

Q3 2023

1. Organic growth drivers

- **Narrative:** Management emphasized their focus on sustaining organic growth through internal enhancements and strategic initiatives. They highlighted continuous improvement and adaptation as key components for driving future growth.

- **Management's Guidance:**

- Management anticipates growth in the 7% range, with an allowance for a 1% variance, as they look towards 2024. They also expect ongoing improvements in the fourth quarter and into the subsequent year.

- **Actual Results:**

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- Revenue for Q3 2023 was \$1.658 billion, up 16% year-over-year, exceeding the high end of guidance. Commercial Aerospace revenue grew by 23% year-over-year, and overall revenue was driven by this significant increase in the commercial aerospace sector.

['Q4', '2023']:

- Revenue was up 14% in the fourth quarter, with commercial aerospace up 22%. Overall, revenue for the full year was up 17%, driven by commercial aerospace up 24%. Sequentially, Q4 revenue increased 7%, and EBITDA increased 10%.

['Q1', '2024']:

- Revenue for Q1 2024 was reported at \$1.824 billion, reflecting a 14% year-over-year increase. The commercial aerospace market specifically saw a 23% rise in revenue, contributing significantly to this growth.

- **Evaluation:**

- **Expectations Exceeded:** Revenue growth significantly surpassed management's expectations of 7% with a 14% year-over-year increase in Q4 2023 and 16% in Q3 2023, driven by strong performance in the commercial aerospace sector.

2. Margin expansion efforts

- **Narrative:** Management has articulated a focus on maintaining robust EBITDA margins by effectively managing inflationary cost pressures. This is achieved through strategic cost pass-through measures, allowing the company to preserve its profitability despite external economic challenges.

- **Management's Guidance:**

- Management highlighted that adjusting for the year-over-year inflationary cost pass-through, the EBITDA margin stood at 23.3%. Furthermore, the flow-through of segment incremental revenue to EBITDA was approximately 28% year-over-year, aligning with their guidance expectations.

- **Actual Results:**

['Q1', '2024']:

- Data Not Available

['Q4', '2023']:

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

['Q2', '2024']:

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

['Q3', '2023']:

- Adjusting for year-over-year inflationary cost pass-through of approximately \$15 million, EBITDA margin was 23.3% and the flow-through of segment incremental revenue to EBITDA was at approximately 28% year-over-year.

- **Evaluation:**

- **Expectations Exceeded:** The management guidance anticipated EBITDA margin adjustments for inflationary cost pass-through to align at 23.3% with a revenue flow-through of 28%. However, actual results in subsequent quarters reported higher-than-expected performance, with a Q2 2024 EBITDA margin of 25.7% and a remarkable flow-through of 50%, exceeding management's expectations.

3. Revenue diversification

- **Narrative:** Management highlighted their strategic focus on expanding revenue streams through market diversification. This involves targeted efforts to enhance their presence in high-growth regions and sectors, aligning with the company's broader objectives for sustainable growth.

- **Management's Guidance:**

- Management anticipates the headline sales number for 2024 to be approximately \$7 billion, indicating a strategic push towards diversifying revenue sources and penetrating new markets.

- **Actual Results:**

['Q1', '2024']:

- Fastening Systems reported a 25% year-over-year revenue increase to \$389 million in Q1 2024, indicating strong performance in revenue diversification efforts.

['Q2', '2024']:

- Revenue for Q2 2024 was reported as \$1.880 billion, reflecting the company's efforts towards revenue growth and diversification.

['Q3', '2023']:

- Data Not Available

['Q4', '2023']:

- Revenue for Q4 2023 was reported at \$1.731 billion, reflecting the company's ongoing strategy towards revenue growth through market diversification.

- **Evaluation:**

- **Expectations Exceeded:** The management's guidance anticipated a headline sales figure of approximately \$7 billion for 2024 as part of their revenue diversification strategy. With Fastening Systems reporting a 25% year-over-year revenue increase in Q1 2024 and strong quarterly revenues in Q2 2024, the company's performance indicates that the diversification efforts have exceeded expectations.

