Howmet Aerospace Inc. (NYSE:HWM) Q1 2023 Earnings Conference Call May 2, 2023 10:00 AM ET

Company Participants

Paul Luther - VP, IR
John Plant - Executive Chairman, CEO
Ken Giacobbe - EVP and CFO

Conference Call Participants

Noah Poponak - Goldman Sachs
Myles Walton - Wolfe Research
Robert Spingarn - Melius Research
Kristine Liwag - Morgan Stanley
Sheila Kahyaoglu - Jefferies
Seth Seifman - JPMorgan
Robert Stallard - Vertical Research
David Strauss - Morgan Stanley
Gautam Khanna - Cowen
Matt Akers - Wells Fargo
Phil Gibbs - KeyBanc Capital Markets

Operator

Good day. And welcome to the Howmet Aerospace First Quarter 2023 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Paul Luther, Vice President, Investor Relations. Please go ahead.

Paul Luther

Thank you, Andrew. Good morning and welcome to the Howmet Aerospace first quarter 2023 results conference call. I'm joined by John Plant, Executive Chairman and Chief Executive Officer, and Ken Giacobbe, Executive Vice President and Chief Financial Officer. After comments by John and Ken, we will have a question-and-answer session.

I would like to remind you that today's discussion will contain forward-looking statements relating to future events and expectations. You can find factors that could cause the company's actual results to differ materially from these projections listed in today's presentation and earnings press release and in our most recent SEC filings.

In today's presentation, references to EBITDA and adjusted EBITDA excluding special items and adjusted EPS excluding special items. These measures are among the non-GAAP financial measures that we've included in our discussion. Reconciliations to the most directly comparable GAAP financial measures can be found in today's press release and in the Appendix in today's presentation.

So, with that, I'd like to turn the call over to John.

John Plant

Thanks P.T. and good morning, everyone. Howmet's Q1 results speak louder for themselves. Revenue was $1.6 billion, an increase of 21% year-over-year and an increase of 6% sequentially. Commercial Aerospace increased 29% year-over-year and 4% sequentially. Revenue was above guidance by significant demand, which was in itself an increase quarter-over-quarter and naturally increased revenues require some working capital.

EBITDA was $360 million, an increase of 20% year-over-year and an increase of 7% sequentially.

EBITDA margin was healthy at 22.5%, again, an increase sequentially. Earnings per share were up 35% year-over-year. Free cash flow was negative $41 million, driven by the higher revenues and will now be followed by three successive quarters of substantial cash inflow.

During the quarter that was reduced by $176 million from the 2024 bonds with cash on hand. And this will further reduce future interest payments by $9 million annually, and hence increasing free cash flow yield.

In addition, $25 million of common stocks were repurchased. During the balance of 2023, shareholders can expect further steps regarding the application of cash flows, and thereby creating shareholder value. All of the above growth, margin rate, free cash flow and the application to create value all speak to the business and financial model of the company. I will comment further on the outlook after Ken has outlined the growth by markets and performance by business segments.

Ken Giacobbe

Thank you, John. And good morning, everyone. Let's move to Slide 5 for an overview of the markets for the first quarter. Revenue was up 21% year-over-year and 6% sequentially. Commercial Aerospace continue to lead year-over-year revenue growth with an increase of 29% driven by engine products, engineered structures and fastening systems. Sequentially, Commercial Aerospace was up 4%.

Commercial Aerospace has grown for eighth consecutive quarters and expanded 47% of total revenue, and although growing continues to be short of the pre-pandemic level of 60% of total revenue.

Defense Aerospace was up 11% year-over-year, driven by the F-35 program and growth in legacy spares. Sequentially, Defense Aerospace was flat due to strong year-end seasonality.

Commercial Transportation which impacts both the forged wheels and fastening system segments was up 17% year-over-year, and up 9% sequentially driven by higher volumes.

Finally, the industrial and other markets were up 16% year-over-year, driven by oil and gas which was 53%, IGT up 14% and General Industrial up 1%. Sequentially, these markets were up 15% with oil and gas up 25%, IGT up 15%, and General Industrial of 10%. In summary, strong growth across all of our end markets.

Now let's move to Slide 6. We will start with the P&L and the focus on enhanced profitability for the first quarter. Revenue, EBITDA and earnings per share all exceeding the high end of guidance. Revenue was $1.6 billion or up 21% year-over-year. EBITDA was up 20% year-over-year and EBITDA margin was 22.5%. Adjusting for the year-over-year, inflationary costs pass through of approximately $35 million, EBITDA margin was 23% and the flow through of incremental revenue to EBITDA was approximately 25%, while absorbing near term recruiting, training, and production costs for approximately 500 net headcount additions.

