Howmet Aerospace Inc. (NYSE:HWM) Q2 2021 Earnings Conference Call August 4, 2021 10:00 AM ET

Company Participants

Paul Luther - VP, IR
John Plant - Executive Chairman & Co-CEO
Tolga Oal - Co-CEO & Director
Kenneth Giacobbe - EVP & CFO

Conference Call Participants

Carter Copeland - Melius Research
David Strauss - Barclays
Gautam Khanna - Cowen & Co
Robert Spingarn - Credit Suisse
Robert Stallard - Vertical Research
Matt Akers - Wells Fargo
Paretosh Misra - Berenberg
George Shapiro - Shapiro Research

Operator

Good morning, ladies and gentlemen, and welcome to the Howmet Aerospace Second Quarter 2021 Results. My name is Catherine, and I'll 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.

Paul Luther

Thank you, Catherine. Good morning, and welcome to the Howmet Aerospace Secondt Quarter 2021 Results Conference Call. I'm joined by John Plant, Executive Chairman and Co-Chief Executive Officer; Tolga Oal, Co-Chief Executive Officer; and Ken Giacobbe, Executive Vice President and Chief Financial Officer. After comments by John, Tolga 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've 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.

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

John Plant

Thanks, PT. Good morning, and welcome to the second quarter call. I'll start with an overview of Howmet's second quarter performance. Then pass to Tolga, who will talk more to our market. And then, Ken will provide further financial detail. I also plan to talk to ESG and we'll do so in about once a year going forward. And then provide guidance and talk to guidance for the third quarter and the full year 2021.

So let's move to slide number four. Let me start with some commentary on the second quarter, which was the first comparable quarter for Howmet post separation with no pro forma numbers.

Revenue was $1.2 billion and in line with expectations, while EBITDA, EBITDA margin and earnings per share exceeded our expectations. Adjusted EBITDA was $272 million, and adjusted EBITDA margin was on par with Q1 2021 and Q4 2020 at 22.8%, despite the addition of costs to prepare for the second half ramp up in commercial aerospace production.

Earnings per share excluding special items was $0.22 and ahead of our expectations. Historically, the first half has been a cash outflow for the company. The increased operating performance focus of Howmet has led to improve margins, enhanced working capital control and capital discipline, which generated $160 million of cash in the first half of the year. We expect continued cash generation in the third and fourth quarters.

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. These transactions reduced 2021 interest expense by approximately $28 million, and approximately $47 million on an annual run rate basis. This helps with increased 2022 free cash flow.

In the second quarter, we continue to return money to shareholders with the completion of a 200 million share buyback program. The weighted average acquisition price was $34.02 per share, approximately 5.9 million shares. The second quarter and cash balance was $716 million.

Lastly, we continue to focus on reducing legacy liabilities. Year to-date, we have reduced our pension and OPEB liabilities for approximately $160 million. Moreover, full year pension and OpEx expense is expected to improve approximately 50% compare to last year.

Now let's move to markets and performance on slide five. Q2 revenue was 5% less year-over-year and in line with our expectations. On a year-over-year basis commercial aerospace was 31% less driven by lower aircraft builds, spares and the lingering effects of customer inventory corrections.

Commercial aerospace continues to represent approximately 40% of total revenue compared to pre-COVID levels of 60%. The commercial aerospace decline is partially offset by our continued strength in other markets.

The industrial gas turbine business continues to grow and was up 13% year-over-year driven by new builds and spares. The commercial transportation business was up 89% year-over-year as it rebounds from customer shutdowns in Q2 of 2020. Truck demand remains strong as our customers manage through their own supply chain issues with several components, which are in short supply.

At the bottom of the slide, you can see the progress on price, cost reduction, margin expansion and cash management. Price increases are up year-over-year and continue to be in line with expectations, as they are tied to long-term agreements.

Structural cost reductions are also in line with expectations with the $37 million year-over-year benefit, which reflects the decisive actions we started in the second quarter of 2020 at the onset of the pandemic and continued through last year.

Year-to-date structural cost reductions are $98 million, which have essentially achieved already a target of approximately $100 million. The aerospace decremental operating margins continue to be very good at only 19%.,while the wheel segment had an incremental margin of 47%.

EBITDA margin expanded by 310 basis points year-on-year driven by price, variable cost flexing and fixed cost reductions. The team delivered strong margin expansion despite a reduction in revenue. Capital expenditure was $36 million for the quarter and continues to be less than depreciation and amortization resulting in a net source of cash.