4. Profit margin analysis

- **Narrative:** During the earnings call for Q3 2023, management at Howmet Aerospace provided insights into their financial performance and expectations. They

highlighted a noticeable increase in revenue, EBITDA, earnings per share, and free cash flow for the full year 2023. This growth indicates a positive trend in the company's financial health and strategic execution.

- Management's Guidance:

- Management expects the full year 2023 revenues to increase by approximately \$100 million, reaching \$6.54 billion, with a variation of plus or minus \$15 million. EBITDA is projected to rise by another \$40 million, reaching \$1.485 billion, with a margin of plus or minus \$5 million. Earnings per share are anticipated to grow by \$0.07, hitting \$1.77, with a fluctuation of plus or minus \$0.01. Free cash flow is expected to be around \$635 million, with a potential variation of plus or minus \$35 million.

- Actual Results:

['Q4', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

5. Earnings per share trends

- Narrative: Management highlighted a robust increase in earnings per share, driven by strategic operational improvements and market conditions. The guidance reflects a positive outlook for the company's financial health and profitability.

- Management's Guidance:

- The company has set a full-year earnings per share guidance of \$1.77, marking a significant 26% increase year-over-year. For the fourth quarter of 2023, the expected earnings per share is projected at \$0.45, with a margin of error of plus or minus \$0.01, indicating confidence in maintaining a steady growth trajectory.

- Actual Results:

['Q1', '2024']:

- Earnings per share were reported at \$0.57, marking an increase of 36% year-over-year and 8% sequentially.

['Q2', '2024']:

- Adj Earnings Per Share for Q2 2024 was \$0.67, which represents an increase of 52% year-over-year.

['Q3', '2023']:

- Adj Earnings Per Share of \$0.46, up 28% YoY, exceeding high end of Guidance; EPS (GAAP): Q3 2022 = \$0.19, Q3 2023 = \$0.45.

['Q4', '2023']:

- Adjusted Earnings Per Share for Q4 2023 was reported at \$0.53, which represents a 39% year-over-year increase, surpassing the projected earnings per share guidance of \$0.45 ± \$0.01.

- Evaluation:

- Expectations Exceeded: The actual earnings per share for Q4 2023 were \$0.53, surpassing the projected guidance of \$0.45 ± \$0.01, indicating stronger-than-expected financial performance.

6. Aerospace product enhancements

- Narrative: Management is focused on enhancing the performance of their aerospace products, specifically by working on improvements for a significant engine upgrade expected in 2028. This aligns with their strategy to bolster the product's thrust capabilities and operational efficiency.

- Management's Guidance:

- The anticipated timeline for these enhancements suggests key developments will occur between the end of 2024 and into 2025, aligning with external market expectations for aircraft production, particularly concerning the wide-body aircraft segment.

- Actual Results:

['Q4', '2023']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

7. Debt reduction strategies

- Narrative: In the third quarter of 2023, Howmet Aerospace management emphasized their commitment to reducing debt as a critical component of their capital allocation and financial strategy. The management highlighted ongoing efforts to decrease net leverage, which signifies their proactive approach to strengthen the company's financial health and flexibility. This strategy is indicative of their focus on maintaining a robust balance sheet and improving financial stability.

- Management's Guidance:

- Management indicated that the company's net leverage is on a positive trajectory and is expected to approach approximately two times net debt to EBITDA by the end of the year. This forward-looking statement underscores their confidence in achieving significant debt reduction within the specified timeframe.

- Actual Results:

['Q1', '2024']:

- Net Debt to EBITDA was reported to be a record low of 2x.

['Q4', '2023']:

- Net Debt-to-LTM EBITDA improved to a record low of 2.1 times. The company achieved significant debt reduction actions, including a debt reduction of ~\$100M and a refinancing of ~\$400M in Q4. These efforts also resulted in an annualized interest expense reduction of approximately \$29 million.

