effects of the war that Russia launched on Ukraine has also had a fundamental effect on commodity prices starting with oil, but also into metals as well. And so it is moving rapidly at the moment again, albeit I'm hoping that some of this volatility begins to quieten down as we move into the second half of the year.

Myles Walton

Thank you.

Operator

Next, we have David Strauss from Barclays. Your line is open.

David Strauss

Hey John, so the headcount increases, it seems like you are hiring back faster maybe than you had initially talked about a quarter or two ago. So could you just talk about kind of what the plan is for headcount now, I guess, where you stand in each of the businesses relative to where you were pre-pandemic in the plan from here? And then Ken, could you just talk about working capital, how you would expect the Q1 build to kind of unwind during the course of the rest of the year? Thanks.

John Plant

So in second quarter of last year, you will recall us stating that we were going to hire, I think it was 400 or 500 people, which we started with and then continue. This is in our Engine Products business. And by the end of the year, we have recruited some 950 net additional people. I think starting early as we did and providing the base level of training, clearly, you can see it pay dividends. And you are looking at our engine margins today, which have shown, I will say, a good outcome in the light of us taking on some of that pain last year.

We continue to recruit in Engine Products in the first quarter of this year, and now I'm going to say about another 250 heads, but again it is an approximate number. Wheels, as you know, we already started recruiting even before engine, and that has continued. And as I mentioned earlier in my remarks, we do see the start of some improvements in the commercial truck build in the second quarter as a precursor to a stronger second half in that business and a robust 2023. So again, there is a willingness to recruit the increasing headcount in that business as well.

I think the relative surprise to us was the decision that we made mid-Q1 to commence hiring in our fastener business. And that is a little bit ahead of what we thought, because of the demand outlook that we see again starting in Q2 and the balance of the year.

So those are the three businesses that are recruiting, albeit better - I will say there could be passes, about 130 heads give or take and so a modest step but an important step, again, preparing the ground as we did to prepare the ground for our engine business a few months ago.

The only business so far that we have not taken any recruitment steps on is our structures business as we burn off in the first half of this year some of the overhang, particularly on the titanium and aluminum bulkheads for the F-35 program, but have a view that mid of the second half of the year, so let's call it, end of Q3 or Q4.

And obviously, that will be finessed as we get closer to the time, then we expect to commence hiring. And some of that is also tied up in the locking down of the scale of the additional orders for titanium, which we expect to talk to you about in August.

So again, in summary, three areas of recruitment and an expectation with stronger sales of our normal structural products, the resumption of the 787 in the second half of production and some improvement in our F-35 outlook plus the titanium should enable us to consider recruitment in the second half. Ken, if you want to just touch on inventory.

Kenneth Giacobbe

Yes. So David, good morning. Your working capital question, so I will start with cash for the quarter was - free cash flow for the quarter was essentially breakeven. Embedded in that number was a working capital burn of around $140 million. The biggest chunk of that was inventory, $85 million of incremental inventory to get ready for the aero build here. So we want to be prepared for our customers, be able to deliver on time and in full.

You will see that working capital number improve as we go through the year. As John mentioned, each quarter should generate positive free cash flow Q2 to Q4. As we exit the year, we have projected that we will have midpoint of around $625 million of free cash flow embedded in that number, it is around a $50 million burn associated with working capital.

We will make a call as we get through the second part of the year, do we want to even build more inventory. That would be a good problem for us to have. But right now, it is about a $50 million cash burn as we exit the year, $625 million of free cash flow, and that is a free cash flow conversion of net income of over 100%.

David Strauss

Great. Thanks very much.

John Plant

Thank you.

Operator

Next, we have Kristine Liwag from Morgan Stanley. Your line is open.