Lastly, free cash flow was $164 million for the quarter, resulting in a record first half. Now let's move to slide six. Adjusted EBITDA margin for the quarter is 22.8% and consistent with the last couple of quarters on approximately $43 million of less revenue.

The margin results overcame both the effects of the low revenue and the cost of many additional employees to meet the increasing production demand coming in the third quarter. Q2 revenue at $1.2 billion was in line with expectations.

You can see the benefit of our actions since the start of the pandemic in Q2 with a solid 310 basis points -- EBITDA margin expansion, while revenue is approximately $58 million less in the same period.

Now let me hand it over to Tolga to give an overview of the markets.

Tolga Oal

Thank you, John. Please move to slide seven, and some more details about our year-over-year revenue performance. Second quarter revenue was 5% less driven by commercial aerospace, which continues to represent approximately 40% of total revenue in the quarter.

Commercial aerospace was 31% less year-over-year in line without projections as expected inventory corrections continued. Defense aerospace was essentially flat in the second quarter as we are on a diverse set of programs with the joint strike fighter being approximately 40% of the total defense business.

Commercial transportation which impacts both the forged wheels and the Fastening Systems segments was up 89% year-over-year as second quarter of last year was significantly impacted by customer shutdowns.

Finally, the industrial and other markets, which is composed of IGT, oil and gas and general industrial was up 13%. IGT which makes up approximately 45% of this market continues to be strong and was up a healthy 13% year-over-year.

I will now turn it over to Ken to give a more detailed view of the financials.

Kenneth Giacobbe

Thank you, Tolga. Let's move to slide eight for the segment results. As expected engine products, year-over-year revenue was 7% less than the second quarter. Commercial aerospace was 17% less driven by customer inventory corrections and reduced demand for spares.

Commercial aerospace was partially offset by a year-over-year increase of 13% in IGT. The IGT business continues to be strong as demand for cleaner energy continues. Decremental margins for engines were 12% for the quarter as we hired back approximately 300 workers to prepare for the anticipated growth in the second half of this year. In the appendix of the presentation we have provided a schedule which shows each segment's incremental or decremental margins for the quarter.

Now let's move to Fastening Systems on slide nine. Also with expected Fastening Systems year-over-year revenue was 20% less in the second quarter. Commercial aerospace was 42% less.

Like the engine segment, we continue to experience inventory corrections in commercial aerospace. The industrial and commercial transportation markets within the Fastening Systems segment were both up approximately 45% year-over-year.

Decremental margins for Fastening Systems were 31% for the second quarter as segment operating profit margin was approximately 19%. Please move to slide 10 to review engineered structures.

Engineered structures year-over-year revenue was 30% less in the second quarter. Commercial aerospace was 45% less driven by customer inventory corrections and production declines for the Boeing 787. Defense aerospace was relatively flat year-over-year. Decremental margins for engineered structures were 12% for the quarter.

Lastly, please move to slide 11 for forged wheels. Forged wheels revenue doubled year-over-year as last year's results were impacted by customer shutdowns. On a sequential basis volumes were down approximately 7% due to customer supply chain issues.

Reported revenue was essentially flat sequentially driven by a 20% increase in aluminum prices. Although, higher middle costs are passed through to customers to avoid a profit impact, you will see a reduction in EBITDA percent resulting from the pass through.

Segment operating profit margin was approximately 27% and year-over-year incremental margin was 47%. Improved margin was driven by continued cost management and maximizing production in low-cost countries.

Please move to slide 12. We continue to focus on improving our capital structure and liquidity. In the first half of the year we completed the early redemption of our 2021 and 2022 bonds with cash on hand.

Gross debt stands at approximately $4.2 billion. All debt is unsecured and the next maturity is in October of 2024. Finally our $1 billion five-year revolving credit facility remains undrawn.

Before turning it back to John to discuss ESG and 2021 guidance, I would like to point out that there's a slide in the appendix that it covers special items in the quarter. Special items for the second quarter were a net charge of approximately $22 million mainly driven by the costs associated with the early redemption of the 2022 bonds completed in early May.

Now, let me turn it back over to John.

John Plant

Thank you, Ken. And let's move to slide 13. Moving to ESG, I'd encourage you to read our sustainability report found at howmet.com in the investor section. For Howmet aerospace, environmental, social and governance is about generating meaningful change for a more sustainable future, improving our diversity and inclusion inside our company and in the communities in which we operate.