Earnings per share was $0.42, which was 35% year-over-year. The first quarter represented the seventh consecutive quarter of growth in revenue, EBITDA and earnings per share.

Moving through the balance sheet, the ending cash balance was $538 million, after approximately $218 million of capital allocation, debt reduction of $176 million, common stock repurchases of $25 million and quarterly dividends of $17 million. Free cash flow for the quarter was a negative $41 million, driven by higher revenues in the first quarter.

Finally, net debt-to-EBITDA remained at a record low of 2.6 times. All bond debt is unsecured and its fixed rates which will provide stability of interest rate expense into the future. Our next bond maturity is in October 2024 and the $1 billion revolver remains undrawn.

Moving to capital allocation, we continue to be balanced in our approach. Capital expenditures were $64 million in the quarter and continue to be less than depreciation. Capital installed prior to COVID-19 puts us in a very strong position to support the continued commercial aerospace recovery.

Regarding debt, we reduced the 2024 debt tower in the first quarter by approximately $176 million with cash on hand. These repurchases will lower our annualized interest cost by approximately $9 million. The October 2024 debt tower now stands at approximately $900 million, which is below our revolver. Our continued progress on debt reduction, EBITDA growth and healthy liquidity has resulted in an upgrade to our outlook from S&P last week from stable to positive. You can find our remaining debt towers in the appendix.

Moving to share repurchases. The first quarter was the eighth consecutive quarter of common stock repurchases. Since the separation in 2020, we have repurchased approximately $928 million of common stock with an average acquisition price of $31.79 per share. Share buyback authority from the board of the directors stands at $922 million.

Lastly, we continue to be confident in free cash flow. In the first quarter, the quarterly common stock dividend remained at $0.04 per share after it was doubled in the fourth quarter of last year.

Now let's move to Slide 7 to cover the segment results for the first quarter. Engine Products continued its strong performance. Revenue was $795 million, an increase of 26% year-over-year and an increase of 9% sequentials. Year-over-year, commercial aerospace was up 31% and Defense Aerospace was up 19% with both markets driven by higher build rates and spares growth. IGT was up 14% and oil and gas was up 57%.

EBITDA increased 23% year-over-year to a record for the segment of $212 million. EBITDA margin was 26.7% despite the addition of approximately 260 net new employees and the associated near-term recruiting, training and production costs.

Please move to Slide 8. Fastening Systems year-over-year revenue increased 18%. Commercial Aerospace was up 15% driven by the narrow-body recovery. Defense Aerospace was up 38% and Commercial Transportation was up 19%. The year-over-year segment EBITDA increased 4% as volume increases were partially offset by inflationary costs and the addition of approximately 215 net new employees and the associated near-term recruiting, training and production costs.

Now let's move to Slide 9. Engineered Structures year-over-year revenue was up 14% with Commercial Aerospace up 39%, driven by higher build rates and approximately $20 million of Russian titanium share gain. Defense Aerospace was down 23% year-over-year driven by some legacy programs. Segment EBITDA increased 30% year-over-year, while margin improved 190 basis points.

Finally, let's move to Slide 10. Forged Wheels year-over-year revenue increased 17%. The $42 million increase in revenue year-over-year was driven by 18% increase in volume. Segment EBITDA increased 18% year-over-year, in line with the higher volumes. Margin increased 20 basis points as the impact of lower aluminum prices was mostly offset by inflationary cost pass-through and unfavorable foreign currency.

Lastly, before turning it back over to John, one item of note, in the appendix, we've added Slide 16 and have updated the improved interest rate expense assumption for 2023 from $227 million to $222 million. This change reflects the 2023 impact of reducing debt by $150 million late in the first quarter.

As you may recall, we had already included the impact of reducing debt by approximately $26 million in January before we published our original 2023 guidance.

Now let me turn it back over to John.

John Plant

Thanks, Ken, and let's move to Page 11. Moving to ESG, we continue to leverage our differentiated technologies to help our customers manufacture lighter, more fuel-efficient aircraft and commercial trucks with lower carbon footprints.

Within our own operations, Howmet remains committed to managing our energy consumption and environmental impacts as we increase production. In 2022, our actions have reduced the intensity of Howmet's greenhouse gas emissions, energy consumption, water use and hazardous waste. 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 approaching already the 2024 goal of a 21.5% reduction.

Howmet is also committed to a safe workplace while fostering a diverse, equitable and inclusive work environment where all our employees can thrive. Our safety record continues to improve and is 7 times better than the industry average. Moreover, Howmet was named one of the best places to work for LGBTQ equality by the Human Rights Campaign Foundation.