Kristine Liwag

Hey good morning. John, following up on the titanium question earlier. I mean we have seen Russia turn off gas to Poland and Bulgaria. And when you kind of think of ways, Russia could potentially pressure the West, I mean, VSMPO's annual revenue is only about 1.5% -- sorry, $1.5 billion, and you can't ship 99% of an airplane. That is not a deliverable airplane. When you think about that in that context, how much urgency are you seeing from your customer base to solve the VSMPO problem?

John Plant

Again, we have a bit of a bifurcation of those, I will say, customers, which are continuing to buy on VSMPO and those which have decided to take the step either voluntary or because of sanctions or quality certifications that VSMPO will no longer be part of their supply situation.

So where we are at the moment is they placed a lot of inquiries on us. We have been responsive to those inquiries in the last couple of months, laying out our commercial response to those requests. And we are in that decision-making process with the customers over which of the orders that they want to place with us and therefore what we plan to fulfill as we exit this year and going to next.

Clearly, there was a buildup of inventories in recent months as people assess that a conflict was potentially about to occur -- and also just before sanctions is that I think a lot of inventory was pulled out of VSMPO that was available in that organization. And so clearly that has given a level of security stocks that will be burned off over the next few months. But clearly, there is going to be a supply situation emerging for us and some of our competitors, I guess, I'm going to call it, Q4 is the expectation and then into 2023.

And given the tensions for those customers who have taken the decision that the VSMPO will no longer be part of their supply situation, I just cannot imagine them moving back given what I expect to be ongoing tensions with Russia. And I don't think anybody is going to say it is, "Maybe the war is now over, we can all go back to normal." I don't think that is a realistic scenario for us.

Indeed, I note that, for example, in Europe, they are taking steps now to gain increased energy independence given the threats that have been exactly, and as you mentioned, is the cessation of gas supplies into Poland, et cetera, et cetera. And just by way of supplemental information, clearly, the price of natural gas has skyrocket in Europe and may be a factor of 10 and clearly pressurizing industrial companies and including Howmet as we cope with these energy prices.

Kristine Liwag

Great. And John, if I could do a follow-up question. I mean, as you highlighted, VSMPO is a low-cost provider of titanium. So for you to take on incremental work, do you need to see customers change existing economics where maybe they will award you sole-source contracts going forward or have a take-or-pay type contract to make it more attractive?

John Plant

I don't think that sole source needs to be an insistence. I think a long-term contract with guaranteed share as a requirements contract is important. I certainly have no intentions of just picking up a spot business for a moment in time.

So the most important thing for myself is to see longevity of contracts through -- into the future, such that any efforts that we make by way of bringing equipment back online and recruitment of people is there for the long haul. I have no intention of recruiting people and then to terminate them just for a moment, a flash of business.

Kristine Liwag

Great. Thank you.

John Plant

Thank you.

Operator

Next, we have Gautam Khanna from Cowen. Your line is open.

Gautam Khanna

Wondering if you could -- there has been speculation or discussion about forgings and castings pinch points in the supply chain. Wondering if you guys can talk about whether that is presented opportunity for you guys to pick up share or did you see an increase in past dues this quarter, maybe if your could quantify it. And then as a follow-up, just wanted to get your views on LEAP production next year. So maybe your thoughts on the 737 MAX, where that might go, just because at some point you got to be ahead of that, to your point earlier. And you talked about the A320neo, but what is your view on the MAX and how much and how quickly that rises above 31%? Thank you.

John Plant

Okay. So let's deal with castings and forgings, because there has been commentary from some of our customers, in fact, published in the press, about they see that as a pinch point. And I'm going to repeat what I have said in that it is great now that some of our customers recognize just how difficult and exacting these products are.

It is not something you can just turn on or off because of the skill, precision and knowledge that needs to be brought to bear to make these products in volume with the tolerances and, I will say, specifications that are extraordinary.

And so I have seen that comment. I know that one of our customers commented this week in their earnings call that they have seen some concerns around the titanium castings and restricted some of their build. I suppose the good news for us is that we don't make titanium castings, so that puts that one to bed.

