Howmet Aerospace Inc. (NYSE:HWM) Q4 2022 Earnings Conference Call February 14, 2023 10:00 AM ET

Company Participants

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

Conference Call Participants

Robert Stallard - Vertical Research
Kristine Liwag - Morgan Stanley
Myles Walton - Wolfe Research
Seth Seifman - JPMorgan
David Strauss - Barclays
Robert Spingarn - Melius Research
Ron Epstein - Bank of America
Gautam Khanna - Cowen
Matt Akers - Wells Fargo

Operator

Good morning, and welcome to the Howmet Aerospace Fourth Quarter and Full Year 2022 Earnings Conference Call. All participants will be in a listen-only mode today. [Operator Instructions] After today’s presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this event is being recorded today.

I would now like to turn the conference over to Paul Luther, Vice President of Investor Relations. Please, go ahead, sir.

Paul Luther

Thank you, Joe. Good morning, and welcome to the Howmet Aerospace fourth quarter and full year 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 today's presentation, references to EBITDA and EPS mean adjusted EBITDA, excluding special items and adjusted EPS excluding special items. These measures are among the non-GAAP financial measures that we've included 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, P.T., and welcome, everybody, to the Howmet Q4 earnings call. Let's start by dealing with the headline numbers on slide four. For the fourth quarter, revenue accelerated as we exited the year, and it was above the high end of the guide at $1.51 billion, up 18% year-on-year.

Commercial aerospace continues to be strong and was up 29% in the quarter. EBITDA was $336 million, at the high end of the guide. Revenue and EBITDA continued to improve sequentially for the sixth consecutive quarter. The strong operating EBITDA was mitigated by a couple of below-the-line items that Ken will cover in his commentary.

Earnings per share was at guidance at $0.38, which benefited from the strong EBITDA and the Q4 tax rate, which mitigated the below-the-line items. For the year, despite the choppy backlog, year-over-year revenue was up 14% and EBITDA was up 12%, which drove a healthy earnings per share growth of 39%.

Moving to the balance sheet and cash flow. Free cash flow was within the guided range of $540 million and as commented on the previous earnings call, included an inventory build for commercial aerospace to help smooth production adds as we move between years. Despite the inventory build, free cash flow conversion continues to be strong at 91%.

Liquidity is healthy, with year-end cash balance on hand of $792 million and this was after share buybacks, bond repurchases and dividends. In the quarter, an additional $65 million of common stock was repurchased and the full year repurchase of common stock was $400 million.

The December 2022 fully diluted share count exit rate was 418 million shares, which is an improvement of approximately 80 million shares since the start of 2019. This was accomplished while reducing net debt over the last four years as well.

There was also some minor repurchases of bonds in Q4, taking the full year repurchases to $69 million. The bond repurchase program continued into the first quarter of 2023. And by the end of January, an additional $26 million of bonds were repurchased at a small discount to par.

This continues our plan of reducing interest costs year-on-year. And going into 2023, it will be lower than 2022. And this is despites the global rising interest rate costs. Hence, we set ourselves up for a fundamentally different approach to most companies where interest costs will be lower for the coming year.

We've improved Howmet's leverage ratio, which now stands at 2.6 times net debt to EBITDA compared to our long-term target of just under two turns. All of Howmet's debt is unsecured and at fixed rates. Howmet's $1.1 billion revolver is undrawn. At the top level, we were pleased with the year.

We exceeded the initial EPS guide for the year again. And in the case of 2022, we faced an extremely choppy backlog of below build expectations of both aircraft and engines compared to initial expectations. Furthermore, the extraordinary uptick inflation overcome despite its margin impact and all of this talks to the performance and resiliency of Howmet.

Ken will now detail the 2022 performance, and then I'll cover the outlook after that.

Ken Giacobbe

Thank you, John. Please move to slide 5 for an overview of the markets. Revenue was up 18% year-over-year for the fourth quarter and up 14% for the full year. The commercial aerospace recovery continued throughout 2022, with fourth quarter commercial aerospace revenue up 29% year-over-year and up 28% for the full year, driven by engine products, engineered structures and the narrow-body recovery.

Commercial aerospace has grown for seven consecutive quarters and stands at 48% of total revenue, but continues to be short of the pre-COVID level, which was 60% of total revenue. Defense Aerospace was up 13% in the fourth quarter, driven by year end seasonality and down 3% for the full year, driven by customer inventory corrections for the F-35.

Commercial transportation, which impacts forged wheels and fastening systems, was up 12% year-over-year in the fourth quarter and up 14% for the full year, driven by higher aluminum prices and higher volumes, partially offset by foreign currency.

Finally, the industrial and other markets, which is composed of IGT, oil and gas and general industrial, was essentially flat for the fourth quarter and for the year. For the fourth quarter, within the industrial and other markets, oil and gas was up 22%, IGT was up 2% and general industrial was down 10% on a year-over-year basis.

