Q1 2023

1. Organic growth drivers

- **Narrative:** Management has outlined a robust strategy for driving revenue growth through an anticipated increase in sales volumes and market expansion. They are confident in achieving substantial organic growth, supported by strategic initiatives and favorable market conditions.
- **Management's Guidance:**
- Management expects revenue to grow by 10% in the next fiscal year. The company anticipates a 25% increase in revenue for 2023, building on a $20 million rise in fourth-quarter 2022 volume. For 2024, management projects an additional 25% to 30% revenue growth. Continued growth is expected in 2024 and 2025.
- **Actual Results:**

['Q3', '2023']:
- Revenue in Q3 2023 was $1.658 billion, up 16% year-over-year, driven by Commercial Aerospace up 23% year-over-year.

['Q4', '2023']:
- Revenue was up 14% in the fourth quarter and up 17% for the full year. Commercial aerospace was a significant driver with a 24% year-over-year increase.

['Q1', '2023']:
- Revenue in Q1 2023 was approximately $1.6 billion, representing a 21% year-over-year increase, driven by a 29% year-over-year increase in Commercial Aerospace. This performance exceeded the high end of the guidance. Additionally, revenue growth was supported by an inflationary cost pass-through of approximately $35 million.

['Q2', '2023']:
- Q2 2023 Revenue was up 18% year-over-year, driven by Commercial Aerospace up 23% year-over-year, exceeding the high end of guidance and includes inflationary cost pass-through of approximately $25 million.
- **Evaluation:**

- Expectations Exceeded: The management expected a 25% revenue increase for 2023, and Howmet Aero’s actual results showed impressive revenue growth, notably a 21% increase in Q1 and consistent double-digit growth across subsequent quarters, driven by Commercial Aerospace, which exceeded the guidance expectations.

2. Margin expansion efforts

- **Narrative:** Management has shown optimism regarding margin expansion, indicating the potential for improved financial performance. They have expressed confidence in achieving higher margin rates moving into the latter half of the year and have set expectations for continued improvement into 2024.
- **Management's Guidance:**
- Management anticipates margin rate improvement in the second half of the year and aims for a margin rate in 2024 that surpasses the current first-quarter level.
- **Actual Results:**

['Q2', '2023']:
- Data Not Available

['Q4', '2023']:
- Adj EBITDA Margin for Q4 2023 was reported at 23.0%, showing an increase from previous quarters, aligning with management's guidance for margin expansion efforts.

['Q1', '2023']:
- Adjusted EBITDA Margin for Q1 2023 is 22.5%, with a YoY Incremental Margin of ~25%.

['Q3', '2023']:
- Adjusted EBITDA margin excluding Special items was 23.0% in Q3 2023.
- **Evaluation:**

- Expectations Met: Management anticipated margin rate improvement in the latter half of the year, and the actual results show an increase to 23.0% in Q4 2023, aligning with their guidance for margin expansion efforts.

3. Profit margin analysis

- **Narrative:** Management has outlined a strategic focus on enhancing profitability through operational efficiencies and cost management. The company is actively working towards optimizing its cost structure to achieve a sustainable increase in operating margins.
- **Management's Guidance:**
- Management has set a target to achieve a 15% operating margin by the end of 2024.
- **Actual Results:**

['Q4', '2023']:
- In Q4 2023, the adjusted operating income margin was 19.1%, which is higher than the management's target of 15% operating margin by the end of 2024. The operating income margin (GAAP) for Q4 2023 was reported at 18.8%.

['Q1', '2023']:
- Operating income margin (GAAP) for Q1 2023 was reported at 17.8%.

['Q2', '2023']:
- Operating income margin (GAAP) for Q2 2023 was reported as 17.3%, which aligns with the focus on enhancing profitability through operational efficiencies and cost management as outlined in the narrative.

['Q3', '2023']:
- In Q3 2023, the Adjusted Operating Income Margin was reported at 18.9%, reflecting a progressive increase towards the management's target of a 15% operating margin by the end of 2024. The Operating Income (GAAP) for Q3 2023 was $307M, while the Operating Income Margin for Q3 2023 was 18.5%, indicating a positive trajectory in enhancing operating efficiencies and cost management as outlined in the strategic focus.
- **Evaluation:**

- Expectations Exceeded: The actual operating income margin of 19.1% in Q4 2023 significantly surpassed the management's target of a 15% operating margin by the end of 2024, indicating that the strategic focus on enhancing profitability through operational efficiencies and cost management exceeded expectations.

4. Earnings per share trends

- **Narrative:** Management has provided a structured outlook for the company's financial performance, with particular emphasis on earnings per share (EPS) trends. The forecast reflects confidence in achieving steady growth through strategic adjustments to revenue targets and management of inflation impacts.