Regarding employee safety, we are maintaining attention on safety through uncertain operational conditions presented by COVID-19. Total recordable incidents continue to be significantly better than the aerospace and defense industry average.

For 2020, we had a 20% year-over-year improvement in rate to 0.71. Additionally 84% of our locations worldwide were without a lost workday incident. This is a tremendous testament to the dedication and focus of our workforce.

We continue to underscore the importance and power of diversity, equity and inclusion in our company. We value the rich diversity of expertise, backgrounds and viewpoints that fuel our innovation and we are committed to improving diversity of employees at all levels.

Recently, we were recognized by the 50-50 women on boards organization for our commitment to broad diversity. In addition to gender diversity, we also partner with key external organizations including the Human Rights Campaign, the National Hispanic Corporate Council and Diversity Best Practices to review and continuously improve our initiatives.

With respect to sustainability. Nowhere is this more evident than in the products that we provide to our customers. Our proprietary technologies help reduce fuel consumption and carbon emissions contributing to the aerospace industry's goal of a smaller carbon footprint.

Five specific areas are at the bottom left of the slide. The Commercial Aerospace, Next Generation, Jet Engine Technology reduces fuel consumption by approximately 15%. Moreover, Howmet's increased content on composite aircraft of two times contributes to light weighting solutions and reduces fuel use as composite aircraft are approximately 20% more fuel efficient than comparable metallic aircraft.

For forged wheels, Howmet's aluminum wheels are five times stronger than steel, while being 47% lighter. Customers can realize up to 1,400 pounds of weight savings from retrofitting an 18-wheeler class 8 truck of steel to aluminum wheels.

For IGT, Howmet's products continue to enable higher operating temperatures in the turbine and also pressures, which increase load efficiency towards approximately 64% and reduce nitrogen oxide emissions by approximately 40%. Lastly, for renewables, Howmet's Fastening Systems used in solar panels improved strength and clamping by five to ten times and reduce insulation time by up to 80%.

Moving to STEM education and inclusiveness. Howmet is dedicated to increasing STEM opportunities and education in the local community through the Howmet Aerospace Foundation with grants to institutions and schools. Also we've renewed our commitment to support our six employee resource groups with strategic focus on community, culture and careers.

Let me now move to slide 14 for our third quarter and annual guidance. The leading indicators for air travel continue to show improvement notably for domestic travel. This includes online searches for air tickets, increases in flight schedules across most of the world and beginnings of some international travel.

Orders for aircraft by airlines and assembly partners are increasing rapidly. The expectation that Howmet will transition into revenue growth in the third quarter continues with growth of approximately 15% in commercial aerospace and total revenue growth of approximately 9%.

We look forward to managing and leading this exciting growth phase for Howmet after the devastation of the pandemic on the industry. Growth is expected to continue into Q4 and into 2021 -- sorry, 2022 and beyond.

The sequence for our businesses is that we expect increases in the engine business notably starting in the third quarter, followed by structures in the fourth quarter and fasteners starting in the first quarter of 2022.

In terms of specific numbers, we expect the following. For the third quarter, revenue of $1.3 billion, plus or minus $20 million, EBITDA of $295 million, plus or minus $10 million, EBITDA margin of 22.7%, plus or minus 40 basis points and earnings for share of $0.25, plus a minus $0.02.

And for the year, we expect revenue to be $5.1 billion, plus or minus 50%. EBITDA baseline to increase to $1.17 billion, plus or minus -- plus 15%, minus 25%. EBITDA margin to increase to 22.9%, plus 10 basis points and minus -- to minus 20 basis points. Earnings per share increase to $0.99, plus or minus $0.03, cash flow baseline increased to $450 million, plus or minus $35 million.

Moving to the right hand side of the slide, we expect the following. Second half revenue to be up approximately 12% versus the first half driven by commercial aerospace, defense and IGT.

Second half year-over-year incremental margins of over 50% compared to the prior year. Price increases will continue to be greater than 2020. The cost reduction carryover of a $100 million is already achieved with some potential modest upside.

Pensions and OPEB contributions of approximately $120 million. We are reducing cash pension contributions by approximately $40 million based upon the American rescue plan. CapEx should be in the range of $200 million to $220 million compared to depreciation of approximately $270 million.

Adjusted free cash flow conversion continues to be in excess of net income at approximately 100%. Lastly, as in last month, we have reinstated the quarterly dividend of $0.02 per common stock starting in the third quarter.