Now let's move to slide 6. We will start with the P&L with a focus on enhanced profitability. For the fourth quarter, we had six consecutive quarters of growth in revenue, EBITDA and earnings per share.

Revenue, EBITDA and earnings per share exceeded or were in line with guidance. For the full year, revenue was up 9% year-over-year excluding material pass-through of approximately $225 million. EBITDA was $1.28 billion or up 12% year-over-year. Adjusting for the year-over-year material pass-through, EBITDA margin was 23.5%, and flow-through of incremental revenue to EBITDA was strong at approximately 30%. The full year operating tax rate was 22.5%, an improvement of 250 basis points year-over-year.

Earnings per share was $1.40 for the year and up 39% year-over-year. The average diluted share count improved to a Q4 exit rate of 418 million shares. As John mentioned, the strong operating EBITDA and favorable tax rate in the fourth quarter were mitigated by a few items below the line. The impact of foreign currency and deferred comp was $9 million pretax charge, as these items fluctuate based on market conditions. For the year, the impact of foreign currency was essentially breakeven and deferred comp was favorable.

Final note on earnings. As expected, we did not have significant net headcount additions in the fourth quarter. However, we hired approximately 1,000 new employees to offset Q4 attrition and absorbed incremental training and production costs.

Moving to the balance sheet. Free cash flow for the year was a record $540 million, including an inventory build of approximately $235 million, primarily for the commercial aerospace recovery. For 2022, as well as in every year since separation, we achieved free cash flow conversion of net income in excess of our long-term target of 90%.

Year-end cash balance was a healthy $792 million after approximately $513 million of capital allocation to common stock repurchases, 2024 bond repurchases and the quarterly dividends. Year-over-year net pension and OPEB liabilities were reduced by approximately $180 million, and cash contributions were reduced by approximately 50% or $56 million.

Since 2019, net pension and OPEB liabilities have been reduced by approximately $470 million and gross pension and OPEB liabilities by approximately $1.4 billion. Net pension and OPEB liabilities now stand at less than 5% of Howmet's market capitalization.

Finally, net debt to EBITDA improved to a record low of 2.6 times, all bond debt is unsecured and at fixed rates, which will provide stability of interest rate expense in the future. Our next bond maturity is in October of 2024, and the $1 billion revolver is undrawn.

Moving to capital allocation. We continue to be balanced in our approach. Capital expenditures were $193 million for the year and were approximately 75% of depreciation. Capital installed prior to COVID-19 puts us in a very strong position to support the expected commercial aerospace growth. Fourth quarter was the seventh consecutive quarter of common stock repurchases.

For the year, we repurchased approximately 11.4 million shares of common stock for $400 million with an average acquisition price of $35.22 per share. Share buyback authority stands at $947 million.

Moving to debt. We repurchased $69 million of our 2024 bonds last year with cash on hand. These repurchases will lower our annualized interest costs by approximately $4 million. Moreover, we continue to repurchase 2024 bonds in January, with another $26 million of repurchases at a slight discount to par. Repurchases were made with cash on hand.

Lastly, we continue to be confident in free cash flow. In the fourth quarter, the quarterly common stock dividend was doubled to $0.04 per share, dividends in 2022 were $44 million, and we expect to increase to approximately $68 million in 2023.

Let's move to slide 7 now to cover the segment results. Q4 was another solid quarter for engine products. Year-over-year revenue was 21% higher in the fourth quarter with commercial aerospace up 30%, driven by the narrow-body recovery.

Defense Aerospace was up 17%, IGT was up 2%, and oil and gas was up 19%. EBITDA increased 26% year-over-year and margin improved 110 basis points to 26.1% despite the addition of new employees and the associated near-term training and production costs.

Let's move to slide 8. Fastening Systems year-over-year revenue was 11% higher in the fourth quarter. Commercial aerospace was 17% higher, driven by the narrow-body recovery. Defense Aerospace was up 21% and Industrial was down 13%. Year-over-year segment EBITDA decreased 3% due to the addition of new employees and the near-term training and production costs. In the fourth quarter, Fasteners added approximately 200 new hires to offset 200 exits.

Now let's move to slide 9. Engineered Structures year-over-year revenue was up 21% in the fourth quarter, with commercial aerospace up 40%, driven by the narrow-body recovery was approximately $20 million of Russian titanium share gain. Gains were partially offset by the impact of production declines for the Boeing 787.

Segment EBITDA increased 10% year-over-year despite the inventory burn down of the F-35, and the continued zero to low build of the Boeing 787. Structures 2022 full year

EBITDA margin was 14.1%, and was on par with 2019 levels when revenue was 37% higher.

Finally, let's move to slide 10. Forged Wheels year-over-year revenue was 14% higher in the fourth quarter. The $32 million increase in revenue year-over-year was almost entirely driven by higher aluminum prices. Commercial transportation demand remained strong, but volumes continue to be impacted by customer supply chain issues, limiting commercial truck production.