['Q2', '2024']:

- Net Debt-to-LTM EBITDA4 improved to a record low 1.7x in Q2 2024, which is below the management's target of 2x.

['Q3', '2023']:

- Net Debt-to-LTM EBITDA improved to a record 2.3x, and debt reduction was approximately \$200 million in Q3, with a year-to-date reduction of around \$376 million.

- Evaluation:

- **Expectations Exceeded:** Howmet Aerospace's net debt to EBITDA improved to a record low of 1.7x by Q2 2024, surpassing the management's target of approximately 2x by the end of 2023, indicating they exceeded their debt reduction goals.

8. Dividend distribution

- **Narrative:** Management emphasized its commitment to returning value to shareholders through an increased dividend payout. This strategic move reflects the company's confidence in its financial health and future cash flows.

- Management's Guidance:

- The quarterly stock dividend will be increased by 25% in the fourth quarter to \$0.05 per share.

- Actual Results:

['Q4', '2023']:

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

['Q2', '2024']:

- Paid Quarterly Dividend at \$0.05 per share of Common Stock in Q2

['Q3', '2023']:

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

['Q1', '2024']:

- Paid Quarterly Dividend at \$0.05 per share of Common Stock in Q1; Capital Deployment: ~\$170M for Common Stock Repurchases and Quarterly Dividends; In the first quarter, we deployed approximately \$20 million for the quarterly common stock dividend of \$0.05 per share; John Plant[Dividends of \$0.05 per share were paid.]

- Evaluation:

- **Expectations Met:** Management's guidance to increase the quarterly stock dividend by 25% to \$0.05 per share in Q4 2023 was achieved as planned, aligning with the company's stated commitment to return value to shareholders.

9. Cash balance management

- **Narrative:** Management has addressed the ongoing strategy for cash balance management, emphasizing the expected continuation of working capital burn into the next year. This reflects their strategic focus on managing inventory levels and adapting to the market cycle to optimize cash flow.

- Management's Guidance:

- Management anticipates a working capital burn in 2024, although it is expected to be less severe than in the current year as inventory levels are reduced. The outcome will be influenced by the company's position in the market cycle. Additionally, the management has projected an asset return impact for next year, estimating a variance of \$15 million, with a potential deviation of \$5 million either way, indicating cautious optimism amidst challenging market conditions.

- Actual Results:

['Q4', '2023']:

- Data Not Available

['Q1', '2024']:

- Healthy Cash Balance of \$534M; Record Q1 Free Cash Flow of \$95M, with cash provided from operations at \$177M, cash used for financing activities at (\$178M), and cash used for investing activities at (\$75M).

['Q2', '2024']:

- Data Not Available

['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 Flow of \$132M; Free cash flow was healthy at \$132 million; \$242 million of cash on hand was allocated to debt reduction, common stock repurchases and dividends.

- Evaluation:

- **Expectations Exceeded:** The actual results in Q1 2024 show a healthy cash balance of \$534M and record free cash flow, surpassing management's cautious optimism and expectations for a less severe working capital burn.

10. Production rate guidance

- **Narrative:** Management has highlighted their current production status and their anticipation of scaling up production rates in the coming year. This aligns with their broader strategy to enhance efficiency and meet growing demand. The focus remains on aligning their production capabilities with market requirements.

- Management's Guidance:

- Management anticipates moving up to production rate grade seven next year, indicating an increase from their current production rate.

- Actual Results:

['Q1', '2024']:

- John Plant [we were building in the first quarter of our parts at a rate significantly above that. So let's assume rate six or even in rate seven.]

['Q2', '2024']:

- Data Not Available

['Q3', '2023']:

- John Plant - "we're at a good rate for let's say, 98% of all of our structural castings."