Now let's move to slide 15 for a summary. The second quarter was solid and it's described as a quarter to get through, while we wait for the volume lift in the third quarter. It was better than expectations with improved margins and excellent cash flow.

The net recruitment of production operators in the second quarter was approximately 300 people, principally in our engine business. And we -- of course, will continue to manage costs very carefully during this recovery phase.

In the second half we plan to recruit another net 500 people. Liquidity is strong and we have healthy cash generation. The third quarter outlook for revenue to be approximately $100 million higher in the second quarter with margins somewhere between 22.3% and 23.1%.

For the second half, we expect extra costs. However, year-over-year incremental margins are expected to be over 50%. Consolidated EBITDA margins for the second half are expected to be 22.6% to 23.2% setting a platform for a healthy 2022, and overcoming the drag of the increased labor costs from the recruitment that I talked about. And of course the net effect of the metal recoveries.

Thank you very much. And now we'll take your questions.

Question-and-Answer Session

Operator

Thank you. And now we will begin the question and answer session. [Operator Instructions] Our first question comes from the line of Carter Copeland with Melius Research.

Carter Copeland

Hey, good morning gentlemen.

John Plant

Hey, Cater.

Carter Copeland

John, I wondered if you could kind of give us some color on the composition of the hedge you're adding back to the system. Are some of these former employees or are new. I know last quarter you talked a lot about the training expectations and wanting to get the productivity to the right level from the start. Just any color you can give us on how that adding back resources is going?

John Plant

Yes. So we talked to about 300 people in Q2. And as you recall, I said, we'd add these people essentially no add button. You can see that our sales did not increase, and so it was exactly in line with expectations from the revenue side. We mentioned that we would possibly recruit 400 to 500 people in the second quarter. So we're a little bit below that. And that was essentially us keeping tight control of the cost going forward. The majority of the employees that we've recruited so far, and in fact the majority in our third quarter will be for the engine business. So far about three-quarters of the increase has come from people that we've recalled from a previous employment, and four-quarter of new employees.

I expect that blend to change as we move through the next, let's say, period of time. And it's maybe to 50/50 and then the majority will be fresh employees I think as we exit the year. To give you a roadmap for the second half, let's say, first, Q3 will be principally engine. And then we'll be looking to add selectively in our structures business in the fourth quarter. And also for our faster businesses as we get looking into 2022 to be ready for that. So, about 500 people I think we're planning for the second half. So getting towards a 1000 for the year.

Carter Copeland

Great. Thank you for the color. I'll stick to one.

John Plant

Thank you.

Operator

Your next question comes from the line of David Strauss with Barclays.

David Strauss

Thank you. Good morning.

John Plant

Good morning, David.

David Strauss

John, could you comment on or give your perspective on the airbus rate, narrow-body rate increases that they've been now with proposing out. And '23, '24, '25, what that could mean for you all from a revenue perspective? Does that allow you to kind of grow above the prior peak of $7 billion in revenue? And I guess how well are you capacitized to handle those kind of rates? Thanks.

John Plant

Okay. So let's talk narrow-body in total, because I think that's the most important, really metric for the next 18 months or so. So 2019, the combination of the Airbus A320 and the Boeing 737 Max was peaked at about 100 maybe fractionally over 100, maybe 105 in a couple of months and so. That would be, let's say, the prior aggregation of the two. Clearly, that mix is changing currently with the view that the Airbus is moving to -- is it 47 in January and then 55 by the middle of the year. While say, Boeing is still planning to raise production to I think just over 30. Let's go to 31 in January of 2022 and has been silent there afterwards at this point.

So the combo total is in the mid 80s. And so you can see for 2022, still a very significant increase on the last year or last and indeed this year. So the percentage increase is enormous. It still isn't back to 2019 levels. And then if it's right that by the middle of or maybe the end of 2023 we're up in the mid 60s for airbus and we don't yet know for Boeing. But you can envisage that we will be right back at that 100 maybe breaking through the 105 barrier on a combined basis at that point in time. And with the potential, a further rate increases should airbus confirm their aspirations to go to 70 and above. So, that's the roadmap there. But for 18 months while we're getting to 100, it basically just puts us back in the same territory that we've already been in, and so we have -- certainly adding capacity for all of that.