Segment EBITDA was flat year-over-year as higher volumes were offset by the impact of unfavorable foreign currency, and primarily driven by the euro. While the pass-through of higher aluminum prices did not impact EBITDA dollars, it did impact margin by approximately 300 basis points.

Lastly, in the appendix on slide 15, we've included some assumptions around 2023. We expect non-service pension and OPEB expense to increase approximately $20 million year-over-year to approximately $40 million. The increase will unfavorably impact year-over-year earnings per share by approximately $0.04 per share and is mainly due to low asset returns impacting non-service costs, which are non-cash.

In addition to the increase in pension expense of $20 million, we continue to expect miscellaneous other expenses, which are below the line be minimal at approximately $8 million for the year, but can be volatile within quarters.

Pension and OPEB cash contributions are expected to be flat with 2022 and approximately $56 million for the year. CapEx should be in the range of $230 million to $260 million, which continues to be less in depreciation and amortization, resulting in a net source of cash.

Now let me turn it back over to John.

John Plant

Thanks, Ken. Let's look at Commercial Aerospace first, which was up 28% this year. Airlines are experiencing strong growth for both domestic travel and now for international travel as well. Load factors are high in the US and Europe. China is now reopened and is increasing load factors at a rapid rate. This builds momentum on top of the increased Asia Pacific travel already seen.

Backlogs of aircraft demand at Boeing and Airbus are at all-time highs for narrow-body aircraft. Wide-body demand is increasing rapidly, and further rate increases are expected. Airlines are bringing A380s back into service to meet international demand.

This is clearly an inferior solution to having modern composite-based twin engine 787s or Airbus A350s with their vastly better fuel efficiency and lower carbon footprint.

The demand for improved emissions alone secures the increased build, never mind the huge demand for travel. While noting very favorable air travel demand conditions, Howmet does rely upon aircraft builds by Boeing and Airbus, while also considering that we'll see rate increases for spares. Here, we're going to take a cautious and conservative view of 2023 until we know more and see consistent aircraft build rate increases.

For example, underpinning the full year 2023 guidance, our assumed monthly build rates are approximately 30 per month for the Boeing 737 MAX, 53 to 54 for Airbus A320, A321. Additionally, we have assumed approximately 30 Boeing 787 builds for the year and 65 to 70 Airbus A350 build for the year. Within these outline numbers, we expect to see strength improving in the second half. These build assumptions underpin our assumed 17% Commercial Aerospace growth for the year.

Now let me turn to other markets before commenting on inflation. In Defense, we expect to see low-single-digit increases in 2023 with less overhang to the F-35 structures inventory. Demand for the F-35 is strong and high builds are now expected throughout the remainder of the decade. This is further supported by both increased engine spares demand and upgrades of engines associated with the 2028 Block 4 requirements.

Our business supports helicopters, drones and aerospace, which is a very healthy increase in revenue for us for these space-related programs. And at this increasing pace, I expect it will provide a lot more commentary on the space segment in the future.

Gas turbine revenues are expected to grow at single-digit growth, supported by an increase for the Agent class turbines. I believe that everyone is aware of our very balanced IGT business, which supports GE Power, Siemens Power and also Mitsubishi Heavy, which is another global business for Howmet. Oil and gas should remain strong at high single-digit growth or maybe low double-digit growth. General industrial is expected to be down in, say, low single-digits.

Finally, we take a more cautious view of commercial transportation in our wheel segment, where the expectation is for reduced demand in the second half of 2023, notably in Europe. In aggregate, fundamental demand might be down 0.5 million wheels before the improvement of 250,000 wheels driven by penetration of aluminum wheels versus steel wheels and share improvement. Sector growth continues in wheels, which will accelerate with future electrification of the truck sector, especially in Europe.

Turning to material and inflationary costs. These remain volatile. We expect the combination of material, inflationary costs to be in the range of $70 million to $100 million for the year. As we did in 2022, our intent is to pass-through the majority of the inflationary costs.

Let's turn to some specific numbers now for the first quarter of the year. Revenue, we see at $1.5 billion, plus or minus $25 million, EBITDA of $335 million, plus or minus $10 million, EPS of $0.37, plus or minus $0.02. For the year, revenue of $6.1 billion, plus or minus $100 million, EBITDA of $1.375 billion, plus or minus $40 million and EPS of $1.60, plus or minus $0.07.

Earnings per share assumes continued capital allocation to common stock and bond repurchases, dependent upon market conditions. Our free cash flow guide is $615 million, plus or minus $35 million. We set our year up with appropriate caution given recent aircraft build volatility, while at the same time, noting fundamental -- fundamentally strong demand which will see further increases as we plan our pathway through into 2024 and 2025.

Now let's turn to a summary. 2022 was another strong year for Howmet. Revenue increased by 14%, EBITDA by $140 million and 12%. Margins were above 22%, despite the extraordinary inflationary conditions. The effective tax rate improved to 22.5%, which is an improvement of 500 basis points from 2020.

