

Q4 2023

1. Organic growth drivers

- **Narrative:** Management has provided insights into their strategic initiatives aimed at driving organic growth, emphasizing both pricing strategies and anticipated revenue increases. They highlighted the positive impact of their pricing strategies on overall financial health, and they anticipate these strategies will continue to contribute positively to the company's performance. Additionally, there is an expectation of significant revenue growth in the upcoming quarter as a result of these initiatives.

- **Management's Guidance:**

- Management expects to see continued positive contributions from pricing as they move on price once again in 2024, suggesting a healthy year similar to 2023. They expect Q1 revenue to be up 9% year-over-year and EBITDA up approximately 11%. Management projects this continued growth as investments come on stream in approximately 18 months' time.

- **Actual Results:**

['Q2', '2024']:

- In Q2 2024, Howmet Aerospace reported a year-over-year revenue growth of 14%, driven by strong performance in commercial aerospace, which was up 27%.

['Q3', '2024']:

- John Plant reported that year-over-year revenue growth was 11%, building on the 14% growth in the first half. Total revenue was up 11% year-over-year.

['Q4', '2023']:

- Revenue for Q4 2023 was reported to be up 14% year-over-year, driven by a 24% increase in commercial aerospace.

['Q1', '2024']:

- In Q1 2024, revenue was reported as \$1.824 billion, up 14% year-over-year, driven by strong growth in the commercial aerospace market, which was up 23%.

- **Evaluation:**

- **Expectations Exceeded:** Howmet Aerospace's management projected a 9% year-over-year revenue increase for Q1 2024, but the actual results reported a 14% increase, indicating that the company surpassed its anticipated revenue growth due to strong performance in commercial aerospace.

2. Margin expansion efforts

- **Narrative:** Management provided insights into their focus on improving margin flow-through as a key aspect of their financial strategy. They indicated a specific emphasis on maintaining competitive margins while navigating the economic landscape in 2024. This aligns with their broader objectives of optimizing operational efficiencies and cost structures to drive sustainable growth.

- **Management's Guidance:**

- Management anticipates a margin flow-through of approximately 28% for 2024, with a slight deviation indicated, as compared to the 31% recorded in Q4 2023.

- **Actual Results:**

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Adjusting for the year-over-year inflationary costs pass-through, the flow-through of incremental revenue to EBITDA was approximately 31% in the fourth quarter.

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Adj EBITDA Margin for Q2 2024 was reported at 25.7%, reflecting a year-over-year increase of approximately 340 basis points. Incremental flow-through of revenue to EBITDA was noted to be excellent at 50%.

- **Evaluation:**

- **Expectations Exceeded:** The actual results for Q2 2024 showed an impressive EBITDA margin increase and a remarkable incremental revenue flow-through of 50%, which is significantly higher than the anticipated 28%, indicating that expectations were exceeded.

3. Revenue diversification

- **Narrative:** Management highlighted the growing significance of the spares business as a key driver for revenue diversification. The expectation is that the spares segment will increasingly contribute to the overall revenue mix, particularly with reference to the F35 program.

- **Management's Guidance:**

- Management indicated that the spares business is approaching the \$1 billion mark in 2023 and anticipates it becoming a larger portion of total revenues. Additionally, they expect the spares business for the F35 to match the size of the original equipment (OE) business by 2025, which signifies an important shift in revenue composition.

- **Actual Results:**

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Revenue for Q2 2024 was reported as \$1.880B.

['Q3', '2024']:

- John Plant reported that they expect spares revenue to be about \$1.25 billion, which is an increase from the previous guidance of \$1.1 billion. Additionally, spares or aftermarket exposure has risen to 17%, marking a significant increase.

['Q4', '2023']:

- The spares business is approaching the \$1 billion mark for 2023, aligning with management's guidance.

- **Evaluation:**

- **Expectations Exceeded:** The spares business reached the \$1 billion mark in 2023, aligning with management's guidance, but the updated 2024 guidance of \$1.25 billion significantly surpasses the initial \$1.1 billion projection, indicating stronger than expected growth.

4. Earnings per share trends

- **Narrative:** Management provided detailed forward-looking guidance for the upcoming quarters, reflecting a strategic focus on maintaining strong earnings performance. The company anticipates consistent revenue growth, with a focus on achieving stable earnings per share (EPS) through careful financial

management and strategic positioning in the market.

- Management's Guidance:

- For Q1 of 2024, management expects earnings per share of \$0.51, plus or minus \$0.1. Regarding the full year 2024, the company anticipates earnings per share of \$2.15, plus or minus \$0.05. This guidance reflects management's confidence in achieving steady growth and maintaining robust financial performance throughout 2024.

- Actual Results:

['Q1', '2024']:

- Earnings per share for Q1 2024 was reported as \$0.57, which represents an increase of 36% year-over-year. This performance is at the high end of the management's guidance range of \$0.51 ± \$0.1.