In terms of volume, certainly, volumes are up. You can see that in our engine business and continue to be strong both in the current quarter and outlook. Clearly, there are always going to be pinch points. And when you look across the tens of thousands of different part numbers that we supply, is that it is -- over the next 18-months, two-years, three-years, I have no doubt that we will have pinch points that will occur.

I have seen some of the details, because I speaking intimately with some of our plants and those also even anything that gets tight. So I tend to be intimate with what is going on. My sense is that we have been asked because of the changing volumes that - it is a little bit higher than I have seen in terms of engine build. And so I think that - or I suspect that we are being asked to produce a little bit more than our normal share, which I guess is good.

But inevitably, as we try to provide commitments against those, some of those commitments are going to get tight and indeed have got tight. But again, for one customer, which is commenting in the press, is that I know at the end of last month there were parts available to be delivered, just required sign off but just left on - clearly were not needed by that customer in terms of picking up for any urgent requirements.

So a general sweep through would be we are in a relatively good condition, inevitably some pinch points here or there. And I expect that we will begin to see, and in fact, we are expecting to see some spot business occur in the second half of this year, where the customers haven't scheduled on us, or maybe it will occur because we may have a supply ability whereas others may not given our investments into the two new engine plants that we made during the 2019 year going into early 2020.

So a relatively healthy position. You have seen the hiring that we have done now, let's call it, around about 1200 people into our engine business. And it is all been to provide our ability to respond to the industry.

And clearly, part of the inventory increase that Ken's talked to, the 85 million that we put into inventory in the first quarter, a significant amount of that is in our engine business such that we can respond to future demand. So I hope that gives you a pretty good picture over castings and forgings and Howmet currently.

The second part of your question concerned the MAX. And where is MAX going? I mean, clearly, that is more a question for Boeing than it is for Howmet. We are clear that 31 is the number for this year.

Our thoughts about it is that assuming that 737 MAX deliveries do occur into China in the second half, which is an important step that we are still wanting to see, is that when that occurs and the inventories of MAX aircraft reduce the Boeing is that then I will have some confidence in the rate may tick above 31.

Boeing have been in contact with us and talked about a higher number, and we know for the engine manufacturers of a potentially higher number. But at the moment, we are not responsive to that given the fact that we have no skyline that states anything greater than 31.

And for me, the way I think about it, which, again, may not be correct, but it is the way I think about it, is that the gating item is deliveries of the MAX into China and the fleet for Chinese airlines. And when we see that confidence, we will begin to increase. And I guess that will trigger for us the thoughts around further recruitment to support LEAP engine production as we go forward into the future.

Gautam Khanna

Thank you.

John Plant

Thank you.

Operator

Next, we have Robert Spingarn from Melius Research. Your line is open.

Robert Spingarn

Good morning. John, on these large structural castings that we have heard about and that you just referred to, is there an opportunity to get into that business or move further into that as the competitor may just simply not be able to catch up?

John Plant

In the short-term, only where it is currently dual-sourced would we have the opportunity. If we don't have the current tooling for the required specific dies, then there is no possibility of us being responsive to that.

It would take, I will say, some time to prepare tooling and gain quality certification for any increases in that. Clearly, we have an ambition to further increase our share in that segment, but it is not really a short-term issue. Except when there is a dual-source contract.

Robert Spingarn

Right. I guess the reason I'm bringing it up is for a very long time, the other guys dominated that business, and there is really been no reason for Howmet to try to go there. But I'm wondering if this whole situation creates a window, and maybe as LTAs expire or a new engine comes along, this is something you want to pursue.

John Plant

In 2015, Howmet actually built a second plant in our LaPorte, Indiana facility, which we - I'm not quite sure why, what we call it BC2. It is not very innovative because the first one was called BC1.

But basically, at that time, our first plant made relatively smaller structural castings. And I will get this number wrong, but I'm going say you know up to 20 inches in diameter. And we make a virtue of making round castings, structural castings. We have an expertise in that.