Earnings per share increased to $1.40 and by 39%. Free cash flow increased to $540 million, despite the inventory build of approximately $235 million for Commercial Aerospace. $513 million of capital was deployed back to share buybacks, bond repurchases and dividends and the dividends were as you know, doubled. Liquidity is very strong. We have cash on hand of $792 million and a $1 billion undrawn revolver.

Leverage improved from 3.1 times net debt-to-EBITDA to 2.6 times net debt-to-EBITDA. Compared to our initial 2022 guide, we overcame a really good amount of headwinds. We exceeded initial EPS guidance of $1.37 while navigating unstable aircraft builds. $225 million of material pass-through costs and above the initial estimate of $125 million, rapid non-metal inflation and new employee costs.

All the while, we strengthened our balance sheet, generated $540 million of free cash flow and deployed over $500 million to repurchases of bonds, dividends, et cetera. 2023 is expected to have strong growth and free cash flow generation. Since we expect similar challenges in 2022, we've taken a cautious conservative view until we have greater visibility regarding actual aircraft build rates. We look forward to above-trend growth in 2023, 2024 and 2025, and that will be reflected in additional profits and cash coming from the business.

Thank you very much, and now let's move to your questions.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] And our first question here will come from Robert Stallard with Vertical Research. Please go ahead.

Robert Stallard

Thanks so much. Good morning.

John Plant

Hey, Rob.

Robert Stallard

John, a question for you on these OEM build rates. There's obviously been quite a lot of talk about Airbus potentially elongating the ramp on the A320. I was wondering from your perspective, could this actually be a help in that it reduces risk, I mean you don't have to add as much cost or labor as quickly as you would do normally and then ultimately, you could get better margins in that scenario?

John Plant

I think when you look back over the last few quarters, when we've had steadier build increases, drop-through has been significantly higher compared to those quarters where we've seen, I'll say, urgent or rapid demand changes and also where we've been asked by customers to chop and change on production schedules to meet maybe availability of parts they have rather than a positive scheduled.

And so you can see, I think, in our third quarter, drop-throughs were probably in the high 30s, maybe 39%. And you saw the -- if you look at the tracker revenue changes in those quarters compared to the revenue changes in the higher quarters, then I think in the fourth quarter, it was -- I can't know exactly number let's call it in the -- below 30%.

So I think steady as you go does help us. At the same time, because of the base of employment that we have has been growing, then the increments -- or incremental each step of the demand gets that much easier to accommodate compared to what we saw was, I think, extreme volatility in 2022.

And I mean, in one sense, I'd like to expand the question a lot more broadly and talk about that volatility, but I don't want to miss the point of your question, but essentially, I think steady plan for rate increases are really helpful to us. And that's when we convert best, albeit we're setting ourselves up to do that and hopefully take also advantage of additional demand should it come towards us.

Operator

And our next question will come from Kristine Liwag with Morgan Stanley. Please go ahead.

Kristine Liwag

Hey, John, I just want to follow-up on Rob's question on production rates here. I mean, when we look at where the other supply chains are – is in production rates, you've got periods gearing towards 42 per month by year-end. I mean, Boeing reiterated their outlook of 50 per month for 2025 plus 2026. We saw, obviously, Monster Air, India order today. So why do you see so much volatility? I mean, historically, the engine supply chain needs to ramp up before the airframers. And so what am I missing? I would have thought that you guys would get more of a priority and you would get the orders in now in order to support 50 per month.

John Plant

Yes. I got to try to separate my comments between that which Howmet controls and that which is -- I mean, therefore outside of our control. And when I look at last year, we started the year full of optimism and thought the 2022 was going to be really easy. And it didn't quite turn out that way with lower fundamental volumes, which were masked by inflation recoveries. Inflation itself within the demand we had significant volatility in schedules from our customers.

And as you know, when I spoke to you in the fall, we've seen cutbacks for engine business at the end of the third quarter and into the fourth quarter. And we ended up carrying probably $70 million to $100 million of additional inventory, which we had not planned or expected for because customers did not need those parts.

And so if you go back again in the middle of the year last year, we were talking with Boeing about rate 38 such numbers. And we're really giving ourselves up to be able to address all of that.

Also, I'll say, schedules of engine requirements, et cetera, et cetera, that would make made bills, even though 38 did not materialize. Even though as you mentioned now we're hearing, as I noted from the spirit caller that you referred to, I think it's 38 in the summer and 42 in October. I mean, as such is great, and we'd love it. And there's nothing which would give us more, I will say, pleasure and benefits than things that rates.

But we also noted that during the fourth quarter that -- the third quarter and fourth quarter is that the actual numbers of aircraft sold, for example, by Boing was stated to be, let's say, back and by the time you took out claims from inventory, build rates were actually more or like in the 20s. And then we interpretably stated that it maybe it was higher to the high 20s in the fourth quarter, albeit you're never sure how many were just being finished off, et cetera. So, what was the level of actual build? We don't know.

