

Q2 2023

1. Organic growth drivers

- **Narrative:** Management has articulated a focused strategy on organic growth, leveraging both market dynamics and internal efficiencies to drive revenue expansion. They highlighted the robust nature of defense markets and the anticipated completion of destocking efforts as critical factors that will contribute to revenue growth. Additionally, there is an emphasis on increased demand and improved operational execution to enhance financial outcomes in the upcoming quarters.

- **Management's Guidance:**

- Management aims for a 10% increase in revenue by the end of fiscal year 2023. Revenue is expected to increase as defense markets remain strong, with anticipated growth in engine spares and completed destocking. Management is optimistic about achieving a potential 40% lift in demand, significantly exceeding previous forecasts. Expectations include a 10% to 15% improvement in volume for Q3, with corresponding enhancements in margin.

- **Actual Results:**

['Q3', '2023']:

- Revenue was \$1.658 billion, up 16% year-over-year, driven by Commercial Aerospace, which increased by 23% YoY. This exceeded the high end of the management's guidance. Additionally, the margin improvements were supported by a strong performance in the Fastening Systems and Engineered Structures segments, with year-over-year revenue increases of 20% and 18%, respectively.

['Q4', '2023']:

- FY 2023 Revenue was up 17% year-over-year, driven by Commercial Aerospace up 24%. For Q4 2023, Revenue was up 14% year-over-year.

['Q1', '2024']:

- Revenue in Q1 2024 increased by 14% year-over-year, driven primarily by strong growth in the commercial aerospace market, which was up 23% YoY. Additionally, defense sales were up 12% in the same period.

['Q2', '2023']:

- In Q2 2023, Howmet Aerospace reported a revenue increase of 18% year-over-year, driven by strong performance in Commercial Aerospace, which was up 23% year-over-year. This exceeded the high end of the guidance provided by the management. Additionally, total revenue for the quarter was noted at \$1.65 billion, reflecting the same 18% year-over-year growth.

- **Evaluation:**

- **Expectations Exceeded:** Management aimed for a 10% revenue increase by the end of fiscal year 2023, but actual results showed a 17% increase year-over-year, with significant contributions from Commercial Aerospace, surpassing the high end of management's guidance.

2. Margin expansion efforts

- **Narrative:** Management is focused on enhancing their EBITDA margin and expects to achieve significant improvements in margin performance through strategic initiatives. They are optimistic about reaching higher margin targets as they progress towards the mid to late decade, driven by favorable volume and product mix.

- **Management's Guidance:**

- Management anticipates an improvement in EBITDA margin by 2 percentage points in the next quarter. They also foresee structures margins moving towards the high teens as the company advances into the second half of the decade. Additionally, they aim to achieve optimal margins and cash flow with further rate increases anticipated in 2025 and 2026.

- **Actual Results:**

['Q1', '2024']:

- EBITDA margin increased 140 basis points year-over-year to a record 28.1%.

['Q4', '2023']:

- Adjusted EBITDA Margin increased to 23.0% in Q4 2023, with a year-over-year growth of 18% in adjusted EBITDA.

['Q2', '2023']:

- Adj EBITDA Margin Q2 2023: 22.3%

['Q3', '2023']:

- Adj EBITDA Margin1 of 23.0%, exceeding high end of Guidance; 23.3% excluding YoY inflationary cost pass through

- **Evaluation:**

- **Expectations Met:** Management anticipated a 2 percentage point improvement in EBITDA margin, and the actual results show a consistent increase, with margins reaching 23.0% in Q4 2023, aligning with expectations for margin improvement.

3. Revenue diversification

- **Narrative:** Management emphasized the impact of seasonal factors on revenue distribution across quarters, specifically highlighting a shift in revenue between Q2 and Q3. This indicates a focus on understanding and managing seasonal variations to optimize revenue streams.

- **Management's Guidance:**

- Management noted a seasonal offset impacting revenue, estimating approximately \$50 million of revenue shifting between the second and third quarters. This insight suggests a strategic approach to anticipate and mitigate seasonal impacts on revenue diversification.

- **Actual Results:**

['Q1', '2024']:

- Revenue increased 25% year-over-year to \$389 million for Fastening Systems in Q1 2024.