If you then, obviously have to blend in what's happening with wide-body and it's probably a little bit too early to say. But I expect probably by the second half of 2023 that wide-body will be picking up. In fact I also think that we'll see some benefits as we go into 2022. So for example, should 787 return from to five a month from its current production level, then that would also be an increase for us. My expectation is that we'll see like all three volume lift, we'll see the lift from of us being the low current build rate just because parts have been take of inventory. Then we'll also will go to a rate match situation where we sell, ship set of aircraft parts equivalent to an aircraft that will volume lift 1. We then going to see volume lift 2, which is the increase that we'll have to make to continue to pace with the rates that are being talked about. So let's say, Boeing going from 14 to 31 and from Airbus going from 40 to 55. So those are both very healthy increases. And then, of course, for this to be done, then inventory has to be bought back in the system. So I expect that during 2022 and into 2023 we're going to see benefits above rate, because inventory just has to be put back into the system to guarantee these levels of aircraft production. So when you put it all back together and I'll just say, pick a moment in time, let's say, let's pick under 23 into 24 then my expectation is that all other things being equal will be at a rate of revenue above 2019. And basically with the content increases that we have or are built in plus any net benefits on price is that on a like-for-like basis, we'd probably be closer to the $7.5 billion to $8 billion on the equivalent production of aircraft. I mean, that's very approximately. But obviously it's a lot of changing parts amongst all of that as we go through the next two or three years. But the way I look at it, David, is that we've got three years, a pretty significant growth to look forward to. And then maybe by the middle of the decade reverting to the more normal 4% or 5% depending upon what end market demand is at that time.

David Strauss

Thanks for all the color, John. It was great.

John Plant

Thank you.

Operator

Our next question comes from the line of Gautam Khanna with Cowen & Co.

Unidentified Analyst

Hey, guys. This is Dan on for Gautam. Good morning.

John Plant

Good morning, Dan.

Unidentified Analyst

So, hey, how you doing? So, my question is actually pretty similar. But I wanted to ask from a different perspective. What will be your greatest challenges in meeting the narrow-body production ramps in I guess in the short term to medium term? And also would you see any benefit on, I guess, at least on the labor side or anywhere else from depressed wide-body rate that would maybe allow for greater utilization on the narrow-body side or is that not really relevant here?

John Plant

Well, if we have to break it down between let's say, machine tool capacity by that I mean essentially like take casting machines or core scrap [ph] machines. And then, I'll take the tooling that goes with the specific part number. In terms of machine tools, we have no problems whatsoever in terms of capacity, because we've already made, let's say, a hundred plus narrow-bodies in 2019 and as you know, we certainly in our engine business, we put a $0.25 billion [ph] of investment in place to take that capacity up. And so -- and then of course, the capacity just came in then the pandemic hit us and so we've carried that capacity for the last, let's say, 18 months now, and therefore it's still totally available to us. So, we in terms of machine tool capacity we could take back to a 400 plus narrow-body rate, all the wide-body rate and the significant increase above that. And so, in terms of a plant and equipment we have essentially no restrictions whatsoever. And that's also gives me confidence that we can still operate for a year or so with capital expenditures being below depreciation, because the capacity is essentially already there.

To get further into your question though is that until we know the exact mix of requirements, it's difficult to say on the tooling side. So again, for the next 18 months I see no problems at all in terms of meeting customer demand. And if you took narrow-bodies at let's say 105 level combined then no problems. It's only when we -- if we were to add, let's say, if Airbus were getting to 75 and if Boeing were back above 50, and so we're talking 125 aircraft per month then clearly at that point we'd be at a balance of certainly in terms of tooling or die capacity for some of the Airbus parts. And therefore additional tooling would have to be put down to cope with those -- that volume scenario should it finally be confirmed.

So, well, I think about for next couple of years, we have no capacity limitations apart from the ability to onboard labor and train it effectively to do all of that side of the business. But softer side -- but in terms of hard plant and machinery we're fully capacitized and then we have to be thinking about increasing tool capacity.

Operator

Your next question comes from the line of Beth [Indiscernible] with JPMorgan.

Unidentified Analyst

Hey. Thanks very much and good morning guys.

John Plant

Good morning.

Unidentified Analyst

Good morning. Wanted to ask a quick question about forged wheels. And just to make sure, understand the materials dynamic there, and how to model things going forward. I guess, can you talk about what happened to kind of the real demand sequentially from Q1 to Q2? And how to think about the trajectory of that? And then when it might pick up again?