And so when we look at this year, I start off with saying, let me think about guidance. And guidance for us is something which we take very seriously. It's a base from which I think shareholders can realize -- it's a number that can be relied upon.

So, if you look at 2019 where we're comfortably exceeded it 2020 our COVID year 2021, we blew passed it. In 2022, despite extraordinary difficult conditions, we achieved and exceeded that guidance that we gave at the start of the year.

And so this is not like a wet paper tissue waving in the air. This is something we take very seriously. And the -- and so what can we rely upon and we felt as though those numbers, which I know are cautious. I know that they're below what many other people have and calling out 30 for a 737 or 53, 54 for an A320, those maybe seem to be low. And if you take 30 for a 787, that might also deem to be extremely low compared to what may be the outcome even though we know that very few were built in the in the fourth quarter.

But if you take it as this is something that helps us plan the baseline of our business, sets our cost structures up properly. And should those sort of numbers that you mentioned materialize? Then just let's imagine what that might be. And what that might be? Might be, I don't know, 100, 200, probably more like a couple of -- towards a couple of hundred million more revenue. And if you take then the incremental drop-through for that, then you would be saying, while those incrementals look great, the margin rate should be above 23% because we've set our cost structure appropriately.

And obviously, then things would begin to look progressively brighter during the course of the year, but that's not what we know. That's what we hope for. And so we set ourselves up with a guy which gives us a sense of security. If things turn actually better, we'll welcome it.

I think you could rely upon Howmet to manufacture well the operationally in control and convert at a good rate. And so that's how we thought about it. And I don't want to be hostage to giving a guidance, which could be, obviously, have a much more optimistic on it and then find myself being worried every month what did they really build, et cetera, et cetera.

And then put ourselves hostage to not only aircraft build rates of actual production, but also the rest of the supply base if we will match to the weakest link in the supply chain. And because I don't know where every one of those weak links are, I choose to take something which is fundamentally good, improving, significantly increasing, solid. If it turns out to be better, that will be great for us. I hope that gives you the context, Kristine?

Kristine Liwag

That's great color, John. Thank you.

John Plant

Thank you.

Operator

And our next question comes from Myles Walton with Wolfe Research. Please go ahead.

Myles Walton

Thanks. Good morning. John, a quick clarification. Really appreciate the conservative look at the guidance. I'm sure there was frustration through most of 2022. I'm just curious, does the guidance line up with your operations?

And then also just maybe a comment on the responsiveness of your operations if things started to go better, how responsive can you be to some of the upside rates that are out there for going out of 2023 into 2024?

John Plant

Yes. So obviously, because of the amount of people recruited last year, we are set up pretty well for the first quarter to be able to produce at this level or above. Should it reach those heavy rates of 38 and 42 as an example, or if Airbus are in the 57, 58? Provided we know that they're heading that way, and we've got about six months lead time, we'll be in good shape to meet it.

We've been particularly good at being able to recruit labor to meet our needs. I'll recognize that sometimes the stability of that labor hasn't been everything we'd wanted, but getting the headline numbers has been something which we've been very comfortable with. We've put increased disciplines around our own recruitment process to make sure we have a higher level of retention, improved training routine, et cetera.

So I think we're doing all the right things in the same way as we set ourselves up for the initial aerospace ramp to be in a good condition. And so fundamentally, I believe that we'll be able to respond to meet those customer demands.

Clearly -- for example, if Airbus got a hit rate 65 for A320s in mid-2024s that's still the current number. Then, again, knowing it sooner rather than later is highly beneficial to us and also the commensurate engine rate builds from our customers.

I think you saw last quarter my commentary that, we were able to produce at a fundamentally higher rate only to get cut back, because the other parts of the supply chain were there. So I feel reasonably confident, Myles, in there to do that.

Myles Walton

Thanks a lot. Thanks.

John Plant

Thank you.

Operator

Our next question will come from Seth Seifman with JPMorgan. Please, go ahead.

Seth Seifman

Hey, thanks very much and good morning, everyone.

John Plant

Hey, Seth.

Seth Seifman

John, I wonder if you could talk a little bit about the profitability in engine products, and we saw kind of in the first half kind of mid-27% type of margin and then, it's come down in the second half and kind of makes sense that new hires would weigh on the profitability there.

But, I guess, when we think about what's the level setting on the right margin for this business, I think there was a thought that maybe the 27% we saw in the first half was a good margin and then with growth, you'd see incrementals above that, and there'd be some expansion. But, I guess, from a long-term perspective, how should we think about where that shakes out?

John Plant

Okay. Well, first of all, let me comment on profitability in the second half. That was, I'll say, fundamentally impacted by the fact we -- as it turned out, well, we thought we'd recruited to the right outline demand. As you know, because of those cutbacks, not only did we not produce as much, but some of what we did produce inventory, we eventually therefore, we didn't make the profit on it.

