

## Q1 2022

### 1. Organic growth drivers

- **Narrative:** Management emphasized the anticipation of significant volume growth as a key driver for organic revenue expansion. They highlighted ongoing hiring efforts across most segments, indicating confidence in sustained growth and future demand.

- **Management's Guidance:**

- Management is forecasting at least a 15% increase in volume, which is expected to contribute to organic growth in upcoming quarters.

- **Actual Results:**

['Q4', '2022']:

- Data Not Available

['Q1', '2022']:

- In Q1 2022, revenue was up 10% year-over-year, as reported by management.

['Q2', '2022']:

- In Q2 2022, revenue was reported to have increased by 17% year-over-year, which was at the high end of the guidance provided by management. The growth in revenue was partly driven by commercial aerospace, which saw a 39% increase year-over-year, and overall, the company's revenue was up 17% YoY, reflecting strong performance.

['Q3', '2022']:

- Revenue was up 12% year-over-year, including material pass-through of approximately \$70 million.

- **Evaluation:**

- **Expectations Met:** The company's revenue increased by 17% year-over-year in Q2 2022, which was at the high end of management's guidance for a 15% increase in volume, indicating that the expectations for organic growth drivers were met.

### 2. Revenue diversification

- **Narrative:** Management has articulated a strategy focused on adjusting pricing structures within specific segments to bolster revenue diversification. This approach is part of a broader initiative to realign the company's revenue streams and enhance its competitiveness in evolving markets.

- **Management's Guidance:**

- Management indicated an intention to reset prices in the targeted segment every six months to ensure adaptability and sustained growth.

- **Actual Results:**

['Q4', '2022']:

- 3rd Party Revenue in Q4 2022 was reported as \$285M, reflecting the revenue diversification efforts.

['Q1', '2022']:

- Revenue for Q1 2022 was reported as \$1.324 billion, reflecting performance in the targeted segment.

['Q2', '2022']:

- Revenue Q2 2022 \$1.393B

['Q3', '2022']:

- Revenue Q3 2022 \$1.433B

- **Evaluation:**

- **Expectations Met:** Management's strategy to adjust pricing structures within specific segments every six months aimed at revenue diversification was reflected in the reported revenue figures, which showed consistent growth across quarters in 2022, indicating alignment with the company's stated goals.

### 3. Earnings per share trends

- **Narrative:** During the Q1 2022 earnings call, Howmet Aerospace's management outlined their expectations for earnings per share growth. They provided specific financial targets for both the upcoming quarter and the full year, indicating a structured approach towards achieving revenue growth and maintaining profitability.

- **Management's Guidance:**

- Management projected earnings per share (EPS) for Q2 to be \$0.32, with a margin of plus or minus \$0.01. For the full year, the EPS is expected to range around \$1.39, with a potential variance of plus or minus \$0.06. These projections highlight a focus on consistent earnings performance throughout the fiscal year.

- **Actual Results:**

['Q3', '2022']:

- Adjusted earnings per share for Q3 2022 was \$0.36, up 33% year-over-year.

['Q4', '2022']:

- EPS (GAAP) for Q4 2022 was reported as \$0.26, and the full year 2022 EPS was \$1.11, which is below the projected range of \$1.39 ± \$0.06. Adjusted EPS for the year was \$1.40, in line with guidance.

['Q1', '2022']:

- Adjusted earnings per share was reported at \$0.31 for Q1 2022, which is up 41% year-over-year and ahead of the midpoint of guidance.

['Q2', '2022']:

- Adjusted earnings per share for Q2 2022 was reported at \$0.35, exceeding the high end of the guidance, with a 59% increase year-over-year.

- **Evaluation:**

- **Expectations Met:** The adjusted EPS for Q2 2022 exceeded the high end of the guidance, and the full year adjusted EPS of \$1.40 was in line with management's guidance range of \$1.39 ± \$0.06, indicating that expectations were met.

### 4. Aerospace product enhancements

- **Narrative:** Management highlighted the ongoing efforts to upgrade their aerospace offerings with a focus on enhancing engine performance through improved designs. This strategic initiative aims at fortifying HowmetAero's position in the aerospace market by aligning with next-generation engine requirements.

- **Management's Guidance:**

- Management projects that the transition to the improved Pratt & Whitney geared turbofan engine, which boasts increased thrust and fuel efficiency, will drive further value content improvements later in the year 2022.