We also increased our workforce by 1,500 people and invested nearly $200 million in 2022 to support the significant production growth.

Regarding governance, the company was recognized by 50-50 women on boards having 40% of our board of directors made up of women. Lastly, 75% of our key suppliers have sustainability programs considered to be leading proactive. I'd encourage you to read our sustainability report found at howmet.com in the Investors section.

Let's move to Slide 12 and talk about our updated outlook. Firstly, demand for aircraft is very high and aircraft manufacturers' backlogs are in very good order, both for narrow-body and wide-body aircraft. Spares volume and the business jet market also continues to show strength. Airline load factors continue to be very high and robust in the west with rapid growth now seen in both short-haul and long-haul flights in Asia.

This travel-led demand stimulus is further augmented by the need for modern, fully-efficient aircraft, given the current cost of jet-fuel and the very high cost of SAF substitute fuel. This is further driven by the commitment of airlines to meet carbon emission targets for today, 2030 and 2050, which can only be achieved by using the new fuel-efficient engines and aircraft.

Current new engines fit to narrow-body jets are all looking at steps to further increase efficiency, which also helps Howmet given our capabilities in complex casting shapes to provide improved their management and hence, fuel efficiency. The other divisions of Howmet are also benefiting by the increased use of titanium and sophisticated fastener suites required by composite wings and fuselages, notably, but not exclusively for wide-body aircraft.

The defense market outlook is also healthy with increased budgets and strong demand for F-35s, drones, rocket motor parts and Howmet part. The last part of the F-35 injury inventory correction regarding bulkheads that resulted from the prior underbuild of the F-35 fighters in 2020 and 2021 should be dissipated over the next two to three quarters. IGT turbine blade demand continues to be steady and turbine demand from the oil and gas sector is very high.

The year started well in commercial truck. Given the backlog and steady truck ordering in both North America and Europe, it should mean that any demand drop indicated after spring is now pushed out for at least one quarter or so, albeit the normal Q3 seasonality regarding Europe will obviously apply.

The required emissions performance targets for trucks in 2024, especially in the U.S., will apply with no ability to have a stimulated prebuild. In reassessing all of the above, plus robust engine demand was seen in Q1, the outlook for the year has increased. We remain cautious about commercial aircraft build in the second half until we see clear evidence of consistent production rate increases, which will be controlled by the efficiency of both the aircraft assembly lines and the supplier parts, which leads to the final production being set by the weakest link in all of the supply chain.

We, as you know, saw this the effect of this phenomenon in late Q3 of 2022 and also in Q4 when Howmet delivery requirements were curtailed to balance customer inventories.

More specifically and turning to guidance for the second quarter. We now see revenue of $1.61 billion, plus or minus $10 million, EBITDA of $362 million, plus or minus $3 million and earnings per share of $0.42 plus or minus $0.01. For the year, we see revenue of $6.25 billion, plus $75 million minus $50 million, EBITDA of 1.415 [ph], plus 20 minus $15 million. Earnings per share of $1.67 at midpoint, plus $0.03 minus $0.02. And free cash flow increased by $20 million to $635 million, plus or minus $35 million.

Please move to Slide 13. In summary, Q1 performance was healthy and a great start to 2023, and the outlook as seen by Howmet is improving. The balance sheet was improved with debt reductions of $176 million and net leverage will now continue towards the 2 times net debt to EBITDA in the balance of 2023, given both the reduction in debt and the improved EBITDA. The balance sheet is strong.

Continuing share repurchases can be expected as cash is generated and the current authority is sufficient to continue this program. Annual cash to service legacy Penton and OPEB liabilities is modest at approximately $56 million.

We look forward to updating you again in August. And thank you very much. Let's move to your questions.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak

Hey, good morning. John, the -- if I take the 1Q actual on the revenue and then the 2Q guide, the full year guide in order to get into that range, 3Q and 4Q, it looks like it would need to be closer to $1.5 billion. Recognizing everything you've been saying and the posture you've been taking with conservatism around the end markets. Just in general, how do we get there? And I guess, last quarter was helpful to describe what you were assuming on the major aircraft production rates in the guide, if you could just update us there?

John Plant

Yeah. Before I comment specifically on any aircraft build guide. Let me just back up. And we talk how we thought about the balance of the year. And I think this is really important in setting the tone because managing through an upturn has many more dimensions, especially when you have one major segment, which is commercial aerospace having such significant potential volume increases.

And as you know, volumes for aircraft builds have been taken up, down, delayed with some regularity over the last year, two years. And so how we thought about is that we see essentially Q2 playing out very similar to Q1 and preparing for, I say, the improvement in build. And in doing so, we need to add to our costs.