['Q4', '2023']:

- Data Not Available

- Evaluation:

- **Expectations Met:** The management anticipated moving to production rate grade seven in the next year, and by Q1 2024, they were building parts at a rate significantly above rate six, aligning with their guidance.

11. Commercial aerospace trends

- **Narrative:** Management highlighted a positive outlook for the commercial aerospace sector, emphasizing an expected increase in production volumes for commercial aircraft. They noted an anticipated improvement in the product mix, particularly with the transition from metal to composite materials in wide-body aircraft.

- **Management's Guidance:**

- Management projects an increase in commercial aircraft production volumes going into the next year, with a specific focus on the transition to composite materials in wide-body aircraft.

- **Actual Results:**

['Q1', '2024']:

- Commercial aerospace was up 44%, including the impact of the widebody recovery.

['Q2', '2024']:

- In Q2 2024, commercial aerospace growth was reported as outstanding at 27%, with significant increases across various segments, including a 36% increase in Fastening Systems due to the wide-body recovery and a 42% increase driven by build rates in the wide-body recovery.

['Q3', '2023']:

- Commercial aerospace increased 23% year-over-year, driven by all three aerospace segments. However, there was 'zero in terms of any real volume on the composite side.'

['Q4', '2023']:

- Ken Giacobbe stated that commercial aerospace recovery continued throughout 2023 with revenue up 22% in the fourth quarter and up 24% for the full year.

- **Evaluation:**

- **Expectations Met:** The management's projection for increased commercial aircraft production volumes was realized, as evidenced by the significant growth in commercial aerospace, particularly with the wide-body recovery, despite a lack of composite material volume.

12. Defense sector opportunities

- **Narrative:** Management highlighted the robust outlook for the defense market, emphasizing the gradual buildup of engine spares to support the F-35 program, signifying potential growth opportunities.

- **Management's Guidance:**

- Management indicated a positive trajectory in the defense sector with expectations of increased demand for engine spares over the next two to three years, driven by the expanding F-35 fleet.

- **Actual Results:**

['Q2', '2024']:

- Defense aerospace was up 45% year-over-year, driven primarily by the F-35 program. Defense aerospace was also strong, up 11%, driven by fighter programs and engine spares demand.

['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%. John Plant: "The defense spares for last year, we're already growing from like 400 to 600 [ph]"

- **Evaluation:**

- **Expectations Exceeded:** The management expected increased demand for engine spares driven by the F-35 program, and the actual results showed significant year-over-year growth, with defense aerospace up 45% in Q2 2024, surpassing management's expectations.

13. Supply chain disruptions

- **Narrative:** Management has acknowledged ongoing supply chain disruptions, specifically highlighting issues related to the timely availability of necessary components. These disruptions are currently not improving but are expected to start resolving as the company moves through 2024. Additionally, external factors such as labor disputes are impacting supply chain stability, with expectations for resolution in the near term.

- **Management's Guidance:**

- Management anticipates improvements in supply chain conditions beginning in 2024, with specific expectations for the resolution of labor disputes affecting supply availability by the first quarter of the next year.

- **Actual Results:**

['Q2', '2024']:

- Pre-tax special items for the six months ended June 30, 2024, included costs associated with closures, supply chain disruptions, and other items amounting to \$1 million.

['Q3', '2023']:

- For the quarter ended September 30, 2023, costs associated with closures, supply chain disruptions, and other items amounted to \$1 million, and costs related to a collective bargaining agreement negotiation were also \$1 million.

['Q4', '2023']:

- For the quarter ended December 31, 2023, Corporate expense included \$2 of costs associated with closures, supply chain disruptions, and other items.

['Q1', '2024']:

- Data Not Available

- **Evaluation:**

- **Expectations Not Met:** Management anticipated supply chain improvements and resolution of labor disputes by Q1 2024, but ongoing costs related to supply chain disruptions persisted into Q2 2024, indicating that the expected improvements were not realized.