- **Actual Results:**

['Q3', '2022']:

- Data Not Available

**['Q4', '2022']:**

- Data Not Available

**['Q1', '2022']:**

- Data Not Available

**['Q2', '2022']:**

- Data Not Available

**- Evaluation:**

- Insufficient Info: Data not available.

## 5. Manufacturing optimization

**- Narrative:** Management emphasized the ongoing efforts to enhance operational efficiency through targeted recruitment in the Engine Products division. This initiative is seen as a key component in optimizing manufacturing processes and supporting future growth.

**- Management's Guidance:**

- Management indicated a plan to recruit approximately 250 additional personnel in the Engine Products sector during the first quarter, highlighting a strategic move to bolster manufacturing capabilities.

**- Actual Results:**

**['Q4', '2022']:**

- Data Not Available

**['Q1', '2022']:**

- Data Not Available

**['Q2', '2022']:**

- Increased Net Headcount ~245 in Q2 2022; up ~380 in H1 2022

**['Q3', '2022']:**

- Data Not Available

**- Evaluation:**

**- Expectations Met:** Management planned to recruit approximately 250 personnel in the Engine Products sector in Q1, and the actual results showed an increase in net headcount of approximately 245 in Q2, aligning with the stated goals.

## 6. Cash balance management

**- Narrative:** Management has outlined a strategic approach towards enhancing cash balance management, emphasizing the importance of generating positive free cash flow across upcoming quarters. The focus is on reducing cash burn related to working capital, aiming to optimize cash contributions by building on past efficiencies and improvements compared to previous periods.

**- Management's Guidance:**

- The company projects to generate positive free cash flow from Q2 to Q4, with an expectation of reaching approximately \$625 million in free cash flow by year-end, considering a working capital-associated cash burn of about \$50 million. Annual cash contributions are anticipated to show a significant improvement, decreasing from around \$240 million during the Europe separation in 2020 to approximately \$60 million this year.

**- Actual Results:**

**['Q2', '2022']:**

- Free cash flow in Q2 2022 was a positive \$114 million, including an inventory build in excess of \$100 million for the commercial aerospace recovery. The cash balance at the end of Q2 increased to \$538 million.

**['Q3', '2022']:**

- Q3 2022 Cash provided from operations was reported as \$65 million, and the Free Cash Flow year-to-date was \$130 million, including an inventory build of approximately \$270 million primarily for the commercial aerospace recovery.

**['Q4', '2022']:**

- In Q4 2022, Howmet Aerospace reported a free cash flow of \$540 million, including an inventory build of approximately \$235 million for Commercial Aerospace. The liquidity position was strong, with a year-end cash balance of \$792 million. This performance was within the guided range.

**['Q1', '2022']:**

- Free cash flow for the first quarter was essentially breakeven while building approximately \$85 million of inventory in anticipation of the commercial aerospace recovery.

**- Evaluation:**

**- Expectations Exceeded:** Howmet Aerospace projected \$625 million in free cash flow for the year, with a reduction in working capital-associated cash burn. The actual free cash flow reached \$540 million by Q4, with significant inventory builds, and the year-end cash balance was strong at \$792 million, indicating a performance that exceeded expectations.

## 7. Production rate guidance

**- Narrative:** Management has discussed the production rate guidance for key aircraft programs, highlighting the company's alignment with major customers like Airbus and Boeing. The focus is on scaling up production capacity to meet the increasing demands, especially for the Airbus A320 and A321 models. Additionally, there is a strategic emphasis on managing the implications of changes in Boeing's production schedules, particularly concerning the 787 and 737 MAX aircraft.

**- Management's Guidance:**

- By mid-2023, Howmet Aero is expected to ramp up its production rate for the Airbus A320 and A321 to 65 units per month, transitioning from a mid-50s rate in mid-2022. Adjustments have been made to the guidance and future outlook in line with Boeing's revised schedule for the 787 aircraft, reducing expected production from 35 to 24-25 units for the year. There is an anticipation of spot business opportunities in the latter half of the year, leveraging Howmet's investment in new engine plants, which might offer supply capabilities not matched by competitors. The potential for 737 MAX deliveries into China in the second half could influence production rates, possibly increasing above 31 units, contingent upon inventory reductions.