['Q2', '2024']:

- In Q2 2024, adjusted earnings per share were reported as \$0.67, which represents an increase of 52% year-over-year. The diluted earnings per share excluding special items also stood at \$0.67 for the same period.

['Q3', '2024']:

- Earnings per share for Q3 2024 was reported as \$0.71, an increase of 54% year-over-year.

['Q4', '2023']:

- In Q4 2023, the adjusted earnings per share (EPS) was reported at \$0.53, which is a record quarterly performance, up from the previous record of \$0.46 per share. Additionally, the full-year adjusted EPS for 2023 was \$1.84, representing a 31% year-over-year increase.

- Evaluation:

- **Expectations Exceeded:** The earnings per share for Q1 2024 was reported as \$0.57, which is at the high end of the management's guidance range of \$0.51 ± \$0.1, indicating that the actual performance exceeded management's expectations.

5. Debt reduction strategies

- **Narrative:** The management of Howmet Aerospace has emphasized a focused strategy on debt reduction as part of their capital allocation and financial strategy. This involves specific actions taken in the fourth quarter aimed at reducing interest expenses and improving overall financial health. These efforts are indicative of the company's commitment to enhancing financial efficiency and optimizing capital structure.

- Management's Guidance:

- The company has projected that the strategic actions taken in Q4 will lead to a reduction in annualized interest expenses by approximately \$10 million as they move into 2024. Furthermore, they expect the interest expense to improve to approximately \$200 million.

- Actual Results:

['Q1', '2024']:

- Interest expense for Q1 2023 was reported at \$57 million, showing a reduction from previous quarters, aligning with the company's debt reduction strategies.

['Q3', '2024']:

- All combined debt actions year-to-date through the third quarter 2024 will reduce annualized interest expense by approximately \$33 million.

['Q4', '2023']:

- The actual results for Q4 2023 indicate that Howmet Aerospace reduced its annualized interest expense by approximately \$29 million, which exceeds the management's guidance of a \$10 million reduction. Furthermore, the company undertook significant debt reduction and refinancing actions, including reducing the 2024 debt tower by approximately \$875 million, with \$475 million paid with cash and \$400 million refinanced at a fixed rate of approximately 3.9%. Net debt-to-EBITDA improved to a record low of 2.1 times.

['Q2', '2024']:

- Interest expense, net for the trailing 12 months ended June 30, 2024, was \$204 million, indicating some improvement. Additionally, there was a debt reduction of \$23 million in Q2 2024, and \$205 million of 2024 notes were redeemed in July, leading to annualized interest expense savings of approximately \$12 million.

- Evaluation:

- **Expectations Exceeded:** Howmet Aerospace exceeded management's guidance by reducing annualized interest expenses by approximately \$29 million in Q4 2023, surpassing the projected \$10 million reduction, and achieving significant debt reduction and refinancing actions.

6. Share buyback program

- **Narrative:** Management has indicated a continued commitment to returning value to shareholders through an enhanced share buyback program, signaling a proactive capital allocation strategy aimed at increasing shareholder returns.

- Management's Guidance:

- Management has guided that there will be increased share buybacks and further dividend growth. They also expect 2024 to surpass 2023 in terms of share buyback activities.

- Actual Results:

['Q2', '2024']:

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

['Q1', '2024']:

- In Q1 2024, approximately \$170 million of cash was deployed to shareholders, with \$150 million used for common stock repurchases. This marked the 12th consecutive quarter of such repurchases.

['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.

['Q4', '2023']:

- Repurchased \$100M of Common Stock at an Avg Price of ~\$52.52 per Share in Q4; \$250M at ~\$47.76 Avg Price per Share FY

- Evaluation:

- **Expectations Exceeded:** Management guided for increased share buybacks in 2024 compared to 2023, and by Q3 2024, Howmet Aero had repurchased \$310 million of common stock, already surpassing the entire 2023 buyback amount of \$250 million, reflecting a proactive capital allocation strategy that exceeded expectations.

7. Cash balance management

- **Narrative:** Management is focused on maintaining a robust cash balance through strategic financial management practices. This includes a strong emphasis on

free cash flow conversion, ensuring that the company maximizes its net income efficiently. They are committed to a disciplined approach in capital allocation to support the company's long-term financial health.

- Management's Guidance:

- Management continues to drive free cash flow conversion of net income to their long-term target of 90%. They project free cash flow of approximately \$735 million, with a variance of plus or minus \$35 million, and capital expenditures of around \$290 million, with a variance of plus or minus \$15 million. Additionally, they remain committed to delivering an average free cash flow conversion of 90% of net income.

- Actual Results:

['Q3', '2024']:

- Free cash flow was reported at \$162 million for the third quarter, with a year-to-date total of approximately \$600 million. Cash balance was maintained at \$475 million, and liquidity remained strong with a healthy cash balance complemented by a \$1 billion undrawn revolver and a \$1 billion commercial paper program.