John Plant

Yes. So let me break it down between fundamental and market demand and then the demand that we saw. So the order in take for Class 8 truck trail has been at an extraordinary level for some time. And so, the backlog is truly extraordinary. And so, in one sense, the demand is there such our confidence over balance of year in fact the whole of 2022 for commercial transportation business is really high. So it's like a great outlook. In fact, I don't think we've ever seen it so strong. The issue that we had in the second quarter was I recall, despite that extraordinary end market demand we actually were in a position where we did not supply, not because essentially we were unable to supply, but we took a large amount of down days and it was different by end customer, because they were unable to complete assembly of trucks due to missing parts whether it was missing tires or windshields, other structural components or of course the one that everybody's very familiar with is the issue of electronics and semiconductors.

And so, we have a lot of partially built trucks that are there, which are in obtained fields around the both the U.S. and in Europe. And even some of those are delivered dealers with parts missing until they can go back and retrofit them. So what I'm trying to do is picture the market for us was one where great end market, but just short-term supply constraints by customers couldn't get parts. They couldn't build. And we were taking days down here or there just because they think you don't ship because we can't build anymore. Got no place to stick them because we haven't got part. That resulted in a 7% volume reduction for us of delivered end product in Q2 compared to Q1. So let's call it $18 million worth of revenue volume, which happened to be made up then by basically repricing for metal.

So the metal escalators that we have covered up for the volume shortfall. So essentially, it says, if you take our on a percentage basis if you take our EBITDA margin of Q1 and divided by the -- you take those revenues and you flex it by 18. Then you can see that that totally counts for about a few hundred basis points of margin impact. So the way you should think about the second quarter for wheels was we had a 7% volume drop and also a metals impact. And basically if you adjust for those two actually the margin was very respectable. And if you want to extrapolate it a little bit further, so we didn't call it out because we tend not to call such things out. In fact, if you were to adjust for that, let's call it, $18 million, $20 million at the Howmet level of basically metal pass through just on wheels alone then in fact our EBITDA margins would have been just over 23%. So significant improvement on Q1 on a like-for-like basis, all be masked by just the fact that the denominator goes up and numerator goes up because of the way we recover metal. So that walks you through both wheels and for Howmet.

Unidentified Analyst

Thanks. That's very helpful. And then, I guess, as we look to the second half, you see the volumes continuing to go down, because these bottlenecks continue? Or can you kind of -- can the volumes kind of stabilize at this level and just wait for the your customers to be able to handle the increase in demand that might show up in 2022?

John Plant

Yes. I think we're going to have a similar Q3 to Q2 on the truck side, that would be my thought there. Just because the part shortages haven't really eased yet. And I do think that we're going to see as best I can guess that some of those will begin to ease towards the back end of the year. So I'm hoping for a fairly robust fourth quarter on wheels. Although I can just hope it's not a strategy. But the answer is, my thought is that it should be getting better and then like a really good 2022, because I say, the order books there and the backlog's just increasing just because the demand is there, but it's the inability for truck manufacturers to satisfy the market at the moment.

Unidentified Analyst

Great. Thanks very much, John.

John Plant

Thank you.

Operator

Our next question comes from the line of Robert Spingarn with Credit Suisse.

Robert Spingarn

Hi. Good morning. John, I wanted to ask you about spares or probe and despairs a little bit both commercial airfoils and defense airfoils. And just get a sense for how those have trended March to June quarters especially since another supplier surprised us with a downtick, the sequential downtick on supply chain issues? And I don't know if that's relevant here. But I understand the business isn't very big. But what are you seeing trend wise both commercial and defense spares as we go through 2021?

Tolga Oal

So, as you know, we have to guestimate that isn't the biggest number for us. But we actually saw a small uptick in the aftermarket demand for airfoils in the second quarter in the context of Howmet being nothing material at all. We are planning and scheduling that we will have an increased second half in airfoil aftermarket going through our customers of [Indiscernible] and Pratt & Whitney. So while the percentage, I think is it's certain - I can't make that one. But certainly well into the double digits in percentage increase. Again, it's not huge numbers, but we it's pleasing to see that demand and then all goes well again as we exit this year into next year. So when I bifurcated the strength that we saw in defense and IGT spares has continued all the way through with no real let up on that side at all. And so, it's a fairly strong growth in 2020 continued 2021. But the commercial aerospace business has been very, very muted certainly in Q1, small increase in Q2 and we're seeing higher percentage increases. But it don't become material in dollar terms until 2022.

Robert Spingarn

And other than the bottlenecks you mentioned a few minutes ago. Are there any supply chain areas that we should just be focused on anywhere in the business that could be disruptive?