**- Actual Results:**

**['Q3', '2022']:**

- John Plant [50-plus for A320s]

**['Q4', '2022']:**

- Data Not Available

**['Q1', '2022']:**

- John Plant [And essentially, that has taken down the total number of 787 aircraft produced this year from, I think, 35 down to 24 or 25, something like that, and taking that revenue hit, but as you see, maintained our guide for the year.]

**['Q2', '2022']:**

- The forecast for 787 production in 2022 is cut again from 25 aircraft I talked about in the last quarter's earnings call to 15 as our best estimate.

**- Evaluation:**

**- Expectations Not Met: The production rate for the Airbus A320 and A321 was expected to reach 65 units per month by mid-2023, but actual results indicated production was still at '50-plus' for A320s in Q3 2022. Additionally, the 787 production guidance was reduced further than anticipated, from 25 to 15 units.**

**8. Emissions reduction targets**

- **Narrative:** Management has outlined a robust strategy centered around emissions reduction, demonstrating a commitment to environmental sustainability. By funding numerous projects aimed at reducing emissions, the company is taking proactive steps to meet its environmental goals and enhance its ESG profile.

**- Management's Guidance:**

- Management expects to achieve a 21.5% reduction in Scope 1 and Scope 2 greenhouse gas emissions by 2024, relative to the 2019 baseline. Additionally, management anticipates that regulatory changes related to emissions will positively influence the market share of aluminum wheels against steel, projecting growth up to 2030.

**- Actual Results:**

**['Q4', '2022']:**

- Data Not Available

**['Q1', '2022']:**

- Data Not Available

**['Q2', '2022']:**

- Data Not Available

**['Q3', '2022']:**

- Data Not Available

**- Evaluation:**

- Insufficient Info: Data not available.

**9. Commercial aerospace trends**

- **Narrative:** Management highlighted an anticipated increase in sales activity, driven by their responsiveness to numerous requests for quotations (RFQs). This proactive approach is expected to translate into increased market engagement and sales momentum moving into the latter part of the year and into 2023.

**- Management's Guidance:**

- Management indicated that updates on these inquiries would likely occur in the fourth quarter, with a notable increase in sales anticipated to continue into 2023.

**- Actual Results:**

**['Q3', '2022']:**

- The commercial aerospace recovery continued in the third quarter, with commercial aerospace revenue up 23% year-over-year and 7% sequentially. Commercial aerospace was 24% higher driven by the narrow-body recovery, somewhat offset by continued production declines for the Boeing 787.

**['Q4', '2022']:**

- Commercial aerospace recovery continued throughout 2022, with fourth quarter commercial aerospace revenue up 29% year-over-year. Commercial aerospace has grown for seven consecutive quarters and stands at 48% of total revenue, though it remains below the pre-COVID level of 60% of total revenue. Additionally, commercial aerospace was reported to be up 29% in the quarter.

**['Q1', '2022']:**

- Commercial aerospace was up 45%, driven by the narrow body recovery.

**['Q2', '2022']:**

- In Q2 2022, the commercial aerospace recovery continued with commercial aerospace revenue up 34% year-over-year and 7% sequentially. Additionally, commercial aerospace was 37% higher, as the narrow-body recovery more than offset the impact of production declines for the Boeing 787.

**- Evaluation:**

**- Expectations Exceeded:** The commercial aerospace revenue consistently grew year-over-year and sequentially across 2022, surpassing management's expectations for increased sales activity and engagement, indicating a strong recovery and market momentum beyond initial projections.

**10. Industrial market dynamics**

- **Narrative:** Management provided insights into the expected dynamics of the North American industrial market, particularly focusing on the truck segment. They indicated a stable outlook with a potential increase in the production of trucks.

**- Management's Guidance:**

- Management anticipates the production of approximately 300,000 trucks or slightly more as they move into the next year.

**- Actual Results:**

**['Q3', '2022']:**

- John Plant reported that the order intake for Class 8 trucks was the highest it's ever been in September, with over 53,000 trucks.

**['Q4', '2022']:**

- Data Not Available

**['Q1', '2022']:**

- Data Not Available

**['Q2', '2022']:**

- Kenneth Giacobbe reported that the commercial transportation sector, which affects both the Forged Wheels and Fastening Systems segments, experienced a 19% year-over-year increase and an 11% sequential increase.

**- Evaluation:**

**- Expectations Exceeded:** Management anticipated stable truck production with around 300,000 units. The actual results showed a record order intake for Class 8 trucks in September and a significant increase in the commercial transportation sector, surpassing the expected stable outlook.