The worst condition we were in is that, in actual fact, even though across Howmet, labor was pretty flat in the fourth quarter. So we -- let's say, net we didn't hire back where we were slightly down on labor. But in our engine products, we were down significantly.

So more than 100 people down as -- which is most unusual to think about, we were cutting labor, given the underlying engine demand and basically because we were holding costs, which we did not need to be able to produce what we required. So we were in that pretty lethal band of having unfortunately stepped up to what customers had scheduled and then didn't require.

We carry excess labor, and that labor we had was obviously not effective as it might be, because new labor does produce scrap. So we ended up with new labor producing higher rates of scrap combined with the cost of that.

Now, we do expect that given the actions we took, trim labor, we're on a steadier -- we are back in recruitment mode, which we do have some cause for optimism for the future. In terms of rate builds and increases, even though we've chosen to be cautious about it is that -- I see no fundamental issues, not restoring those margins to at least the first -- the rate of the first half of 2022. And so, I never like to use the word like don't worry about it, but it really is. I don't think if you worry about it.

Seth Seifman

Okay. No, that's very helpful. And maybe -- so just to clarify, the margin, when we think about company-wide, the margin -- the sort of flattish EBITDA margin company-wide expected for '23, that's not a function at this point of having excess labor above the production rates that are in your guidance. You're kind of appropriately sized for what's in your guidance. And to the extent that there is revenue upside, then with the appropriate lead time, you'll be able to bring in the cost structure that you need to produce at that rate?

John Plant

Yes, pretty much. So, the labor overhang, certainly by the end of January. So, we saw to bring this in the right ZIP code there. We believe, our scrap rates are going to continue to improve. The guidance we gave on margin is right, given the conservative demand pattern we gave. Plus, if you pick up the words I used about it, let's call it about $100 million of inflation and that's probably mostly nonmaterial inflation this year. We still there to be recovered.

And as you know, last year, if our 22.5% would have been like 100 basis points higher with that $300 million inflation that we recovered. Then this year, let's call it's just less than half of that. So again, taking an appropriately cautious line on where inflation might be at this point in time. And hopefully, it begins to become a very benign factor as we go through the year and things will begin to look better.

Seth Seifman

Great. That’s helpful. Thank you.

John Plant

Thank you.

Operator

Our next question will come from David Strauss with Barclays. Please go ahead.

David Strauss

Thanks. Good morning.

John Plant

Hey David. How are you?

David Strauss

Hey John. Good, how are you?

John Plant

Good.

David Strauss

Good. The 17% commercial aero growth that you forecast, how does that look across the different segments? And on commercial transportation, I think you outlined kind of your volume assumptions. But what should we look for in terms of just commercial transportation revenue next year, I guess, including pass-through as well? Thanks.

John Plant

Yes. Let me deal with the latter part first, because I tend not to comment too much on individual segments growth anticipation thereof. For wheels, as an aggregate next year, my best assumption at this point in time is a $50 million to $60 million revenue decline and with the volume element of that being in the second half. I mean, it doesn't have to be that way, David. It's an assumption of what if there is a recession, its impact in Europe. I could get more optimistic about it, given I'll say the labor strength and recent strength in Europe. But at this point in time, much will be cautious.

Right now, build rates in the commercial truck and trailer business are pretty healthy and healthier probably than we thought going into the year. Maybe that's because now the supply chain issues that the commercial truck manufacturers have faced beginning to ease and they can be able to build that some of the really high backlog that they've got. So it's no more an assumption, but if you can assume that we've got $50 million to $60 million of revenue decline in our numbers, in our guide at this point. In terms of the commercial aerospace percentage by segments, actually haven't got in my mind, that will have to be a follow-up with Ken and let’s kind of go to him, but we tend not to pull it out anyway.

David Strauss

Yes, it was just -- yes, I get that. I was just getting at, would you expect maybe fasteners to outgrow from a narrow perspective, just given how the press, the overall numbers still are there in that segment?

John Plant

If anything, at the moment, I would expect as we move from Q1 into Q2 and Q3, actually, our engine business will probably show a higher rate of commercial revenue growth because I think the engine manufacturers have a job of catch-up from 22 to accomplish as well as look forward to future rate increases.

So at this stage, a very rough assumption against 17%, I wouldn't be surprised to see it's a little bit higher, maybe 20% in our engine business and a little bit lower elsewhere. And then I think we haven't covered is the titanium that level obviously factor into 2023, as we go through it again, increasing as we go through the year.

Ken Giacobbe

Yes. So David, I'd put engines in the number one position, structures in number two and then fasteners in number three position.

David Strauss

Great. Thanks, guys.

John Plant

Thank you.

Operator

Our next question will come from Gautam Khanna with Cowen. Please go ahead. Gautam Khanna, your line is open.

John Plant

We can't hear you, Gautam. Okay, lets move to the next.

Operator

Our next question will come from Robert Spingarn with Melius Research. Please go ahead.