['Q2', '2023']:

- Revenue Q2 2023: \$1.648B with a seasonal offset impacting revenue approximately \$50 million between Q2 and Q3.

['Q3', '2023']:

- In Q3 2023, third-party sales were reported as \$1.658 billion, reflecting an actual revenue shift from the previous quarter, aligning with the management's guidance of a seasonal offset impacting revenue.

['Q4', '2023']:

- Revenue for Q4 2023 was reported as \$1.731 billion.

- **Evaluation:**

- **Expectations Met:** Management's guidance of a \$50 million revenue shift between Q2 and Q3 due to seasonal factors was accurately reflected in the actual results, demonstrating effective anticipation and management of seasonal impacts on revenue.

4. Profit margin analysis

- **Narrative:** Management has indicated a strategic shift in their profit margin expectations for 2023. Previously, the company aimed for margins in the range of 35% plus or minus 5% during the years 2021 to 2022. However, they have now adjusted these expectations to approximately 30% plus or minus for the current year, reflecting a more conservative outlook given the market conditions.

- **Management's Guidance:**

- Management anticipates that the profit margins for 2023 will be approximately 30%, with a potential variance of plus or minus 5%.

- **Actual Results:**

['Q4', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2023']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

5. Earnings per share trends

- **Narrative:** In Q2 2023, Howmet Aerospace's management provided positive guidance on the company's earnings per share trends. They emphasized an optimistic outlook with an increase in earnings per share, driven by strategic operational improvements and market conditions. The management highlighted a focus on enhancing financial performance across multiple quarters, which reflects their confidence in achieving consistent profitability.

- **Management's Guidance:**

- For Q3, the management expects earnings per share to be \$0.42, with a margin of error of plus or minus \$0.01. They also indicated an overall increase in annual earnings per share when compared year-over-year.

- **Actual Results:**

['Q1', '2024']:

- In Q1 2024, the earnings per share were reported as \$0.57, which represents an increase of 36% year-over-year and an 8% sequential increase.

['Q2', '2023']:

- Adj Earnings Per Share for Q2 2023 was reported as \$0.44, which represents a 26% year-over-year increase and exceeded the high end of guidance.

['Q3', '2023']:

- Adj Earnings Per Share² of \$0.46, up 28% YoY, exceeding high end of Guidance

['Q4', '2023']:

- Earnings per share was a record \$0.53 in Q4 2023, representing a 39% year-over-year increase.

- **Evaluation:**

- **Expectations Exceeded:** The actual earnings per share for Q3 2023 were \$0.46, which exceeded the high end of management's guidance of \$0.42, demonstrating stronger-than-expected financial performance.

6. New product launches

- **Narrative:** Management highlighted plans to expand their product offerings by introducing new product lines, which are expected to bolster their position and drive growth. This aligns with their strategy to continuously innovate and meet evolving market demands.

- **Management's Guidance:**

- Management is planning to launch two new product lines in the first half of 2024.

- **Actual Results:**

['Q1', '2024']:

- Data Not Available

['Q2', '2023']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- **Evaluation:**

- Insufficient Info: Data not available.

7. Cost management strategies

- **Narrative:** During the Q2 2023 earnings call, Howmet Aerospace's management discussed their approach toward enhancing operational efficiency through cost management strategies. The focus is on optimizing operational processes to sustainably reduce costs and improve profitability over the long term.

- **Management's Guidance:**

- Management has set a forward-looking target to reduce operational costs by 5% over the next year, indicating a strategic emphasis on driving efficiency improvements across the company's operations.

- **Actual Results:**

['Q1', '2024']:

- Data Not Available

['Q2', '2023']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

8. Debt reduction strategies

- Narrative: During Q2 2023, Howmet Aerospace's management outlined a clear strategy focused on debt reduction as part of its broader capital allocation and financial strategy. The company aims to enhance its financial health by strategically managing its debt obligations. Key initiatives include amending and extending its credit facility to secure more favorable terms and utilizing cash on hand to redeem a portion of its debt, thereby reducing interest costs.