Tolga Oal

No. There's nothing that we see that's problematic for Howmet at all. It was scanned our supply base last year, the one area of concern we had basically disappeared by the late fall and currently we don't see any supply constraint for metal input to any of our plants. And we are securing supply as best as we know for what we believe in market demand as we go the turn of the year, because it's important to start thinking more about lead times. We're encouraging our customers to be forthcoming in trying to give greater visibility for their schedules for those parts, which I expect the world [ph] has been a significant amount of metal availability in the system, the last 12 month. That is tightening. And clearly I think for some of our product range that we will see those lead times go out to beyond six months to nine and twelve months or certainly as we move into 2022. So we really have to plan for those. But that's only covers part of the product that we make where we have those really extended lead times.

Robert Spingarn

As those tighten should we expect any margin pressure or these are all under LTAs and so not an issue?

Tolga Oal

Not an issue, yes.

Robert Spingarn

Okay. Thank you.

Tolga Oal

Thank you.

Operator

Our next question comes from the line of Robert Stallard with Vertical Research.

Robert Stallard

Thanks so much. Good morning.

John Plant

Good morning, Rob.

Robert Stallard

John, you mentioned de-stocking in your commentary. And I was wondering if you could run through what the latest sort of situation is there how it could differ from aircraft to aircraft model? And what sort of visibility you have on when this could end?

John Plant

Okay. Well it's the most complete part of what we've been doing with the last few quarters in terms of what is the true level of availability. And also to some degree it also depends now as we go forward the safety stock that our customers would also like to carry. Our thought is that basically our narrow-body by the end of this year there is no -- there's no inventory left in the system and we have to be in an inventory bill situation and it's only isolated pockets. Because essentially as these rate increases take effect in the second half of this year that's just chewing up any remaining parts that's available.

And obviously, we always have to see through where whether in a Tier 1 situation directly to an airframe manufacturer compared to an engine manufacturer to try to heat [ph] that's what the engine going for system as well.

Tolga Oal

So, it's different on wide-body by the end of the year. And I'm struggling to remember the number, but let's assume we still have some trapped inventory in the system. And we'll be carrying I think something but now less than about 50 million of trapped inventory in our system which will liquidate during 2022. But for narrow-body the way to think about it essentially there's no trapped inventory in our system left and I think there'll be very little if any in our customer systems left for a narrow-body as we as we transition through the month of year with tightening each quarter.

Robert Stallard

Yes. That's great. Thank you.

John Plant

Thank you.

Operator

Your next question comes from the line of Matt Akers with Wells Fargo.

Matt Akers

Hi. Good morning. Thank you. Could you comment on the -- I guess the 1% decline for defense in the quarter. What were kind of the big moving pieces there? And what are your latest thoughts on F-35 kind of rate going from here?

John Plant

I think a broader perspective is better on defense and then we should be able to bring ___ right back into the here. And now, so we read that maybe Lockheed won't be building as quite as many as they have thought. And that happened was last year and seems to be this year in terms of maybe supplier availability or impact of COVID on the workforce, we're not sure. But -- I mean, there has been an increase between 2020 and 2021. We are seeing, well, I think Lockheed is talking about a slightly reduced 2022 compared to that previous forecast that maybe I'm going to call it 169 down to 159 or something. It's still above 2021. And so we see you know steady growing F35s from last year this year into next year, and then pretty steady for the following couple of years. And for us, if the build were to be reduced by 5% or so let's say in 2024 or 2025, don't know yet. Then that would be when the increase in spares would be occurring pretty far engine program.

So, we expect the spares requirements to become quite significant for that aircraft as we move towards the middle of the decade. And so, we probably look at it as the F35 on a combined say early and after market continues to improve and increase slightly for Howmet over the next few years. You do know additional orders whether it's -- we're just coming with a order of 36 aircraft or even in the proposed defense budget that was actually lifted by I think the senate to have a slightly higher increase in quantity of F35 than was in the original White House budget. So it's trending fairly well for us at this point in time.

And on the here and now. You also have to pick through the seasonality of defense orders, they always tend to be a little bit lighter in the first half being a bit heavier in the second half of the year. And we saw that again significantly in Q4 of last year where the defense demand was filled basically on a -- on the DOD budget. So when you have to blend through from our city of f35 still the 40% of total defense sales. If I called it now, I'd say, pretty stable year on year, maybe with a slight increase and increasing towards the back end of the year. And then we see some healthy signs orbits too early to really define 2022, yet some healthy signs for some of the other military programs due to roads across that we're looking at for that year. So, I don't know that's enough for you or you still need.