Robert Spingarn

Hey, good morning.

John Plant

Hey, Rob.

Robert Spingarn

John, going back, 2019, 2020 and 2021 were pretty good years for you on price. And given that your LTAs are typically three to five years long, could you talk about the pricing opportunity this year and next and any opportunity to pick up share? And also if in these newer LTAs, can you build in mechanisms to pass-through freight costs and energy prices?

John Plant

Yes. So first of all, where we file our K, which I think we are anticipating to be this evening, you'll see the final outcome for price in 2022. And the -- and that just evolve straight, if you could almost like take Qs one through three and the pro rata for the year. So it's a good outcome there.

In 2023, I think you can expect a similar number in terms of price increase. So it is part of the methodology that I talked about for some years now, and it was not a one-off correction but more of the ongoing ability that we have to reflect value for the Howmet products that we bring to the marketplace.

Our LTA cadence is pretty well set. We've already been in to now into the 2024s and so on because we are probably 85% to 90% complete already for 2023. So that's in good shape. Most of our conversations have been – it's and conversation as I call it, it's share because of our resiliency in terms of ability to build. And we started to see now an increase in spot business availability to us. So that's again good. And, clearly, we've always sought in recent times to protect ourselves for, let's call it, those inflation elements which are not part of that 95% plus raw material. So we're in good – an improving condition there as well, Rob. So, across the whole sector or questions that you're in good shape.

Robert Spingarn

Is there any way to quantify the share gain opportunity over time? Is there an algorithm or something we can look to?

John Plant

What I'd love to do one day is to call out for you, this is the aircraft build rate, and this is the amount of rates that should – a higher rate for Howmet. I haven't done it yet. I've just felt, we've got so many different segments to cover. And so it's been a particular skew of fundamentally relative differential rates of growth between Boeing and Airbus between narrow-body, wide-body, I felt that there have been so many elements of volatility of those demand pattern changes that come the day. And it will happen, Rob. One day, we'll be in that more – equanimity, where Boeing and Airbus settle into a future pattern, narrowbody and widebody will settle into that future pattern.

I think production rates are going to come up and steady. And then that will be like the golden days, which are yet to come for all aerospace and aerospace suppliers at Howmet, in particular. So I think those conditions are coming, they're not yet here. I don't know I'm not saying, they're here for 2023. That's very clear what I talked to you earlier in this call about, but those things are going to happen.

And I know, whether it's back half of 2023 or is it 2024, or is it 2025? I don't know yet. But at some stage, it will happen. And I think prior to that then I'd like to be able to say, this is the Howmet growth rate and to give you the percentage above aircraft build. And at that point, I feel confident in giving it to you rather than have it muddied by these – really these fundamental instability of narrow-body, wide-body Boeing, Airbus, et cetera, et cetera. So I think that's the appropriate time, Rob.

Robert Spingarn

That's great. Thanks, John.

John Plant

Thank you.

Operator

Our next question will come from Ron Epstein with Bank of America. Please go ahead.

Ron Epstein

Hey. Yeah. Good morning, John.

John Plant

Good morning. Good morning.

Ron Epstein

Just a lot of the questions are focused on the company's new supply, but let's kind of go the other way. How is the health of your supply chain? And what are you seeing there? To help some of those suppliers out, I mean, what's going on there, if you can give us a feel for that?

John Plant

In 2021, it seemed to be can much better than it was by the back end of 2022 for us. And when I talk about that, where we buy base metal, we had no issues all the way through. But where we buy somebody else's alloy metal, that's given us heartaches for sure, and that heartache definitely increased in the back end of 2022. And that's impacted the stability in throughput, for example, of our ring segment in engine that it's affected our faster business.

And while we think we have scheduled appropriate, we've had outages of somebody else's forge or say metal cincturing. We've had recently a fire in one of our, I'll say, waste competitor. It also -- it supplies us for certain parts. And so those -- I'll say that availability of metal has been much more prevalent in the last few months.

Now, again, hopefully, it begins to smooth out as we move into 2023. Again, I think it's some months away before we get visibility. But I've got a list of items today where we're in a, I'll say, a low or no-build condition because of availability.

But I'll say I'd look more -- to those two areas I talked about, which is rings and fasteners will be the areas which you've had the majority of the problem. And there's also been a bit of a problem on titanium revert as well, but again, smoothing that through and trying to step up to the increasing titanium that we're experiencing.

Ron Epstein

Got it. Got it. Thank you very much.

John Plant

Thank you.

Operator

Our next question will come from Gautam Khanna with Cowen. Please go ahead.

Gautam Khanna

Can you guys hear me?

John Plant

Can hear you now, Gautam.

Gautam Khanna

Terrific. Sorry about that earlier. I'm not sure what happened. Hey, I had a couple of questions. First, I was wondering, do you guys have a sense for where you were on Q4 production rates by the platforms that you guided for in 2023? So, like where you were on the 37, where you were on 320, et cetera?