- Management's Guidance:

- The company amended and extended its \$1 billion undrawn credit facility to 2028, achieving lower fees and a more favorable net debt to EBITDA covenant. A notice was issued to redeem \$200 million of the 2024 debt tower with cash on hand, expected to be completed by the end of September, which will reduce the annualized interest cost by approximately \$10 million. Gross debt is projected to fall below \$3.8 billion after the completion of the redemption in September. The company anticipates improvements in its net debt-to-EBITDA leverage ratio, targeting a reduction from 2.5 times to approximately 2 times by the end of the year, driven by EBITDA improvements and debt reduction efforts.

- Actual Results:

['Q1', '2024']:

- Net Debt-to-LTM EBITDA4 improved to a record low 2.0x; Howmet Aerospace was rated investment grade by all credit rating agencies.

['Q2', '2023']:

- Data Not Available

['Q4', '2023']:

- In Q4 2023, Howmet Aerospace reported a reduction of the 2024 debt tower by approximately \$875 million, with \$475 million paid with cash and \$400 million refinanced at a fixed rate of approximately 3.9%. The company reduced gross debt to approximately \$3.7 billion, while achieving a record low net debt-to-EBITDA ratio of 2.1x. These actions collectively lowered the annualized interest expense by approximately \$29 million.

['Q3', '2023']:

- Debt Reduction of ~\$200M in Q3, with an annualized interest expense savings of ~\$10M. Gross debt reduced to \$3.8 billion. Net Debt-to-LTM EBITDA improved to a record 2.3x.

- Evaluation:

- Expectations Exceeded: Howmet Aerospace's actual results surpassed management's guidance by reducing gross debt more than projected, achieving a net debt-to-EBITDA ratio of 2.1x by Q4 2023, and lowering annualized interest expenses by \$29 million, exceeding the initial \$10 million target.

9. Dividend distribution

- Narrative: Management has indicated a commitment to enhancing shareholder value through increased dividend payouts. This move is part of a broader capital allocation strategy aimed at returning capital to shareholders while maintaining financial flexibility.

- Management's Guidance:

- Management expects to increase the quarterly common dividend by 25% from \$0.04 a share to \$0.05 a share in the fourth quarter of 2023.

- Actual Results:

['Q4', '2023']:

- Increased Quarterly Dividend by 25% to \$0.05 per share of Common Stock in Q4 2023

['Q3', '2023']:

- Paid Quarterly Dividend at \$0.04 per share of Common Stock in Q3

['Q1', '2024']:

- In Q1 2024, the company paid a quarterly dividend of \$0.05 per share of common stock, in line with the management's guidance for dividend distribution.

['Q2', '2023']:

- Paid Quarterly Dividend at \$0.04 per share of Common Stock in Q2 2023. In the second quarter, the quarterly stock dividend was \$0.04 per share after it was doubled in the fourth quarter of last year.

- Evaluation:

- Expectations Met: Management's guidance to increase the quarterly dividend by 25% from \$0.04 to \$0.05 per share in Q4 2023 was realized, as confirmed by the actual results showing the dividend increase occurred as planned.

10. Cash balance management

- Narrative: Management has indicated a focus on managing cash settlements related to the Lehman claim, with a structured plan for settlements scheduled in July 2023 and July 2024. This reflects a strategic approach to cash management, ensuring the company maintains liquidity while addressing outstanding claims.

- Management's Guidance:

- Management projects strong positive free cash flow in the second half of 2023, indicating confidence in the company's cash management and operational efficiency.

- Actual Results:

['Q4', '2023']:

- Cash flow for the year was a record \$682 million, which exceeded the high end of guidance. The year-end cash balance was a healthy \$610 million with strong liquidity.

['Q1', '2024']:

- Healthy Cash Balance of \$534M; Record Q1 Free Cash Flow3 of \$95M

['Q2', '2023']:

- In Q2 2023, Howmet Aerospace reported a record free cash flow of \$188 million, with a healthy ending cash balance of \$536 million. Additionally, a commercial settlement of the Lehman claim resulted in \$40 million, which was \$25 million less than previously reserved.

['Q3', '2023']:

- Q3 2023: Cash provided from operations = \$191M, Cash used for financing activities = (\$243M), Cash used for investing activities = (\$58M). Ending Cash Balance of \$425M; Free Cash Flow3 of \$132M.

- Evaluation:

- Expectations Exceeded: The management's guidance projected strong positive free cash flow in the second half of 2023, and the actual results showed record free cash flow and a year-end cash balance that exceeded expectations, demonstrating successful cash management and operational efficiency.

