Q1 2021

1. Organic growth drivers
- **Narrative:** Management emphasizes the anticipated beginning of revenue recovery in the second half of the year, particularly focusing on commercial aerospace. This recovery is expected to positively affect both revenue and margin run rates as the company transitions from 2021 into 2022. The company is closely monitoring leading indicators that suggest potential improvements in these areas.
- **Management's Guidance:**
- Management projects that revenue and margin improvements will begin in the second half of 2021, with the commercial aerospace sector acting as a catalyst. They predict a significant inflection point starting in Q3, with modest lifts expected, but not substantial changes in specific sectors like the spares business.
- **Actual Results:**
['Q4', '2021']:
- In Q4 2021, Howmet Aerospace reported total revenue of $1.285 billion, a 4% increase year-over-year and flat sequentially. The revenue by market showed a 13% year-over-year increase in Aerospace - Commercial, a 22% decline in Aerospace - Defense, with the total revenue across all markets up by 4% year-over-year.
['Q2', '2021']:
- In Q2 2021, the combined aerospace segment third-party revenue was $966 million, representing a decrease of $174 million compared to Q2 2020. The Engine Products third-party sales were $544 million, reflecting a decrease of $41 million. Fastening Systems third-party sales were $262 million, down $64 million. Engineered Structures third-party sales were $160 million, down $69 million compared to Q2 2020.
['Q1', '2021']:
- Revenue for Q1 2021 was reported as $227M, showing an increase compared to previous quarters, with commercial aerospace contributing significantly to this growth.
['Q3', '2021']:
- In Q3 2021, total revenue was reported to have increased by 13% year-over-year and 7% sequentially. Revenue growth was driven by the commercial aerospace sector, which saw a 15% year-over-year increase and a 16% sequential increase. Adjusted EBITDA and adjusted earnings per share were also reported to have increased.
- **Evaluation:**
- Expectations Met: The management expected modest revenue and margin improvements starting in Q3 2021, particularly in the commercial aerospace sector, which was achieved as evidenced by a 13% year-over-year revenue increase in Q3 and a 15% increase in the commercial aerospace sector.

2. Profit margin analysis
- **Narrative:** Management has indicated a focused approach towards maintaining profitability amidst operational challenges. The strategic measures include managing costs effectively, particularly those associated with recommencing operations at mothballed plants and equipment.
- **Management's Guidance:**
- Management expects that these cost management initiatives will stabilize EBITDA margins at approximately 22% until further operational stabilization is achieved.
- **Actual Results:**
['Q4', '2021']:
- Adjusted EBITDA was $296 million, with an EBITDA margin at 23% in Q4 2021.
['Q1', '2021']:
- In Q1 2021, the Adjusted EBITDA was reported at $275M, and the operating income margin was 15.6%, with an operating income margin excluding special items at 17.2%. The segment operating profit margin was 16.5%.
['Q2', '2021']:
- Adjusted EBITDA was $272 million in Q2 2021, and the adjusted EBITDA margin was 22.8%, which met the management's guidance of stabilizing EBITDA margins at approximately 22%.
['Q3', '2021']:
- Revenue was $1.28 billion, adjusted EBITDA was $292 million, and EBITDA margin was 22.8%.
- **Evaluation:**
- Expectations Exceeded: Management anticipated stabilizing EBITDA margins at approximately 22%, but the actual results from Q4 2021 showed a margin of 23%, which surpassed the expected stabilization target.

3. Earnings per share trends
- **Narrative:** In Q1 2021, Howmet Aero management provided a comprehensive outlook for the upcoming quarters, emphasizing anticipated improvements in key financial metrics. They highlighted strategic initiatives aimed at boosting sales and profitability, reflecting a positive trajectory in earnings per share (EPS) trends.
- **Management's Guidance:**
- Management provided specific guidance for Q2, projecting sales at $1.2 billion, with a margin of error of $30 million. They anticipated EBITDA of $265 million, plus or minus $5 million, and an EBITDA margin of 22.1%, with a variance of 10 basis points. The earnings per share were forecasted at $0.20, with a potential fluctuation of $0.01. For the full year, they expected sales to reach $5.1 billion, with a potential increase of $100 million or decrease of $50 million. The EBITDA baseline was projected to increase by $50 million to $1.15 billion, with a range of plus $50 million to minus $25 million. The EBITDA margin was expected to increase to 22.5%, with a range of plus 60 basis points and minus 20 basis points. The EPS baseline was projected to rise to $0.95, with a range of plus $0.07 to minus $0.04. Additionally, the cash flow baseline was anticipated to increase to $425 million, with a margin of error of $30 million.
- **Actual Results:**
['Q4', '2021']:
- Adj Earnings Per Share for Q4 2021 was $0.30, showing an increase from Q3 2021 which was $0.27. For the full year 2021, the Adjusted Earnings Per Share was $1.01, up 31% from the previous year.
['Q1', '2021']:
- Earnings per share, excluding special items, for Q1 2021 was $0.22.
['Q2', '2021']:
- Adjusted Earnings Per Share from Continuing Operations $0.22 in Q2 2021, which was ahead of expectations.
['Q3', '2021']:

- Adjusted earnings per share for Q3 2021 was $0.27, up 23% sequentially from Q2 2021.
- **Evaluation:**
- Expectations Exceeded: The earnings per share for Q2 2021 were $0.22, exceeding the management's guidance of $0.20. The full-year EPS also surpassed expectations, reaching $1.01 compared to the projected range with a baseline of $0.95.

4. Cost management strategies
- **Narrative:** The management of HowmetAero has articulated a focus on enhancing operational efficiency through strategic cost management initiatives. This involves bringing back employees from furlough and recruiting new workers to meet anticipated demand, which is indicative of a proactive approach to labor management. The management is planning these actions carefully to handle a significant increase in labor efficiently. Additionally, the company is emphasizing cost reductions and is implementing price increases to surpass those of the previous year, reflecting a robust approach to managing operational costs.
- **Management's Guidance:**
- Management plans to bring back from furlough or recruit several hundred workers during the next two quarters to train and retrain, aligning with their effective practices from the third quarter of 2020 for the commercial wheels business. The management is focusing on planning carefully through the next couple of quarters due to the expected significant increase in labor. They anticipate price increases to be greater than in 2020, along with a cost reduction carryover of approximately $100 million, and pension and OPEB contributions of $160 million.
- **Actual Results:**
['Q2', '2021']:
- $100M Cost Reduction Carryover Achieved; Structural cost reductions maintained with $37M YoY benefit in Q2 2021; $98M in H1 2021
['Q3', '2021']:
- Structural cost reductions for Q3 2021 were reported at $23 million year-over-year and $121 million year-to-date, exceeding the full year target of $100 million. Additionally, the year-to-date 2021 reduction in Pension / OPEB Liability was approximately $180 million, and the year-to-date Pension and OPEB Expense was reduced by about 50% compared to last year.
['Q4', '2021']:
- Structural Cost Reductions of ~$130M exceeded full year target of $100M. The labor increase included an addition of approximately 150 headcount in Q4, with a total increase of approximately 950 since Q1 2021. Pension and OPEB liability reduced by approximately $275M, with a 54% reduction in expense and cash contribution.
['Q1', '2021']:
- John Plant mentioned that structural cost reductions are in line with expectations, providing a $61 million year-over-year benefit.
- **Evaluation:**
- Expectations Exceeded: The structural cost reductions achieved in 2021, totaling approximately $130 million, surpassed the management's full-year target of $100 million. Additionally, the labor increase met the planned headcount, and pension/OPEB contributions exceeded expectations, indicating a comprehensive success in cost management strategies.

5. Debt reduction strategies
- **Narrative:** Management focused on reducing the company's debt burden as part of its capital allocation and financial strategy. They highlighted significant progress in debt reduction achieved so far, which has directly contributed to lowering interest expenses. The management remains committed to continuing this trajectory to further optimize the company's financial structure and improve financial flexibility.
- **Management's Guidance:**
- The company has successfully reduced debt by approximately $840 million year-to-date, which is expected to decrease the 2021 interest expense by $38 million and by $47 million on a run rate basis. Additionally, in 2022, there will be an incremental $10 million of carryover interest savings.
- **Actual Results:**
['Q3', '2021']:
- In Q3 2021, Howmet Aerospace reported that they paid down approximately $835 million of debt and reduced their annualized interest expense by about $70 million. The net debt to EBITDA improved from 3.5x in Q2 to 3.2x.
['Q2', '2021']:
- 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 the year, we paid down gross debt of approximately $845 million, with cash on hand and reduced annualized interest costs by approximately $70 million.
['Q1', '2021']:
- John Plant reported that year-to-date, the company has reduced debt by approximately $840 million, which aligns with the management guidance provided.
- **Evaluation:**
- Expectations Exceeded: The company reduced its debt by approximately $845 million, surpassing the initial guidance of $840 million, and achieved a higher-than-expected reduction in annualized interest expenses by approximately $70 million, exceeding the anticipated savings.

6. Dividend distribution
- **Narrative:** Management has discussed the reinstatement of their quarterly dividend, reflecting a commitment to returning value to shareholders while maintaining a balanced approach to capital allocation. This decision aligns with their broader financial strategy to enhance shareholder returns amid ongoing operational improvements.
- **Management's Guidance:**
- Management plans to reinstate the quarterly dividend of $0.02 per share of common stock in the third quarter of 2021, pending the final Board approval.
- **Actual Results:**
['Q4', '2021']:
- We also reinstated the quarterly dividend of $0.02 per share of common stock in Q3 of 2021.
['Q1', '2021']:
- Data Not Available
['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 planned to reinstate the quarterly dividend of $0.02 per share in Q3 2021, and the actual results confirm that the dividend was reinstated as scheduled.