And so in Q1, as you saw from Ken's commentary, we recruited some 500 people. And we're heading probably to a similar sort of run-rate of employee addition in Q2 and all expecting that we are receiving and will be receiving the schedules to meet these potential lifted second half volumes. And of course, you will know, as everybody else knows, is that Boeing has announced that for the 737 that they will take their production rate up to 38 at some time later in the year without specifying exactly when that is.

And the cost of these headcounts are clearly are not matched by revenues in the second quarter. So we're prepared to support our customers where they may go in volume. And so we're confident that those parts are going to be scheduled, both by the engine manufacturers and the airframe manufacturers. But as I said in my prepared remarks, is that we're also cognizant of what happened in the last four months of last year when cutbacks occurred because people did not achieve or our customers were unable to achieve some of their more ambitious increases that they had thought about.

And I did say about all marching to the place of the weakest link and whether that's in the supply base or in the final assembly of aircraft, it doesn't really matter.

So we set ourselves up. We want to be cautious about the second half and we'll maintain that stance until we see actual increases in production. And when we see those increases, I think we're going to have a lot more confidence that we're not going to get cut back. And hopefully, that might produce a good outcome and possibly even better than we currently see. But say, who knows and we are one of the few almost the not quite one, but say the handful of aerospace suppliers, who are actually increased guidance.

So in summary, what -- our thinking is whether it's commercial aero, whether it's strength in the oil and gas, increased strength in our commercial truck and pushing back some of the potential for any cutbacks there and also the strength in defense. It's a guide up across many of those sectors, which also have to be taken into account while still maintaining that for the year, we need to be suitably cautious because we're only one quarter in. And we're going to see how this plays out, even though we are optimistic that everybody achieves their plans. At the same time, I don't want to put ourselves in and give you a sense of robustness, which may not occur in the end.

So hopefully, that gives you the way we thought about it, Noah. And I've also referenced the only public change in production rate, which is for the 737 later in the year. And essentially, we are not calling out any changes in any other specific numbers because we don't know of any.

Noah Poponak

[Indiscernible] on your framework.

John Plant

Okay. Thank you.

Noah Poponak

Thanks.

Operator

The next question comes from Myles Walton with Wolfe Research. Please go ahead.

Myles Walton

Thanks, good morning. John or Ken or the profile of margins at Fastening Systems, I was hoping you could touch on those. Obviously, there the EBITDA margin is a couple of hundred basis points below the last year or so. It doesn't really look like mix. I know you're hiring and there's a recruiting, training production costs associated with that. Can you just give us some color on the margin trajectory from here? Thanks.

John Plant

Yeah. So passing Systems margin is not where I'd like it to be. And at the same time, we also need to recognize exactly where we are in terms of the production mix, which is still very much metallic focused of narrow bodies for the main. And we've seen really no demand change for -- or no -- essentially no demand change for our widebody business currently-- except for something on Airbus say, A350.

We do expect that, that mix will change and improve in the balance of the year. And preparing ourselves, if you look at the net recruitment, I think we called out like 250-260 net people in Engine, which, of course, is 2.5 times larger our faster business, say we were at 215-220 people. So we recruited disproportionately in fasteners preparing for that improvement.

So essentially, when I think about the year and margin rate is that I don't see much change, a little bit of change positively, maybe in Q2, but essentially, having absorbed the costs of raising production and stabilizing the workforce, plus the increase in volume plus the improvement in mix, I do think that we will see some margin rate improvement in the second half of the year. So basically, don't expect much in Q2, and we've been positioning ourselves optimistically for improvement in the back end of the year, Myles.

Myles Walton

Should the incremental margins of that segment in '24-'25 more approximate the whole company at that point?

John Plant

Company. Well, I'm hopeful that they're going to go up. But then you can say, well, everybody hopes for that sort of thing. But generally, our hopes for Howmet tend to come to reality. But I have no comments specifically about saying does it match this segment as well on average. What I know is that I'll be somewhat disappointed if we're not earning a margin rate in 2024 above our current Q1 level and we don't expect it to be like that.

Myles Walton

Thank you.

John Plant

Thank you.

Operator

The next question comes from Robert Spingarn with Melius Research. Please go ahead.

Robert Spingarn

Hi, good morning.

John Plant

Hey, Rob.

Robert Spingarn

John, you had this very strong sequential growth in industrial, but some peers have suggested that that's just a matter of a lot of inventory that was available to ship in this first quarter. So how does that trend as we go through the year?