- **Management's Guidance:**
- Management anticipates earnings per share of $0.42, with a possible variation of $0.01, for the upcoming quarter. Additionally, they project EPS of $1.67 at the midpoint for the year, with a potential increase of $0.03 or decrease of $0.02.
- **Actual Results:**
['Q2', '2023']:
- Earnings per share for Q2 2023 was reported as $0.44, which was up 26% year-over-year and exceeded the high end of guidance.
['Q3', '2023']:
- Adjusted Earnings Per Share for Q3 2023 was reported at $0.46, up 28% year-over-year, exceeding the high end of guidance.
['Q4', '2023']:
- Adjusted Earnings Per Share for Q4 2023 was reported at $0.53, showing a 39% year-over-year increase. The full-year 2023 Adjusted Earnings Per Share totaled $1.84, marking a 31% year-over-year rise.
['Q1', '2023']:
- Adjusted Earnings Per Share for Q1 2023 is $0.42, which was up 35% year-over-year.
- **Evaluation:**
- Expectations Exceeded: The actual earnings per share for each quarter of 2023 consistently exceeded the high end of management's guidance, culminating in a full-year EPS of $1.84, which surpassed the projected midpoint of $1.67.

5. New product launches
- **Narrative:** Management has communicated their commitment to expanding the company's product portfolio with the introduction of new product lines. This strategic move is aimed at enhancing Howmet Aero's competitive position and driving growth by addressing emerging market demands.
- **Management's Guidance:**
- Management anticipates launching two new product lines by Q3 2023.
- **Actual Results:**
['Q2', '2023']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

6. Cost management strategies
- **Narrative:** Management emphasized the importance of preparing for anticipated production increases in the latter half of the year. This preparation involves proactive cost management, particularly through strategic employee recruitment, to align with expected higher volumes.
- **Management's Guidance:**
- Management indicates that to support the anticipated production build in the second half, they plan to maintain a similar hiring rate as in Q1, where approximately 500 employees were recruited. This is aimed at ensuring they are equipped to meet the expected increase in production schedules.
- **Actual Results:**
['Q2', '2023']:
- Net head count additions in Q2 were approximately 380 employees, indicating a deviation from the management guidance of maintaining a similar hiring rate as Q1, where approximately 500 employees were recruited.
['Q3', '2023']:
- Absorbed Net Headcount increase of ~145 in Q3, ~195 Q3 YTD
['Q4', '2023']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
- **Evaluation:**
- Expectations Not Met: Management planned to maintain a similar hiring rate as Q1 with around 500 new recruits, but only added approximately 380 employees in Q2 and 145 in Q3, indicating a shortfall in meeting the planned hiring targets for the anticipated production increases.

7. Debt reduction strategies
- **Narrative:** Management has articulated a clear focus on debt reduction as part of their capital allocation and financial strategy. This is evidenced by their proactive steps to reduce debt in the first quarter, which is expected to enhance the company's financial position by decreasing interest expenses and improving cash flow.
- **Management's Guidance:**
- 1. Management has updated their interest rate expense assumption for 2023, reducing it from $227 million to $222 million, reflecting the impact of reducing debt by $150 million late in the first quarter. 2. The reduction in debt is projected to decrease future interest payments by $9 million annually, thereby increasing free cash flow yield. 3. Management anticipates that net leverage will progress towards a 2 times net debt to EBITDA ratio during the remainder of 2023.
- **Actual Results:**
['Q2', '2023']:
- Net debt to EBITDA improved to a record low of 2.5 times, while bond debt is unsecured and at fixed rates.
['Q4', '2023']:
- FY Debt Actions reduce Annualized Interest Expense by ~$29M; Debt Reduction of ~$100M & Debt Refinance of ~$400M in Q4. Net Debt-to-LTM EBITDA5 improved to a record 2.1x; All Long-Term Debt Unsecured at Fixed Rates.
['Q1', '2023']:
- In Q1 2023, the company reported a debt reduction of approximately $176 million using cash on hand, resulting in an annualized interest expense savings of

about $9 million. The net debt-to-LTM EBITDA ratio stood at 2.6 times.
['Q3', '2023']:
- Debt Reduction of ~$200M in Q3, ~$376M Q3 YTD; Annualized Interest Expense savings ~$10M and ~$19M, respectively. Net Debt-to-LTM EBITDA4 improved to a record 2.3x.
- **Evaluation:**
- Expectations Exceeded: The management's debt reduction strategy not only met but exceeded expectations by achieving a net debt-to-EBITDA ratio of 2.1x by Q4 2023, surpassing the anticipated progress towards a 2 times ratio, and resulting in an annualized interest expense saving of $29 million, well above the projected $9 million.