And BC2, we increased the capacity and capabilities to make larger structural castings and call those out maybe up to 40 inches. But again, that is probably a very approximate number. I need refresh my mind about exactly what size we can.

So clearly, we have the capability and capacity to move it further in that segment and take onboard - and indeed have been taking onboard some of the larger structural castings, albeit we are not at the outer extremes of, I'm going to say, 50 or 60 inches currently.

So that facility is seeing increased work, we have been recruiting a lot in both our first and second plants at that site and continue to do so in the future. And we expect to see good things come from that and also hope that upon LTA renewal that we will see increased business again coming towards that plant.

Robert Spingarn

Any timing on that last part?

John Plant

No, nothing that I want to comment on today. But let's say, this is not a one-year thing. It is over the next, I will say, two to four-years.

Robert Spingarn

Okay. Thanks very much.

John Plant

Thank you.

Operator

Next, we have Noah Poponak from Goldman Sachs. Your line is open.

Noah Poponak

John, could you spend a little bit more time on the Engine Products margin and the Forged Wheels margin just given those had a decent variance versus at least what we were looking for in the quarter and so how sustainable is that engine margin? What does it take to get Forged recovered as you move through the year?

John Plant

Okay. So First of all, as a general rule, we don't guide at a subsegment level and didn't provide that guidance in the first quarter. So not surprisingly, I'm going to say we were pretty much exactly where we thought we would be. First of all, the volume leverage that we are seeing in our engine business.

And the reason why we expected that, if you remember, we signaled it, we talked about recruitment, we talked about metal pass-through and the upside benefit relative to volume. And so for us, that segmental strength was, I'm going to say, pretty much in line, if anything, towards the top end of, if not at the top end of what we thought was possible.

And clearly, what we would like to see is that maintained during the course of this year. And if we are able to take another step next year all well and good, albeit we are not, again, talking and guiding at the subsegment level.

For the wheels, again, we had flagged to you, the increase in metal would have a very significant effect on the margins in that segment. And with the price of aluminum, I'm just going to refresh everybody, is that 18-months, two-years ago, that was about $1,900 a ton. And that peaked in the first quarter -- and hopefully, it is peaked because it was $4,500 a ton. So more than doubling of the metal inputs to that segment.

And again, I think I told you that we would be resetting prices in that segment every six-months. It is probably one of the long leg items in terms of, I will say, repricing for base metal. And that takes effect and took effect on the 1st of January as signaled to you.

So the reset to the increased metal prices at the second half of last year reflected in the first quarter of this year was exactly in line with what we said, and I think Ken called out like 350, 360 basis points of metal impact. And that reconciles it exactly for you.

And so again, as we see it, all is in order for that segment as well. And so it is the one segment that we have, which does have higher metals volatility. But in normal times, I'm going to say that is not really very significant and not significant for the company really at all. But when you have had such extreme movements, I think anybody that is going from below 2,000 to well in the - between 4,000 and 5,000, that we might look at an extreme movement.

And we have seen I think, quite extraordinary movements in all sorts of commodities in recent times. And you can start with oil, $40 to $50 a barrel to over $100. We have seen it 125 it is now like 104. I mean, these things are moving at a pace.

So at a subsegment level, everything that you saw is something that we had anticipated. I'm not saying that we have got the crystal ball foresight for everything, because we don't. But at the same time, what we have planned out for our engine business occurred what we said was going to happen for margins in our wheels business occurred. And so for us, it was just exactly as planned.

Noah Poponak

I appreciate all that detail, it is helpful. Thank you.

John Plant

Thank you.

Operator

Next, we have Matt Akers from Wells Fargo. Your line is now open.

Matthew Akers

Hi good morning. Thanks for the question. Just on the wheels business, maybe just leaving the metal price aside, like how much is volume there depressed now versus what it would be if some of these supply chain constraints weren't in the way or how much upside is there once those lift? And also, it sounds like you are seeing some positive signs of that into Q2 and maybe in the second half. I wonder if you could elaborate on what you are seeing there.