7. Cash balance management
- **Narrative:** The management of HowmetAero has emphasized a strategic focus on maintaining a robust cash position through efficient cash balance management. This involves prudent capital allocation and ensuring that the company's cash generation remains strong in the upcoming quarters. The approach is to support ongoing operations and future growth by aligning capital expenditures and cash flow conversion with their strategic objectives.
- **Management's Guidance:**
- Management forecasts substantial cash generation in the second, third, and fourth quarters of the year. The capital expenditure (CapEx) is projected to be within the range of $200 million to $220 million, which aligns with their strategy to balance investment and maintain cash reserves. They anticipate an adjusted free cash flow conversion rate of approximately 100% of net income, suggesting a strong alignment of cash flow with profitability.
- **Actual Results:**
['Q3', '2021']:
- Data Not Available
['Q4', '2021']:
- Adjusted free cash flow was a record $517 million, with a conversion rate of 117% of net income. If excluding voluntary pension contributions, the adjusted free cash flow conversion was 123% of net income. The year-end cash balance was $722 million.
['Q1', '2021']:
- In Q1 2021, the ending cash balance was reported as $1.24 billion, which included the early redemption of April 2021 notes for approximately $360 million. The adjusted free cash flow conversion was approximately 100%. Capital expenditures were $55 million, which was less than the depreciation and amortization of $68 million.
['Q2', '2021']:
- Q2 2021 Adj Free Cash Flow of $164M; Ending Cash balance of $716M; Cash provided from operations = $85M, Cash used for financing activities = ($700M), Cash provided from investing activities = $91M; Capital expenditure was $36 million for the quarter, less than depreciation and amortization resulting in a net source of cash.
- **Evaluation:**
- Expectations Exceeded: The management's guidance anticipated a free cash flow conversion rate of approximately 100% of net income. However, the actual results showed a conversion rate of 117% (or 123% excluding voluntary pension contributions) by Q4 2021, which significantly surpassed their expectations.

8. Inventory management strategies
- **Narrative:** Management highlighted plans to optimize inventory management by addressing and liquidating trapped inventory throughout 2021. This strategy aims to streamline operations and improve efficiency across the supply chain, with a focus on balancing inventory levels.
- **Management's Guidance:**
- Management anticipates resolving the inventory issues in the fastener business by the end of the third quarter, potentially extending into the fourth quarter.
- **Actual Results:**
['Q4', '2021']:
- Data Not Available
['Q1', '2021']:
- Our inventory turnover rate has improved significantly.
['Q2', '2021']:
- Data Not Available
['Q3', '2021']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

9. Production rate guidance
- **Narrative:** Management is positioning Howmet Aero to ramp up production in the latter half of the year, aligning with broader industry trends and demands. They are preparing to increase production capacity in line with expected demand from major partners such as Boeing, indicating a proactive approach to supply chain and production management.
- **Management's Guidance:**
- Management anticipates the second quarter as an inflection point for initiating production increases, although precise timing remains uncertain. The fasteners segment is expected to experience a delay of approximately one to two quarters compared to other segments. Production rates are expected to align with Boeing's build rate, increasing from 7 to 14 in late summer, potentially reaching 22 per month as 2022 begins, and further scaling to 30 per month. There is an expectation of significantly increased lead times in six months, which will require strategic order placements. The company plans for increased production in its structures business starting in the second half of the year. Preparations are underway to de-mothball casting machines and lines, with readiness for increased production as they move into Q3 and Q4.
- **Actual Results:**
['Q4', '2021']:
- John Plant - While we supplied to schedule during 2021. John Plant [in particular, effectively production going to zero in the fourth quarter.]
['Q1', '2021']:
- John Plant: "We have been supplying effectively below the 7 rate per month in aggregate."
['Q2', '2021']:
- Data Not Available
['Q3', '2021']:
- Data Not Available
- **Evaluation:**
- Expectations Not Met: Management anticipated increased production rates aligning with Boeing's build rate and significant production ramp-up in the latter half of 2021, yet actual results indicate production remained below expectations, with production effectively dropping to zero in Q4 2021.