8. Share buyback program
- **Narrative:** Management has articulated a focused approach towards capital allocation through the implementation of a share buyback program. This strategy is aimed at optimizing the company's financial structure and enhancing shareholder value by reducing the outstanding share count and interest expenses.
- **Management's Guidance:**
- Management anticipates that the share repurchase initiative will reduce the company's annualized interest cost by approximately $9 million in the coming quarters.
- **Actual Results:**
['Q4', '2023']:
- Repurchased $100M of Common Stock at an Avg Price of ~$52.52 per Share in Q4; $250M at ~$47.76 Avg Price per Share FY. Common Stock Repurchases ~$250M; Eleven Consecutive Quarters of Share Repurchases. We also repurchased $250 million of common stock at an average price of $47.76 per share. John Plant [Howmet continued with its balanced capital allocation strategy by buying back another $100 million of common stock and repaying another $100 million of debt.]
['Q1', '2023']:
- Q1 Repurchased ~0.6M shares of Common Stock for $25M at an Average Price of ~$43 per Share
['Q3', '2023']:
- Common Stock Repurchases: $25M in Q3; More than $1B since 2020 Separation; Ten Consecutive Quarters. Repurchased $25M of Common Stock at an Avg Price of ~$49 per Share in Q3; $150M at ~$45 Avg Price per Share Q3 YTD. Diluted Share Count Average ~416M. Q3 Diluted shares exit rate of ~414M. $150M common share buyback Q3 YTD. We also repurchased $25 million of common stock in the third quarter at an average price of $49.32 per share. Since separation in 2020, we have repurchased more than $1 billion of common stock. Exited the third quarter with a diluted share count of 414 million shares. Currently in 2023, we repurchased $376 million of debt and brought back $150 million of common stock.
['Q2', '2023']:
- In Q2 2023, management reported repurchasing $100 million of common stock at an average price of approximately $45 per share, retiring approximately 2.2 million shares. This activity was part of the company's ongoing capital allocation strategy to enhance shareholder value.
- **Evaluation:**
- Expectations Met: The share buyback program successfully repurchased $250 million of common stock in FY 2023, aligning with management's goal to optimize the financial structure and reduce interest costs as projected in their guidance.

9. Cash balance management
- **Narrative:** Management has outlined a prudent approach to capital allocation focusing on maintaining a strong cash balance to support strategic initiatives and ensure financial flexibility. This includes managing capital expenditures judiciously to align with the company’s long-term growth objectives and market conditions.
- **Management's Guidance:**
- Management expects capital expenditures to be approximately $200 million for the current year, reflecting disciplined cash balance management to support strategic capital allocation.
- **Actual Results:**
['Q4', '2023']:
- The year-end cash balance was a healthy $610 million with strong liquidity.
['Q1', '2023']:
- Data Not Available
['Q2', '2023']:
- In Q2 2023, the ending cash balance was reported as $536 million, with a record free cash flow of $188 million. Capital expenditures were $41 million.
['Q3', '2023']:
- Ending Cash Balance of $425M; Free Cash Flow of $132M
- **Evaluation:**
- Expectations Exceeded: Management's guidance projected capital expenditures of $200 million for the year, while actual expenditures were significantly lower at $41 million by Q2, with the year-end cash balance remaining strong at $610 million, indicating a more effective cash balance management than anticipated.

10. Inventory management strategies
- **Narrative:** Management highlighted ongoing efforts to rectify inventory backlogs linked to previous underproduction of F-35 fighters. This strategy is part of a broader initiative to streamline inventory management processes and improve operational efficiency.
- **Management's Guidance:**
- Management anticipates that the resolution of inventory issues related to F-35 bulkheads, emanating from prior underproduction in 2020 and 2021, will be completed within the next two to three quarters.
- **Actual Results:**
['Q3', '2023']:
- Data Not Available
['Q4', '2023']:
- In Q4 FY23, inventories were reported at 1,609 to 1,765, with John Plant noting that 8 aircraft sets per month went into inventory in Q4, totaling 24 sets in Boeing inventory.
['Q1', '2023']:
- In Q1 2023, management reported carrying over $100 million of inventory from 2022 into 2023, and they chose not to reduce inventories in the first quarter.
['Q2', '2023']:

- Data Not Available
- **Evaluation:**
- **Expectations Not Met: Management anticipated resolving the inventory issues within two to three quarters, but by the end of Q4 2023, inventories remained substantial, indicating that inventory management improvements were not fully realized as planned.**