John Plant

So if I pick apart if you agree, let's call it, our wider industrial business. We saw really strong demand in terms of the oil and gas sector, which is really for derivative turbines. And that was quite extraordinary at 50% plus. And we don't see anything that being positive for the next, say, few quarters and have you thought about 34 at this point, but -- so oil and gas has been quite strong. And then that's backed up by our gas turbine business at 14%. So those are the two. But beyond that, the wider industrial business was really low-single-digits. So nothing exceptional there at all. But for the two specific sectors, which make a difference to us, which is oil and gas and IGT, we don't think we pulled anything forward or there any concerns or whatsoever.

Robert Spingarn

So just to tie the loop on this, should we expect sequential growth in industrial throughout the year?

John Plant

Well, I did say Q2, we see very similar to Q1. So I don't think you should be expecting anything given what has been a really, really great first quarter, maybe I shouldn't say it myself, but it was good. So I think you should think about Q2 being pretty similar and us taking on cost per pair for the second half.

And then we're going to wait and see how our customers' volumes pan out. We think we've tried to give you a balanced view of the way forward. And I think that -- so I don't think you should expect any sequential growth over and above what's been quite exceptional growth already.

Robert Spingarn

Okay. Thanks so much, John.

John Plant

Thank you.

Operator

The next question comes from Kristine Liwag with Morgan Stanley. Please go ahead.

Kristine Liwag

Hey, John. Following up on your salient point on marching to the weakest link, I mean having to invest ahead of time with volumes being uncertain, it seems kind of productive for the supply chain. First, where do you see the weakest link industry? What do you think is keeping Boeing from actually getting to 38 sooner?

And then also, what do you think for the 737 MAX? And what do you think the OEMs could do better to make it easier for the supply chain to meet these volume increases?

John Plant

Well, really, I don't have any comments regarding any specific knowledge about Boeing's production. And it's up or down except that I'm very supportive and I know that we can support them, whether it's directed for airframe parts or through parts supplied by the engine manufacturer. And I don't have any specific information if there are supply challenges in any specific suppliers.

Obviously, we've all read about the tail plane tail section issues and it's passing to the fuselage. And obviously, my guess and as I guess is the finite amount of parts that they can get and how many of those parts are directed to original equipment build for the 737 and how much are for retrofit of the aircraft, which are out with airlines or even the inventory they've got, we don't know and we don't control any of that.

So we're just hopeful that our customers keep to their statements and their plans. And as I said, I think they will absolutely will schedule the parts of the partners.

And then should they build at that rate, they'll have a pass. But if they fail to build at those rates, then of course, there is the potential to be cut back as they rebate their inventories for parts they've had, which they didn't use. And so -- it's a very difficult question for us to answer. And so I think the takeaway really is we are ready, we're committed to support our customers. At the same time, we're not willing to get ahead of ourselves. We are willing to do the recruitment necessary, but I hope that we don't end up with what we did last year and in the fourth quarter, where we shed some employees because we were a little bit too far ahead of where our customers were.

And so that's how we think about it. But I can't call out anything specific of there is this issue if that was fixed, that would solve the problem. And I guess it's all wrapped up in the statement later in the year. And I guess you can ask Boeing specifically which month that is.

Kristine Liwag

Great. Thanks, John, and if I could follow up on Myles' question earlier. If you exclude inflationary pass through costs, incremental margins were 25% for the whole business. So at some point, as the supply chain issue alleviates for Boeing and Airbus, we could get these higher volumes materialize. And at that point, you might have CapEx and labor already in place.

So when we kind of look out to 2024-2025, where could incremental margins be for the aero businesses. Is this something that could be in the 30% or 40%?

John Plant

When we talked about this a year or so ago, we did say we'd probably see a couple of years at 35% incrementals, plus or minus 5%. And you've seen all of that play out in terms of being in the low-30s to the high-30s in Spain, might have been dependent upon the change of volume by quarter.

And when we're prepared -- and I'll say it's a reasonable growth. We convert really well. When it's been excessive growth, we've struggled because we had to ingest more labor it's untrained for the -- and going to all that gross cost and real cost and scrap, et cetera. So that's how it play out the last couple of years.

In the first quarter of this year, here we are again, we're preparing for volume and taking people on. And all of that is good because we know at some point, it's going to happen because the demand is so strong. And adjusting for them is a metal and non-metal inflation flow-through, it's 25%. And if you reverse engineer from our guide for the year, you'll see that it's around about 29%. And so if you got a 29% for the year and you start off at 25%, that then implies just by the math is that the second half, we anticipate to be over 30%. And again, you can reverse engineer that from the numbers already given without recalling a specific percentage of.

