

Q1 2024

1. Organic growth drivers

- **Narrative:** Management has provided insights into organic growth drivers by emphasizing adjustments in revenue expectations for the upcoming year. The company has recalibrated its revenue forecast, indicating strategic efforts to align with market conditions and capitalize on growth opportunities. The focus on increasing revenue from spares and industrial gas turbines (IGT) underlines a commitment to expanding core business areas.

- **Management's Guidance:**

- The company projects an overall increase of approximately \$200 million in revenue for 2024, marking a positive outlook for the year.
- A year-on-year revenue growth is anticipated with a 10% to 15% increase, reflecting changes in engine production expectations.
- Revenue in Q2 is expected to be slightly higher than in Q1, indicating sequential growth.
- IGT is projected to see a mid-single-digit increase for the year, contributing an additional \$60 million in revenue.
- A significant growth in spares revenue is anticipated, with over \$120 million in increased revenue, implying a 25% year-on-year lift in the spares business and approximately 35% growth in commercial aero.
- Management is confident about maintaining and potentially improving upon 2023 revenue levels into 2024.

- **Actual Results:**

['Q2', '2024']:

- Revenue in Q2 2024 was reported to be up 14% year-over-year, driven by strong growth in commercial aerospace, which was up 27% year-over-year.

['Q3', '2024']:

- Data Not Available

['Q1', '2024']:

- Revenue for Q1 2024 was reported at \$1.824 billion, reflecting a 14% year-on-year increase. This growth was primarily driven by a 23% increase in the commercial aerospace market.

- **Evaluation:**

- **Expectations Exceeded:** The actual results showed a 14% year-over-year increase in revenue for both Q1 and Q2 2024, driven by strong growth in commercial aerospace, which surpassed the management's guidance of 10% to 15% growth and specific increases in the spares and IGT sectors.

2. Revenue diversification

- **Narrative:** Management highlighted a strategic focus on revenue diversification by enhancing operational efficiencies and targeting new market segments. This approach is expected to bolster the company's competitive position and drive sustainable growth in the aerospace sector.

- **Management's Guidance:**

- Management announced an increase in the revenue guide by \$200 million at midpoint, with an improvement in the margin rate from 23% to 24%, indicating confidence in capturing new market opportunities and optimizing financial performance.

- **Actual Results:**

['Q1', '2024']:

- Revenue increased by 25% year-over-year to \$389 million for Fastening Systems in Q1 2024, with third-party sales market revenue totaling \$885 million as of March 31, 2024.

['Q2', '2024']:

- Revenue for Q2 2024 was reported at \$1.880 billion, demonstrating growth in line with the management's guidance for revenue increase and diversification efforts.

['Q3', '2024']:

- Revenue of \$1.87 billion, plus or minus \$20 million

- **Evaluation:**

- **Expectations Exceeded:** The actual results showed significant revenue growth, with Q1 2024 revenue for Fastening Systems increasing by 25% year-over-year and Q2 2024 revenue aligning with management's guidance, indicating that the company's revenue diversification and market capture efforts surpassed expectations.

3. Profit margin analysis

- **Narrative:** Management has provided insights into the anticipated performance regarding profit margins. The focus remains on maintaining strong profitability through strategic initiatives and operational efficiencies.

- **Management's Guidance:**

- Management has guided to a 24% EBITDA margin.

- **Actual Results:**

['Q1', '2024']:

- Total Segment Adjusted EBITDA margin for Q1 2024 was reported to be 24.0%, aligning with the management guidance of a 24% EBITDA margin.

['Q2', '2024']:

- Adjusted EBITDA for Q2 2024 was \$483 million, and the EBITDA margin was 25.7%, which exceeded the management guidance of a 24% EBITDA margin.

['Q3', '2024']:

- John Plant EBITDA was a record \$487 million, along with a margin of 26.5%, while operating income was \$419 million with a margin of 22.8%.

- **Evaluation:**

- **Expectations Exceeded:** The management's guidance was for a 24% EBITDA margin, and the actual results exceeded expectations, with margins of 25.7% in Q2 2024 and 26.5% in Q3 2024, surpassing the initial target.

4. Earnings per share trends

- **Narrative:** Management has provided detailed guidance for the upcoming financial quarters, emphasizing a stable growth outlook. They highlighted specific targets for revenue, EBITDA, and earnings per share, indicating a strong focus on achieving these financial metrics.