John Plant

Yes. I have got an exact number for truck build this year. but I'm going to take a swag at it and say I think we are going to see a minimum of a 15% volume lift as we go into next year. And it could be higher than that. I think there is tremendous pent-up demand for trucks.

I have read articles recently are saying truck drivers are available, the trucks. And our customers, in fact, have not been taking orders, because they can't deliver. It is not a lack of witness by fleets to order, and the backlog is bigger than it is ever been.

So my expectation is -- I will just give like a North American number, I think we are going to see some trucks level, it is like 300,000 trucks maybe as we go into next year or slightly more. But it is going to be governed by the responsiveness to capacity and the willingness to take on orders given the availability of, in particular, silicon for some of the semiconductors.

Silicon hasn't been the only issue. It has been one of tires and resins and even windshields as well. But the signs are that this is beginning to ease. It is still very constrained, but we do expect a volume pickup in Q2 and in the second half of the year, building what we hope for but we don't yet know is going to be a very healthy 2023 and 2024.

The traditional pull ahead for emissions, which you get from our North American emissions rate change for 2024, I don't believe that can realistically happen in 2023 given the capacity constraints. So that is going to mean a pretty healthy both for markets for 2023 and 2024 for both the North America and for Europe.

Maybe when I'm talking about trucks, I think it is probably reasonable to give you like a headline outlook for the future, given the requirements for CO_2 reduction in Europe, then the changes which are being brought to bear over the next, say, five to seven-years for commercial trucks in Europe in terms of the different, I will say, power generation or say not from fossil fuel, but maybe from electrification or hydrogen engines or whatever it is, then that is taking a pace.

And all of that is really friendly towards us because you are not going to invest in very expensive new powertrains, take onboard some of those costs and the weight that those solutions evolve like heavy battery packs without taking the advantage of the massive reduction in weight coming from aluminum.

So my expectation is that those volume changes for those - because of those emissions requirements are going to be very healthy to the share of aluminum wheels and its penetration against steel over the next -- all the years up to 2030 because of these changes. So I just want to give you that as a supplement to just the here and now of volume this year and into next.

Matthew Akers

Yes. That is a great color. Thank you.

John Plant

Thank you.

Operator

And next, we have Phil Gibbs from KeyBanc Capital Markets. Your like is open.

Philip Gibbs

There was a 26 million sequential pickup in Engine Products revenues and a $23 million pickup in operating income despite further headcount additions, I think you made mention of that. What drove the near dollar-for-dollar conversion for revs into profits, was that a lot of pricing, a lot of mix, timing of costs just trying to think about that.

John Plant

My guess is that all of those things is that we have got volume leverage, we also price healthy, efficiency in our operations as well. So basically, every aspect of that business, whether it is the top line in terms of unit price or just efficiency and then volume leverage to the upside, every one of those things was coming to bear to give us the outcome that we saw, which, as you saw, was above guidance for the whole company, and some of that came from engine.

So we were, I would say, quite pleased with it. And our job is can we operate at that level going forward and hold it for the next couple of quarters and to see whether we can take further steps. That remains to be seen yet. I'm not ready to commit that or I have just commented, I have just give you a guidance at the company level, which shows further EBITDA improvements in absolute profit and revenue. So all is good.

Philip Gibbs

And John, I just wanted to double check the comment you made earlier. You said anything you may win in titanium from an RFQ standpoint is not embedded in either your revenue or CapEx thoughts for this year?

John Plant

Yes, zero in the revenue line, and I have no CapEx thought at all regarding titanium at this point. And so there will be no change at all for that on the CapEx line. And going to how we -- how successful we are or also it is going to reflect in the robustness and believability of customer schedules as we get into the back half is that -- I will reflect that in guidance when we get to August.

Philip Gibbs

Thank you.

John Plant

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.