So should that continue? And then obviously, it depends on the growth rate going into 2024 as to what the incrementals will be, but it should be in a good zone. And at the moment, I'm voting for the higher volume and because ultimately, having those higher volumes with our leverage of applying our margin rate to the higher volumes clearly overcomes the working capital drag and the capital expenditure drag. And so it all ends up improving free cash flow, Kristine.

Kristine Liwag

Great, thank you, John.

John Plant

Thank you.

Operator

The next question comes from Sheila Kahyaoglu with Jefferies. Please go ahead.

Sheila Kahyaoglu

Thank you. Good morning, John and Ken and PT, thank you. Hi, just the 23% EBITDA margin. You guys had a nice base at the midpoint 10 bps, but down 10% on the high end. So maybe if you could just update us on your working assumptions for the margin mix and the $70 million to $100 million of incremental inflation that you had previously called out. Any progress there and changes given commodity prices have come in a little bit. Thank you.

John Plant

Yeah. I mean we've seen some commodities come in, but also quite a few have moved out against, example, you take half team amenia, those have become very expensive in the last few months. In fact, we've been laying in some security stocks of certain of those metals to make sure that we have adequate coverage to be able to support our customers in the quest for increased volumes.

At the same time, well, I think generally we see it as a big positive that inflation is beginning to come down. It's still pretty high, let's call it, 6%-7% in that zone. And those non-metal inflation is where the big action is today in trying to look at that control it, at the same time, recover it.

So for me, the major story of margin rate is volume and then do we see those flow-throughs that we anticipate. And obviously, it would be great if the -- if everybody built what they say they're going to build then and with this increased spares demand both for domestic and international, and secure some of these time on wing issues and that spares demand is also quite robust for us at the moment.

So hoping that the revenue turns out to be that or better. But I mean calling out a 0.1 or 0.2 on the margin rate is difficult. You're talking frac like a million or two here or there. So I'd say it doesn't really matter, Sheila.

Sheila Kahyaoglu

Okay. Thank you very much.

John Plant

Thank you.

Operator

The next question comes from Seth Seifman with JPMorgan. Please go ahead.

Seth Seifman

Hey, thanks. Thanks very much. Good morning, everyone. During the prepared remarks, I think Ken mentioned the $20 million of share gain on -- from Russia and titanium and engineered structures. I think that's the wrap around on the share gain that you made last year.

So can you talk a little bit about the state of opportunity there? And maybe specifically with some of the more refined forgings, where Howmet might be in the running to do that and there aren't many others, and whether the OEMs have moved forward there with the alternative sources or not yet?

John Plant

Okay. So you're absolutely correct. The $20 million was the increase in the fourth quarter '22 volume. And the way to think about 2023 is you take that $20 million multiply by 4 and then add on to that, about a 25% plus or minus growth for 2023.

And currently, I think you just take that '23 number and you probably add another 25% to 30% in for 2024. That's the way I'm thinking about it. And we've taken a lot of very positive steps with the order intake notably from Airbus but also from Embraer and also more recently, our first orders with Boeing and that's both for meal product and some forgings. And we continue to work actively on quotations particularly with Boeing who are getting, I'd say, more engaged given the fact that they've known they've had a very large inventory of titanium given the restricted build of the 787 and other wide-bodies.

But we see them preparing for ordering and release of gradually increasing those requirements to win the back end of this year and into 2024. So it's all playing out as expected and see the titanium opportunity is very positive. It's only blemish at the moment by reverts. It'll be very tough to get hold of. It's expensive. So we've laid in for additional sponge requirements and are seeking really to ramp up our production in our titanium furnaces during the balance of 2023. That's nothing important to us.

Seth Seifman

Great. Thank you very much.

John Plant

Thank you.

Operator

The next question comes from Robert Stallard with Vertical Research. Please go ahead.

Robert Stallard

Thanks, John. Good morning.

John Plant

Hey, Rob.

Robert Stallard

I'd like to ask you about lead times. If Boeing does move ahead with this move to 38 per month on the 737, wouldn't you have to start producing these parts considerably in advance? And more importantly, for you, I suppose, wouldn't you have to start ordering the metal sooner as well, almost like now if you're going to hit that by the end of the year?

John Plant

Yes. Yes. You're right. And so we are recognizing that we are increasing rates and some of that is occurring now. It's only balanced by the amount of inventory that we have. And as you know, we carried, let's call it, $100 million- plus of inventory from '22 into '23. And because of the volume that we saw, we chose not to reduce inventories in the first quarter. We wanted to keep everything healthy. And we've tried to input materials such that we can respond to both the production requirements are scheduled and also what we think is going to be some spot by purchases, which will be required in the balance of the year.