- **Management's Guidance:**

- For Q2, management expects revenue to be \$1.835 billion, plus or minus \$10 million, EBITDA of \$440 million, plus or minus \$5 million, and earnings per share of \$0.58, plus or minus \$0.01. For the full year, they project revenues of approximately \$7.3 billion, EBITDA of \$1.75 billion, and earnings per share of \$2.35.

- **Actual Results:**

['Q1', '2024']:

- EPS (GAAP) for Q1 2024 was \$0.59, which is slightly above the management guidance range of \$0.58 (\pm \$0.01). Adjusted Earnings Per Share was reported at \$0.57, reflecting a 36% year-over-year increase.

['Q2', '2024']:

- Earnings per share for Q2 2024 were reported at \$0.65 and adjusted earnings per share were \$0.67, which is above the management guidance range of \$0.58 (\pm \$0.01).

['Q3', '2024']:

- John Plant Earnings per share was \$0.71, an increase of 54% year-over-year.

- Evaluation:

- **Expectations Exceeded:** The actual earnings per share for Q2 2024 were reported at \$0.65, which is significantly above the management guidance range of \$0.58 (\pm \$0.01), indicating expectations were exceeded.

5. Aerospace product enhancements

- **Narrative:** Management has highlighted ongoing efforts to enhance aerospace products, particularly focusing on advancements in turbine componentry and engine technology. These improvements are aimed at meeting future requirements for additional thrust and efficiency, indicating a strategic focus on long-term innovation in the aerospace sector.

- Management's Guidance:

- Management expects the current LEAP engine shop visits to peak well after 2030. Additionally, improvements in turbine componentry are anticipated around the 2028 mark to cater to increased thrust requirements.

- Actual Results:

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

6. New product launches

- **Narrative:** Management highlighted the progressive rollout of enhanced turbine blades, emphasizing their robust features aimed at strengthening the company's product offerings.

- Management's Guidance:

- Management indicated that the impact of the new turbine blades will become more prominent as the company progresses into 2025 and beyond.

- Actual Results:

['Q3', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

['Q2', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

7. Manufacturing optimization

- **Narrative:** Management is focused on maintaining and improving productivity levels, particularly in the Engine division. This is part of efforts to counterbalance revenue fluctuations within its aerospace and defense segments, while still achieving net growth in the commercial sector.

- Management's Guidance:

- Management anticipates sustaining current productivity in the latter half of the year and plans to enhance operations in the Engine division to mitigate revenue volatility, expecting overall growth in both the aerospace and defense markets.

- Actual Results:

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

['Q1', '2024']:

- Data Not Available

- Evaluation:

- Insufficient Info: Data not available.

8. Debt reduction strategies

- **Narrative:** Management is focused on reducing the company's debt levels, aiming to strengthen the financial positioning by targeting a lower net leverage ratio. This strategy is part of a broader capital allocation and financial strategy to improve the company's balance sheet and financial flexibility.

- Management's Guidance:

- Management anticipates reducing the net leverage ratio from the current level of 2x to approximately 1.5x net debt-to-EBITDA by the end of the year, indicating a significant focus on debt reduction.

- Actual Results:

['Q1', '2024']:

- Net Debt-to-LTM EBITDA4 improved to a record low 2.0x

['Q3', '2024']:

- In Q3 2024, management reported a net debt-to-EBITDA ratio of 1.6 times, reflecting progress towards the target of 1.5x. The company reduced debt by approximately \$282 million through several actions, which included redeeming the remaining \$205 million balance of the 2024 bonds with cash on hand and issuing \$500 million of new bonds due in October 2031 at a fixed interest rate of 3.72%. These actions will reduce annualized interest expense by approximately \$33 million.

['Q2', '2024']:

- Net Debt-to-LTM EBITDA4 improved to a record low 1.7x, indicating progress towards the debt reduction goals outlined in the management guidance.

- Evaluation:

- Expectations Not Met: While management aimed to reduce the net leverage ratio to approximately 1.5x by year-end, the ratio only reached 1.6x by Q3 2024, indicating that the target was not fully achieved.

9. Share buyback program

- **Narrative:** Management outlined a focused capital allocation strategy, emphasizing the prioritization of free cash flow towards share buyback initiatives in 2024. This reflects a commitment to returning value to shareholders while maintaining financial flexibility.