10. Commercial aerospace trends

- **Narrative:** Management provided an optimistic outlook for the commercial aerospace sector, emphasizing anticipated growth driven by increased demand for narrow-body engines and the resurgence of aftermarket services. The focus is on leveraging these growth segments to enhance HowmetAero's market position as the aerospace industry gradually recovers.
- **Management's Guidance:**
- Management expects the commercial aerospace segment to increase by 15% to 20% in the third quarter compared to the second quarter. A 20% increase in commercial aerospace is anticipated, commencing in the third quarter. The second half revenue is expected to rise by 12% for the total company, driven by increases in commercial aerospace, defense, and IGT. Over the next 12 to 18 months, there will be a focus on narrow-body engines, such as LEAP-1A and LEAP-1B, and the recovery of aftermarket service business, particularly for CFM engines.
- **Actual Results:**

['Q3', '2021']:
- Commercial Aerospace was up 15% year-over-year and 16% sequentially, marking the start of the Commercial Aerospace Recovery.

['Q4', '2021']:
- Commercial Aerospace was 39% higher driven by the narrow-body recovery.

['Q1', '2021']:
- Commercial aerospace was down 52% year-over-year in Q1 2021 due to customer inventory corrections.

['Q2', '2021']:
- In Q2 2021, commercial aerospace was reported to be down 31% year-over-year due to COVID-19 impacts and production declines, particularly for the Boeing 787. This was in line with expectations as inventory corrections continued.
- **Evaluation:**

- Expectations Met: The management guidance expected a 15% to 20% increase in the commercial aerospace segment in the third quarter, and the actual results showed a 16% sequential increase, aligning with their expectations, indicating the start of the commercial aerospace recovery.

11. Oil and gas sector outlook

- **Narrative:** Management expressed optimism about future performance in the oil and gas sector, indicating that they anticipate an improvement in market conditions.
- **Management's Guidance:**
- Management projects that the oil and gas sector will begin to show improvement by the fourth quarter or certainly by the first quarter of next year.
- **Actual Results:**

['Q3', '2021']:
- Data Not Available

['Q4', '2021']:
- Data Not Available

['Q1', '2021']:
- John Plant - Oil and gas has been really very muted for the last year and the first half of this year. John Plant - We see Texas crude now at $66, plus or minus.

['Q2', '2021']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

12. Industrial market dynamics

- **Narrative:** Management highlighted a robust recovery in the industrial sector, noting strong performance and demand across various segments. The strategic focus is on capitalizing on the surging industrial demand, which is expected to continue strengthening through 2021 and into 2022.
- **Management's Guidance:**
- Management observed that class 8 truck and trailer orders are at levels that secure the backlog for the remainder of 2021 and most of 2022. They anticipate overall strengthening in the industrial sector through the balance of 2021, with considerable momentum expected in the second half. Significant demand increases for the fastener business are projected for 2022.
- **Actual Results:**

['Q4', '2021']:
- Data Not Available

['Q1', '2021']:
- Tolga Oal reported that commercial transportation was up 15% year-over-year, and the industrial and other markets were up 1%. Industrial Gas Turbines were up 35% year-over-year, indicating a strong performance in the industrial market dynamics.

['Q2', '2021']:
- Industrial Gas Turbines up 13% YoY driven by new builds and spares; Commercial Transportation up 89% YoY; Customer shutdowns in Q2 2020

['Q3', '2021']:
- The commercial transportation and industrial markets within the Fastening Systems segments were approximately 55% and 19% year-over-year, respectively.
- **Evaluation:**

- Expectations Exceeded: The management guidance anticipated a strong industrial sector performance with significant demand increases, and the actual results from Q1, Q2, and Q3 2021 showed substantial year-over-year increases in commercial transportation and industrial markets, surpassing the expected growth trajectory.

13. Commodity price volatility

- **Narrative:** Management acknowledged the ongoing volatility in commodity prices and emphasized the importance of strategic planning and risk management to mitigate these challenges. They highlighted their approach of leveraging long-term contracts and hedging strategies to protect against price fluctuations, ensuring stability in their cost structure and operational performance.
- **Management's Guidance:**
- Management indicated that labor inflation is expected to impact significant parts of their businesses over the next 2 to 4 years, guided by existing labor agreements. This suggests a focus on maintaining cost efficiency amidst commodity price volatility.
- **Actual Results:**

['Q3', '2021']:
- Aluminum prices continued their upward surge with aluminum and regional premiums increasing by over $400 per metric ton sequentially and impacting the margin rate by 20 basis points.
['Q4', '2021']:
- Aluminum prices increased 55% year-over-year, and the pass-through of higher aluminum prices unfavorably impacted operating profit margin by approximately 350 basis points.
['Q1', '2021']:
- To address your request, I would require the actual results data from the knowledge graph for analysis. Please provide the relevant data so I can proceed with the analysis.
['Q2', '2021']:
- Data Not Available
- **Evaluation:**
- Expectations Not Met: Despite management's strategic planning and hedging strategies to mitigate commodity price volatility, the actual results showed significant increases in aluminum prices that negatively impacted operating margins, indicating that the measures were insufficient to meet expectations.