So we are ready and poised to be able to respond, I think, hopefully in a good and efficient manner. But as I said before, we don't know that exactly what all of the issues are in terms of the -- that gave the final production rate. But we're prepared.

Robert Stallard

Okay, just -- sorry, just to follow up on that. So how much lead time would you need from an OEM customer to, say, theoretically move your production or deliveries from where you are at the moment, low-30 to 38.

John Plant

They much depends upon the path. And so where we are accessing base metal, it will be, let's say, more in that let's say, six to nine months. But if it's alloy metal, you're now talking about really 15 to 20 months of laying in order requirements to anticipate. So we're already having to anticipate what 2024 might look like for our material ordering and laying those requirements on our supply base.

And it's all, again, predicated on how many are built this year? Do you build in excess? Or are anything pushed? And what the growth rate will be next year?

So I said in my prepared remarks, managing an upturn has far more and many dimensions than managing a downturn, whether it's labor, materials, production facilities, capital et cetera. And so it's quite fascinating and I say it's really -- I'll say, in 1 sense, a really high-class problem to have. So here we are debating what the angle of the growth rate and we worry excessively about some of the minute -- at the same time, we've got to keep our mind focused on the main goal, which is these are really good conditions to be anywhere.

We look at the growth rates that we're talking about. And we know that we're going to grow again in 2024, and we know we're going to grow again in 2025. And so in my book, all of that's pretty good well.

Robert Stallard

Yeah, thanks a lot, John.

John Plant

Thank you.

Operator

The next question comes from David Strauss with Barclays. Please go ahead.

David Strauss

Thanks for taking the question.

John Plant

Hey, David.

David Strauss

Hey, John. So two things. If you can update us on the status of the UAW in Whitehall, what's going on there? And then any color you want to give around the recent change in leadership at Fasteners? Thanks.

John Plant

Okay. So in Whitehall, we continue to be in negotiations with the UAW and have extended the agreement with no work interruptions. So that's just going on as normal. And in fact, we've been discussing that again in the last few days. So I'd say normal sort of negotiations around that topic.

Just remind me, David, your second one, got focused on the ---

David Strauss

Yeah, thanks. The change in leadership that you announced.

John Plant

Change in leadership, yeah, we made a -- we actually changed out the leadership of the Fastener Group at the fourth quarter of 2022, and have been managing through, let's say, a temporary solution there with an acting, let's say, President of Fasteners. And it's also given me the opportunity of even being a more intimate with that business, and now appointed what we think is going to be a great leader for that business. And you've started -- the person has started. They were engaged with us the week before starting that quarterly business operating reviews. And so that -- I think that was a good learning and information exchange.

And so I'm optimistic that with the changes that we've made and the increased focus on performance orientation of the business that the things that I see possible become not just possible, but probable. And you heard me talk already in response to a question, I think it's for Myles about the faster margin rate, which I'm optimistic for the second half of this year, especially if we carry on recruiting in the second quarter and taking those costs aren't getting ready. And the improvement in volume and then the improvements in mix with wide-body coming more to the fore in particular we are beginning to see stirrings of life in the I'll call the subtiers of the 787 suppliers around the world, which will require the fastest from us to be able to produce their parts, which they then ship to Boeing.

So it's a long supply chain, and we do see that wide-body mix beginning to improve in the second half and then improve again in 2024, both for the requirements of Airbus for the A350 anticipated increases and further increases in 787 because those are quite dramatic, the change, which you get from those wide-body aircraft and the degree of composites they can plan.

David Strauss

Do you anticipate having to make additional hires in the second half, John, to hit the stated production rates that are out there? Or will that all be in place with the additional hires that you talked about in the second quarter?

John Plant

If it is as we think, we should be at rates in the first half be there's always some attrition. And so there is a replacement. And the case for hiring in the second half will be, I will say, basically predicated on two factors is, one, what is the actual rate of production required in the second half? And secondly, particularly when we get to the fourth quarter, we'll have to be anticipating to some degree, the rate of growth into 2024, which, as I said, we expect '24 to be another very positive year for particularly on the commercial aerospace side. And so it's difficult to be precise until I know more about the final requirements for the second half and then what's the angle of increase for '24?

David Strauss

Thank you.

John Plant

Thank you.

Operator

The next question comes from Gautam Khanna with Cowen. Please go ahead.

Gautam Khanna

Hey, guys. Good morning.

John Plant

Hey, Gautam.

Gautam Khanna

I promise I'll keep it to one this time.