- Management's Guidance:

- The majority of the other uses of free cash flow in terms of capital allocation will be share buyback in 2024, while still preserving the ability to pay down the stuff of the 2024 bond of \$200 million should we decide to do so.

- Actual Results:

['Q2', '2024']:

- In Q2, \$60 million was used to repurchase common stock, totaling \$210 million year-to-date at an average price of approximately \$71 per share.

['Q1', '2024']:

- We deployed approximately \$170 million of cash in the quarter to shareholders, of which \$150 million was used to repurchase common stock. This was the 12th consecutive quarter of common stock repurchases.

['Q3', '2024']:

- In the third quarter, we repurchased \$100 million of common stock at an average price of approximately \$94 per share. Year-to-date through September, we repurchased \$310 million of common stock at an average price of approximately \$77 per share. Q3 was the 14th consecutive quarter of common stock repurchases. The average diluted share count improved to a record low Q3 exit rate of 409 million shares.

- Evaluation:

- **Expectations Met:** HowmetAero's management prioritized free cash flow towards share buybacks in 2024, as guided, with \$310 million repurchased by Q3, maintaining their commitment to return value to shareholders while preserving financial flexibility.

10. Dividend distribution

- **Narrative:** Management has articulated a clear strategy to enhance shareholder value through increased dividend distribution. The decision to raise the dividend underscores the company's confidence in its financial health and future cash flow generation capabilities.

- Management's Guidance:

- Management expects to raise the dividend by 40% in the second half of the year, starting with the payment in August, pending Board approval. The expected increase is \$0.02 per share, bringing the total dividend to \$0.07 per share, reflecting a 40% increase.

- Actual Results:

['Q1', '2024']:

- In Q1 2024, a quarterly dividend of \$0.05 per share was paid, which is below the management's guidance of increasing the dividend to \$0.07 per share.

['Q3', '2024']:

- In the third quarter, we paid \$34 million in dividends as we increased the common stock dividend 60% from \$0.05 per share to \$0.08 per share.

['Q2', '2024']:

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

- Evaluation:

- Expectations Exceeded: In Q3 2024, the dividend was increased by 60% to \$0.08 per share, exceeding the management's guidance of a 40% increase to \$0.07 per share.

11. Cash balance management

- **Narrative:** Management has taken strategic steps to bolster liquidity and manage cash resources effectively. This includes the establishment of a \$1 billion commercial paper program, which enhances liquidity and flexibility in capital management. The company is also investing significantly in facilitization and hiring, with investments potentially approaching \$200 million, indicating a robust commitment to supporting growth and operational efficiency.

- Management's Guidance:

- The establishment of a \$1 billion commercial paper program strengthens liquidity, indicating a proactive approach to managing cash resources. Investments in facilitization and hiring are expected to be substantial, potentially nearing \$200 million, reflecting a strategic focus on scaling operations.

- Actual Results:

['Q3', '2024']:

- Liquidity remains strong with a healthy cash balance in a \$1 billion undrawn revolver complemented by the flexibility of a \$1 billion commercial paper program.

['Q1', '2024']:

- In Q1 2024, the company reported a healthy cash balance of \$534 million and established a \$1 billion commercial paper program, aligning with the management's guidance on strengthening liquidity and cash balance management. Additionally, free cash flow for the quarter was a record \$95 million.

['Q2', '2024']:

- In Q2 2024, the company reported a quarter-end cash balance of \$752 million, supported by the flexibility of a \$1 billion commercial paper program. Liquidity was described as strong with a healthy cash balance and an undrawn revolver of \$1 billion.

- Evaluation:

- **Expectations Met:** Management's guidance on strengthening liquidity through the establishment of a \$1 billion commercial paper program was met, as evidenced by the reported strong cash balance and liquidity throughout Q1 to Q3 2024, aligning with their strategic cash management objectives.

12. Production rate guidance

- **Narrative:** Management has indicated a strategic recalibration of production rates for the upcoming year. This involves a cautious reduction in aircraft build rates to ensure alignment with market conditions and contractual obligations. The company is setting a more conservative production pace while planning for potential

increases in the future. This approach reflects a flexible strategy to adapt to potential shifts in demand and to prepare for anticipated growth in subsequent years.