11. Production rate guidance

- **Narrative:** Management at Howmet Aerospace outlined plans to strategically manage production rates across its key aerospace programs. The focus is on incrementally increasing production rates while being cautious with significant rate hikes until market conditions justify them. The company aims to balance increasing production with backlog reduction as part of its broader operational strategy in the second half of the year.

- **Management's Guidance:**

- Howmet Aerospace plans to achieve production rate increases and reduce backlog as they move into the latter half of the year. The company has adjusted its production assumptions for the 737 MAX, lifting it from 30 per month into the early 30s, but remains tentative about reaching a rate of 38 until conditions are confirmed. For the A350 program, production is expected to increase to at least 9 units per month to meet market demand.

- **Actual Results:**

['Q1', '2024']:

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

['Q2', '2023']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

['Q4', '2023']:

- Data Not Available

- **Evaluation:**

- **Expectations Not Met:** The management aimed to increase production rates and reduce backlog, but actual results in Q1 2024 indicated lower production levels, well below the prior levels of approximately 30 aircraft per month, not meeting the strategic goals.

12. Commercial aerospace trends

- **Narrative:** Management highlighted a positive trajectory in the commercial aerospace sector, emphasizing growth in the spares market. They noted that the spares for commercial aerospace are recovering to near pre-pandemic levels, demonstrating a robust recovery trajectory. This aligns with broader optimistic trends in the sector, bolstered by increased production rates expected from major players like Boeing.

- **Management's Guidance:**

- Management anticipates that spares for commercial aerospace will reach approximately 95% of 2019 levels by year-end. Aggregate spares for the year are expected to exceed 2019 levels, with further rate increases anticipated as the year closes. Boeing's production rates are projected to increase from 3% to 4% and 4% to 5%, with expectations of reaching higher production rates in 2024, driven by strong fundamental demand.

- **Actual Results:**

['Q1', '2024']:

- Commercial aerospace has now grown for 12 consecutive quarters and represents approximately 50% of total revenue. Commercial aerospace was up 44%, including the impact of the widebody recovery.

['Q2', '2023']:

- John Plant reported that commercial aerospace increased by 23% year-over-year, indicating strong market demand and sector performance. Ken Giacobbe noted that commercial aerospace continued to lead growth with a 23% year-over-year increase and has grown for 9 consecutive quarters, now representing 47% of total revenue.

['Q3', '2023']:

- Commercial aerospace increased 23% year-over-year, driven by all three aerospace segments.

['Q4', '2023']:

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

- **Evaluation:**

- **Expectations Exceeded:** The management anticipated spares for commercial aerospace to reach approximately 95% of 2019 levels by year-end, but actual results show commercial aerospace revenue increased 24% for the full year, surpassing this expectation and reflecting a robust recovery and strong demand.

13. Defense sector opportunities

- **Narrative:** Management highlighted a robust growth trajectory in the defense sector, emphasizing the increasing backlog of F-35 aircraft orders, which reflects strong market demand and underscores the company's strategic positioning to capitalize on defense opportunities.

- **Management's Guidance:**

- The company projects an increase in the backlog with recent orders comprising 126 aircraft for the US government joint office, complemented by additional orders of 25% for Israel and 25 aircraft for the Czech Republic. Furthermore, management anticipates growth in the spare parts segment, particularly for the F-35, starting in 2024 and extending into 2025.

- **Actual Results:**

['Q3', '2023']:

- Defense Aerospace was up 13% year-over-year driven by the F-35 and Legacy Fighter programs.

['Q4', '2023']:

- Defense aerospace was flat for the fourth quarter. However, defense aerospace was up 10% for the full year.

['Q1', '2024']:

- Defense aerospace was also strong, up 12%.

['Q2', '2023']:

- F-35 backlog continues to increase to approximately 420 aircraft with recent orders of 126 aircraft for the US government joint Kroger office, plus 25% for Israel, and a further 25 aircraft for the Czech Republic.

- **Evaluation:**

- **Expectations Met:** The actual results show a consistent increase in defense aerospace performance, aligning with management's guidance of growing backlog and demand for the F-35, with notable year-over-year growth observed.