Matt Akers

Yes. No. That's great. Thanks for the color.

John Plant

Thank you.

Operator

Your next question comes from the line of Paretosh Misra with Berenberg.

Paretosh Misra

Thank you. Good morning. John, I was wondering if you have any sense that to how much of your commercial aerospace businesses regional and business jet. So basically how much is not Boeing or Airbus linked?

John Plant

Yes. I mean, we have a significant exposure to boost jet and helicopter. But I'm not sure as we've ever really disclosed it. So, before I comment on this call I'll look at it and see whether we get as they can do to call you back if we have. But I'm not aware that we actually have broken that whole segment down for you. But to say, and if you called out any business jet then you'd see us highly represented whether it's for our engine products or indeed any of the structural faster products.

Paretosh Misra

Understood. And maybe if you could just talk a bit about what you're seeing in the industrial segment that business for the second half both OEM and the aftermarket in that business?

John Plant

Yes. So break it down between as a industrial, industrial gas turbine and oil and gas the IGT part of the business is very strong. And we're in a situation where we actually just can't make enough at this point in time. And therefore essentially it's on us just to make more and that's both for the new larger blade for the new turbines, which I mentioned in my earlier comment which we provide gas turbines which have fundamentally higher output and lower emissions of both carbon and nitrogen oxide. And so, we have a very strong demand for that and a significant backlog. Although for all of our customers whether it's GE, Zeeman, [Indiscernible] et cetera. And that's also combined with a very strong aftermarket for what called predecessor products. Well say, not as big blades you're trying to put that way. It's still pretty big compared to an aircraft turbine, but not as big as the new latest fleet of very large gas turbine engine.

And there the supply situation is easier for us and we do have very significant demand basis because the natural gas turbines in particular are being worked harder given the relatively attractive. I'll say the input fuel content of the natural gas compared to oil or coal and certainly in their lower emissions even though that they also emit a thing. So a very healthy situation there. Oil and gas, the leading indicators of replant are going up very significantly. But we're not currently seeing increasing demand yet. I guess we're in that inventory burn out situation and therefore I guess hope that that will turn into an increase for us in 2022. And in general, industrial is you'll see that it also continues to be strong, but not as strong as the IGT market where really I would say, we just do with you see more instead it's more plants and the sort of equipment for these turbine is not fungible from an aircraft basically.

Paretosh Misra

Appreciate all the color, John.

John Plant

Thank you.

Operator

Your last question comes from the line of George Shapiro with Shapiro Research.

George Shapiro

Hi. Yes John. I wanted to pursue a little bit more defense, because sequentially it was down 16% and engines were actually down 20%. So was there something odd this quarter that made it deteriorate so much relative to Q1?

John Plant

No. There's nothing special at all George. I mean, we were down -- I think we sequentially we're down last year as well. So we always tend to have this stronger Q1 middle of the year, it's not so strong. And then basically a very strong back end to the defense aftermarket rather than defensively that causes that let's call it in-year seasonality. So nothing in particular at all. But no worries. Nothing we've lost at all. It's just - it's not very satisfying, but just the way it is.

George Shapiro

Okay. And then can you disclose the mix of sales between narrow-body and wide-body in 2019 versus where it is today? And is there any difference in profitability between the two sectors -- between the two businesses?

John Plant

Okay. The metrics carry on mine is 19 was like 55% Boeing versus Airbus which wasn't a question, narrow-body, but for wide-body was just fractionally over 50% narrow versus wide. They're very similar numbers. Obviously, that's been moving around the last year or so. In terms of underlying profitability, very similar, but I'd give the edge to wide bodies being slightly more profitable. Obviously, -- but different volume, variety situation. But wide-body would be a little bit more profitable. But nothing that knocks the whole company out of joints. And if you were to have the extremes that we're facing at the moment in terms of the differentiability narrow and wide, I'd be surprised if it made more than 1% difference on our margin as you look at it in aggregate if now. So it's not nothing a great note and fully taken account of in any of the I'll say forward looking though we haven't given you a 2022 yet is that the way we've called out the second half is that we see, margins improving. It's already taken on into account that differential I mentioned to served in terms of get a dollar of recovery of metal for a dollar of input cost fully recovered, but it's still it's your margin and I called out that was probably worth taking out 22.8 just to over the 23. And similarly the -- that's taken account of the changing blend that we're seeing with narrow-body coming back stronger. So we're still seeing that expected margin improvement despite that fractional mix change.