- Management's Guidance:

- The company has revised its build rate assumption to approximately 20 aircraft per month for the year, down from a previously reported 34 aircraft per month. Adjustments have been made from six aircraft per month down to five, maintaining this assumption throughout the year. Howmet Aerospace is committed to delivering no more than the absolute minimum level as per their contract with Boeing. Future production rates are expected to increase above rate five as the company heads into 2025, with a higher rate anticipated in 2026. Preparations are underway for a further rate increase in 2025 for the Airbus A350.

- Actual Results:

['Q1', '2024']:

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

['Q2', '2024']:

- John Plant - "we have significantly increased our production of turbine blade and hot section"

['Q3', '2024']:

- Data Not Available

- Evaluation:

- **Expectations Met:** Howmet Aerospace successfully aligned its production rates with the revised guidance, maintaining a conservative rate of 20 aircraft per month as planned, and managing their commitments to Boeing effectively.

13. Emissions reduction targets

- **Narrative:** Management is committed to reducing greenhouse gas emissions as part of their Environmental, Social, and Governance (ESG) initiatives. They have set clear targets for emission reductions, demonstrating progress towards these goals by achieving significant reductions from their 2019 baseline year. The company has outlined its strategy to achieve further reductions in the coming years, reinforcing their dedication to sustainability.

- Management's Guidance:

- Management has indicated that they are on track to meet their 2024 goal of a 21.5% reduction in greenhouse gas emissions from the 2019 baseline, having already achieved a 20% reduction in 2023. Furthermore, they have set a longer-term target for 2027, aiming for a 33% reduction in emissions from the same baseline year.

- Actual Results:

['Q1', '2024']:

- In 2023, we continue to progress against our 2024 greenhouse gas emissions goal by achieving a 20% reduction in total greenhouse gas emissions from 2023 compared to 2019, which is our baseline year.

['Q2', '2024']:

- Data Not Available

['Q3', '2024']:

- Data Not Available

- Evaluation:

- **Expectations Met:** Management set a goal of a 21.5% reduction in greenhouse gas emissions by 2024, and they have reported achieving a 20% reduction by 2023, indicating they are on track to meet their target.

14. Commercial aerospace trends

- **Narrative:** Management highlighted a positive outlook for the commercial aerospace sector, indicating expectations of steady growth over the coming years. The focus is on leveraging partnerships to maintain a stable production rate and capitalize on projected sales increases.

- Management's Guidance:

- Management foresees an upward trend in commercial aerospace sales through 2025, 2026, and 2027. They anticipate consistent annual production, assuming Lockheed's delivery of approximately 150 aircraft per year over the next decade.

- Actual Results:

['Q1', '2024']:

- Commercial aerospace has now grown for 12 consecutive quarters and represents approximately 50% of total revenue.

['Q2', '2024']:

- John Plant [commercial aerospace growth was an outstanding 27%...]

['Q3', '2024']:

- Commercial aerospace revenue was reported to be up 17% in Q3 2024, reflecting a positive trend in market demand and sector performance.

- Evaluation:

- **Expectations Exceeded:** The commercial aerospace sector exhibited outstanding growth, with a 27% increase in Q2 2024 and a 17% rise in Q3 2024, surpassing the steady growth expectations outlined by management's guidance.

15. Defense sector opportunities

- **Narrative:** Management highlighted potential growth in spares revenue for F-35 turbine blades, positioning this as a significant opportunity within the defense sector. They indicated that this growth might parallel the original equipment (OE) demand levels by 2025, suggesting an optimistic outlook on the defense market's contribution to the company's performance.

- Management's Guidance:

- Management anticipates that by 2025, spares revenues for F-35 turbine blades could match the current demand for original equipment.

- Actual Results:

['Q3', '2024']:

- Defense Aerospace up 15%

['Q1', '2024']:

- Defense aerospace was also strong, up 12%.

['Q2', '2024']:

- Defense aerospace was up 45% year-over-year, driven primarily by the F-35 program.

- Evaluation:

- **Expectations Exceeded:** The actual results showed a significant increase in defense aerospace, particularly driven by the F-35 program, with a 45% year-over-year rise in Q2 2024, which indicates stronger-than-anticipated growth well ahead of the 2025 target for spares revenue to match current OE demand

levels.