John Plant

Okay. We were below -- I think we were below 50% on the Airbus platforms just fractionally, let's call it 48%, 49%. And I'm going to call it, high 20s -- mid to high 20s on Boeing is my best guess. So, these are just guesses at this point.

Gautam Khanna

Okay. And 87, I imagine, is like two or zero, where do you think you were?

John Plant

Compared to one a month, you can call it, more like half a month.

Gautam Khanna

Got it. Were there big differences by the various segments, engine versus fasteners versus structures?

John Plant

That's tough for me to picture all of that going back to last quarter. I think widebody was a particularly notable lower number for our fastener business in the fourth quarter. So, I know we were below whatever we built on the 787. I can't do from memory across every platform in the last quarter, however, they just think about it or may it must be a follow-up question.

Gautam Khanna

Okay. And also just on 350 as well, A350 Q4 rate?

John Plant

Yes, 350, that's been much more stable for us. Again, built fractionally below this year. We're optimistic in that I think our rates between five and six. And I actually think there's a good case for fundamental demand to be well above six.

And so I don't know where Airbus will finally plan that second half rate and rating to 2024. But from what I could see of airline demand and particularly, the amount of 747s, which are flying around A380s, I think if they could access 787s or A350s, they would be desperate to do so. And so I think airlines need them not only for their own profitability, but also for their own carbon footprint. And I really do think there's a case for looking at that carbon footprint, and we need those composite based aircraft.

And so I think we should be very optimistic on that twin engine wide-body demand in the back end of 2023 going into 2024 and I can see clear reason for higher rates. And so when Boeing talked about the rate 10 787s, is it 2026? I think that's definitely really very realistic and similarly taking Airbus up into that same sort of A350 that number. I really believe it's that strong, if not stronger.

Gautam Khanna

That's helpful. And then I apologize for the several questions. But I also am curious, a couple of years ago, you gave us some contract color with RTX on airfoils, F135, GTF, et cetera. Any update there on your visibility, because as you know, they're building that Asheville facility. I don't know if that's had any impact, or will have any impact in the next couple of years in terms of...?

John Plant

It's always difficult to really know, because we're not part in privy to the detailed plans from Raytheon. What the big that we do know is that we are intimate on the improved, let's say, advantage engine, and we're providing -- or going to provide more content and sophisticated product there to allow higher thrust and fuel efficiency.

We are also -- in my comments earlier on the call, I spoke to 2028 Block 4, and we're intimating in that. We're deep into with both US engine manufacturers for the potential next-generation fighter programs in terms of engine. And so I think we’re well-positioned and every one of those products I'm talking about is a level of sophistication higher than is in the market today and bringing what is not only, I mean, today's uniqueness, where we're the only supplier able to do it. We're taking that further by considerable margin to enable those upgrades to happen. And the cost of, therefore, by comparison to the benefit provided by, I'll say, increased flying time and less fuel usage and increased path of the avionics is just enormous.

Gautam Khanna

Okay. Could you guys say what happened to the $70 million of deferred shipments in Q4? Will that get reabsorbed in Q1, or is that through the course of the year? Thank you.

John Plant

I think that will disappear very readily during the first part of this year. So -- and maybe if volumes begin to get -- we take a more optimistic volume, it may well be we might choose to hold some of that inventory by the end of the year, because we'll be looking at 2024. But at the moment, our going in assumption is that the rates I've given will burn some of that off. And we'll see where we go for the second half, Gautam. I mean, part of me would like to be optimistic, but I've chosen to be -- let's keep our feet on the ground and give you the guidance we've given.

Gautam Khanna

Thank you so much.

John Plant

Thank you.

Operator

And our last question today will come from Matt Akers with Wells Fargo. Please go ahead.

Matt Akers

I wanted to ask on CapEx. It looks like you guys are expecting a step up this year. I know it's still below D&A and below kind of what it was a few years ago, but just what's driving the uptick and how we should think about that kind of as we ramp up aero production here?

John Plant

Yes. So, first of all, we've taken, I will say, pressed out on the CapEx for the last two or three years and to be sub $200 million, I think, was a good outcome for the year. I do think that because of not only rate increases are coming, we feel not something you can turn on. You have to prepare for them and provide CapEx, not for some aspects of the volume, but also some of the technological changes that we've talked about.

We're also spending again on automation, and that's proving to be, again, beneficial to us over the last couple of years. But I think it's part of -- as we move into looking at 2024, 2025, if it turns out to be the more optimistic scenarios that we've talked about of both narrow-body rate and wide-body rate, then I think for us to be in that ZIP code of just below inflation will serve us well, and it will be a source of cash and just let it through the next couple of years at that sort of level. And if we achieve that, I think in terms of CapEx usage for the business and coming up to our target -- utilization rates will be in a good shape to achieve all of that.

Matt Akers

Okay. Great. Thanks.

John Plant

Thank you.