['Q4', '2023']:

- Record Free Cash Flow of \$682 million; Free Cash Flow Conversion of 89%; Ending Cash Balance of \$610 million. Cash flow exceeded guidance and was in line with the long-term view of converting 9% of net income into cash flow.

['Q1', '2024']:

- Cash at the end of Q1 2024 was \$534 million, and free cash flow was a record for Q1 at \$95 million.

['Q2', '2024']:

- In Q2 2024, the cash balance at the end of the quarter was reported as \$752 million. Free cash flow for the quarter was a record \$342 million, indicating strong financial management in terms of cash balance and cash flow generation.

- Evaluation:

- **Expectations Met:** Management's cash balance management strategy aligned with their guidance, as the free cash flow conversion was 89%, close to the 90% target, and cash flow exceeded guidance, with a strong cash balance maintained throughout the year.

8. Production rate guidance

- **Narrative:** During the fourth quarter of 2023, management highlighted their production rate strategies, emphasizing the anticipated production rates for key aircraft models. This reflects Howmet Aero's alignment with major customers and their production schedules, indicating a proactive approach to meeting future demand.

- Management's Guidance:

- The company has based its guidance on the production of 34 Boeing 737 MAX aircraft per month and six 787 aircraft per month. Additionally, for the A320, they are anticipating an increase in the build rate to approximately 60 to 65 aircraft per month by 2025, which will necessitate prebuilds or parts in 2024.

- Actual Results:

['Q1', '2024']:

- Lower production, well below the prior levels of approximately 30 aircraft per month

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- Evaluation:

- **Expectations Not Met:** The actual production in Q1 2024 was well below the anticipated levels for key aircraft models like the Boeing 737 MAX, indicating that Howmet Aero's production rate guidance was not achieved.

9. Commercial aerospace trends

- **Narrative:** Management provided insights into the future of the commercial aerospace sector, emphasizing the sustained demand for new aircraft driven by the need for improved fuel efficiency and commitments towards carbon neutrality. They highlighted the growth in commercial aerospace spares, particularly for narrow-body aircraft, due to increased service requirements of newer engines. A temporary reduction in growth for 2023 was noted, but there is an expectation of a pickup in demand in the latter half of 2024, with strong growth anticipated in 2025 and 2026.

- Management's Guidance:

- 1. Demand for new aircraft is expected to be sustained due to the need for aircraft with substantially improved fuel efficiency and airlines' commitments towards carbon neutrality with milestones set for 2030 and 2050.

- 2. Commercial aerospace spares are growing due to the number of aircraft in service and increased service requirements of newer fuel-efficient engines, expected to be a long-term trend over the next decade.

- 3. The commercial transportation market is expected to resume growth in 2025 and 2026, with strong continued demand anticipated.

- 4. Growth in the segment has been slightly reduced for 2023, with lower build expectations for 2024, but demand is expected to pick up in the second half of 2024, with robust demand anticipated for 2025 and 2026.

- Actual Results:

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- John Plant reported that commercial aerospace growth was an outstanding 27% in Q2 2024. Additionally, Engine Products saw commercial aerospace up 18%, and Fastening Systems experienced a 36% increase, including the impact of the wide-body recovery. The overall performance for the first half showed commercial aerospace up a healthy 25%.

['Q3', '2024']:

- Commercial aerospace revenue was up 17% in Q3 2024, with specific growth driven by engine spares. Additionally, commercial aerospace performance was reported as up 20%, indicating a robust increase.

['Q4', '2023']:

- Ken Giacobbe reported that commercial aerospace recovery continued throughout 2023 with revenue up 22% in the fourth quarter and up 24% for the full year. Additionally, commercial aerospace has grown for 11 consecutive quarters and stands at just over 50% of total revenue.

- Evaluation:

- **Expectations Exceeded:** The commercial aerospace growth in 2024 significantly surpassed expectations, with Q2 reporting a 27% increase and continued robust performance in subsequent quarters, indicating stronger-than-anticipated demand recovery.

10. Industrial market dynamics

- **Narrative:** Management highlighted a cautious outlook for the commercial transportation segment, indicating potential challenges that may impact revenue growth in this sector. This reflects a strategic focus on navigating market uncertainties and adapting to dynamic industrial conditions.

- **Management's Guidance:**

- Management foresees a potential reduction in revenue by up to 10% in the commercial transportation market as we progress through 2024.

- **Actual Results:**

['Q1', '2024']:

- Commercial Transportation was up 5%; general industrial was up 14% and defense aerospace was down 11%.

['Q2', '2024']:

- Ken Giacobbe [Commercial transportation...market has weakened with revenue down 4%.]

['Q3', '2024']:

- Ken Giacobbe [Commercial transportation revenue down 12%]

['Q4', '2023']:

- Sequentially, volumes were down 3% as we're starting to see signs of the commercial transportation market softening.

- **Evaluation:**

- **Expectations Not Met:** Management anticipated a potential revenue reduction of up to 10% in the commercial transportation market; however, the actual results in Q3 2024 showed a 12% decrease, which fell short of expectations.