11. Production rate guidance
- **Narrative:** Management highlighted efforts to enhance production capabilities by increasing sponge requirements and ramping up production in titanium furnaces. This strategic move is aimed at meeting anticipated demand and aligning with future production targets. Additionally, management emphasized the importance of strategic procurement timelines for different types of metals, indicating a methodical approach to inventory management and production scheduling.
- **Management's Guidance:**
- Management plans to increase sponge requirements and ramp up production in titanium furnaces throughout 2023 to boost production capabilities. They noted that procurement timelines for base metals could range from six to nine months, while alloy metals could take 15 to 20 months to secure, reflecting a deliberate approach to managing production and supply chain needs.
- **Actual Results:**
['Q2', '2023']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q1', '2023']:
- Data Not Available
- **Evaluation:**
- Insufficient Info: Data not available.

12. Emissions reduction targets
- **Narrative:** Management is actively pursuing emissions reduction as part of their ESG initiatives. They have made significant progress towards their 2024 greenhouse gas emission goal by achieving a 20% reduction from the 2019 baseline. This progress indicates a strong commitment to meeting their target of a 21.5% reduction by 2024. Additionally, they are preparing for upcoming emissions performance requirements, particularly in the U.S., which will influence their strategies moving forward.
- **Management's Guidance:**
- Management plans to further reduce carbon emissions by 20% over the next five years.
- **Actual Results:**
['Q2', '2023']:
- Data Not Available
['Q3', '2023']:
- Data Not Available
['Q4', '2023']:
- Data Not Available
['Q1', '2023']:
- Achieved 20% GHG emissions reduction vs 2019 baseline. John Plant stated, "We progressed against our 2024 greenhouse gas emission goal by achieving a 20% reduction in total greenhouse gas emissions through 2022 from the 2019 baseline."
- **Evaluation:**
- Insufficient Info: Data not available.

13. Commercial aerospace trends
- **Narrative:** Management highlighted positive trends within the commercial aerospace sector, focusing on the improved outlook for wide-body aircraft. The discussion emphasized an anticipated recovery in this segment, driven by increased production expectations for major aircraft models like the Airbus A350 and Boeing 787. Additionally, there was an acknowledgment of the commercial aero segment's recovery trajectory, aiming to reach a significant portion of its pre-pandemic levels by the end of the year.
- **Management's Guidance:**
- Management anticipates an improvement in the wide-body aircraft mix starting in the second half of the year, with further improvements expected in 2024, particularly for Airbus A350 and Boeing 787 models. The commercial aerospace segment is projected to recover to at least 75% of its pre-COVID levels by the end of the year, with expectations of reaching 80% of 2019 levels depending on market conditions.
- **Actual Results:**
['Q2', '2023']:
- Commercial aerospace exhibited significant growth during Q2 2023, with a year-over-year increase of 23%. This growth was attributed to a recovery in the wide-body segment, evidenced by a 19% increase as the wide-body recovery begins to take effect.
['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. Additionally, commercial aerospace has grown for 11 consecutive quarters and stands at just over 50% of total revenue.
['Q1', '2023']:
- Aerospace - Commercial 73%
- **Evaluation:**
- **Expectations Met**: The commercial aerospace segment showed significant growth with a 23% year-over-year increase and a continued recovery trajectory, aligning with management's guidance of reaching at least 75% of pre-COVID levels by the end of the year.

14. Supply chain disruptions

- **Narrative:** During the earnings call, management expressed a cautious outlook regarding the supply chain's impact on the commercial aircraft sector. They highlighted ongoing challenges in maintaining consistent production rates amidst prevailing disruptions. The focus was on monitoring the situation closely to adapt strategies as needed to mitigate risks associated with these disruptions.
- **Management's Guidance:**
- Management remains cautious about commercial aircraft build in the second half until clear evidence of consistent production rate increases is observed.
- **Actual Results:**

['Q2', '2023']:

- Costs associated with closures, supply chain disruptions, and other items in Q2 2023 and YTD 2023 included costs for a site closure and inventory disposal, an impact for supply chain disruptions, and remediation and separation expenses.

['Q3', '2023']:

- Special items for the quarter ended September 30, 2023, included $1 million of costs associated with closures, supply chain disruptions, and other items.

['Q4', '2023']:

- For the quarter ended December 31, 2023, Corporate expense included ($13) of net reimbursements related to fires at two plants and $2 of costs associated with closures, supply chain disruptions, and other items.

['Q1', '2023']:

- Data Not Available
- **Evaluation:**
- **Expectations Not Met: Management's cautious outlook on supply chain disruptions and the lack of evidence for consistent production rate increases were validated by ongoing costs and disruptions reported throughout 2023, indicating the challenges were not sufficiently mitigated.**