John Plant

I know you a bit of brief of your one three-part question last time. I think it was---

Gautam Khanna

I deserved it. Just wanted to get your pricing expectations over the next couple of years? And if you could specify price opportunities, I should say. And then if you could specify where -- at which segments the pricing opportunity is greatest. Thank you.

John Plant

Okay. I think when I talked in February, I indicated too that we were about 80%-85% done in terms of moving through the long-term agreements for 2023. And now we're up at the 95%-98%. So essentially, 2023 is complete, and everything is in line with what I've previously said in terms of a similar order of magnitude in terms of further pricing that we talked about for '22. And that, as you know, is over and above any recoveries for either metals or nonmetals inflation. That's quite separate. This is just pricing.

We don't normally talk about 2024 at this point. We've been studying that recently. And it's -- while it's a little bit early is that my guess it's a similar order of magnitude heading in that direction for 2024, Gautam.

Gautam Khanna

Okay. Any segment that stands out with the greatest pricing opportunity over the next couple of years?

John Plant

Yeah. Price is positive for four segments, inevitably for engine has to be greater because it's the largest segment. And -- but it also carries with it some of the more exceptional technologies where we're now pushing the boundaries once again of what's possible to enable really the mission of, let's say, further, let's say, lower fuel usage and improved carbon footprint. And I see that those impact not only for the fact that you've got the flight engine developments, which are being made by our customers. Those are really going to assist that whole achievement of lower greenhouse gas emissions for the aerospace and airlines in particular.

So I think it's still a good news on the Howmet are intimate to helping to achieve that in the stage of that particularly after the combustor.

Gautam Khanna

Thank you, guys.

John Plant

Thank you.

Operator

The next question comes from Matt Akers with Wells Fargo. Please go ahead.

Matt Akers

Yeah, hey, guys. Good morning. Thanks for the question. John, I was wondering if you could talk about kind of your latest thoughts on the Nashville facility that Pratt is ramping up. And is that -- I think that's supposed to ramp up production a little bit this year. Have they given you any indication of kind of what the volumes are there and maybe what kind of time frame you think that could -- is there any risk to kind of your oil volumes?

John Plant

Well, I don't think anything in terms of the narrative of change from all the words that I've expanded on this topic over the last two or three years, starting with Pratt & Whitney deciding to sell oil castings business, which is in Poland in 2016. And then deciding in '17 that they would re-enter, but with using new core technologies from a company they bought and they've been obviously did continue to develop that.

And I think it's like because most of our -- I mean, you take both GE and I think we've coexisted with them for many, many years with them having their own development and collection capabilities. But in terms of when you get to, I would say, real production of high volume of very complex parts. And I'd say Howmet did really good job. And I'm not going to use the word leg of its own. But I mean in terms of the achievement of the complexity with the yield rates, that's really important to the whole economics of the casting business.

The information I have is that the $650 million that's still being applied to machining, coating, hole drilling and testing. The only inflation I got is that I read or heard from an earnings call that they were on the machining side that they were now 63% completed in terms of that investment. As you know, the machining investments are very expensive for machining turbine parts and they're expecting first pass off some qualification for those machine parts in May of this year.

And so I guess it's proceeding to plan. At the same time, I've also noted with you the extension of our long-term agreements with Pratt. And I've also shared with you conceptually without giving you detail of the further technology improvements we are making both for the Block 4 Joint Strike Fighter with 28 improvements in the requirements for efficiency and trust in that program and also on the advantage engine. So there's a lot going on and we're intimate with those developments with our customer.

Matt Akers

Great. Thank you.

John Plant

Thank you.

Operator

The next question comes from Phil Gibbs with KeyBanc Capital Markets. Please go ahead.

Phil Gibbs

Hey, good morning.

John Plant

Hey, Phil.

Phil Gibbs

Hey. You pointed to strength in spares demand in engine products in both commercial aero and defense. Can you give us an idea about where that business is relative to pre-pandemic levels and whether or not you'd expect that to continue?

John Plant

We're seeing a nice improvement in our spares business. So if you go back to the reference point that we gave you of 2019, we were about $800 million. And the time is roughly half of it was defense in industrial. And now it's probably closer 475, maybe 500 misses continue to grow. And commercial aerospace dropped quite dramatically to well below $100 million.

And this year, we see that commercial aero segment, which used to be $400 million, probably back to at least 75% of its pre-COVID pandemic levels. And so not that part of the -- or that half of the spares is not yet back to where it was, but growing rapidly with 30% and 40% compounding, and I expect that 25% depending we won't say how to turn it but 75% could be 80% of the 19 level by the end of the year that what was $400 million.

Phil Gibbs

Thanks, John.

John Plant

Thank you.