Arconic, Inc. (ARNC) CEO John Plant on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-05-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.58 beats by $0.06 | Revenue of $3.56B (0.99% Y/Y) misses by $-27.48M

Earning Call Audio

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Arconic, Inc. (NYSE:ARNC) Q3 2019 Earnings Conference Call November 5, 2019 10:00 AM ET

Company Participants

Paul Luther - Director, IR

John Plant - Chairman & CEO

Kenneth Giacobbe - EVP & CFO

Conference Call Participants

David Strauss - Barclays Bank

Gautam Khanna - Cowen and Company

Carter Copeland - Melius Research

Seth Seifman - JPMorgan Chase & Co.

Martin Englert - Jefferies

Joshua Sullivan - Seaport Global Securities

Rajeev Lalwani - Morgan Stanley

Operator

Good day, ladies and gentlemen, and welcome to the Arconic's Third Quarter 2019 Earnings Conference Call. My name is Dennis, and I will be your operator for today. As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Paul Luther, Vice President of Investor Relations. Please proceed.

Paul Luther

Thank you, Dennis. Good morning, and welcome to Arconic's Third Quarter 2019 Earnings Conference Call. I'm joined by John Plant, Chairman and Chief Executive Officer; and Ken Giacobbe, Executive Vice President and Chief Financial Officer. After comments by John and Ken, we will take your questions. 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 addition, we've included some non-GAAP financial measures 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. With that, I'd like to turn the call over to John.

John Plant

Good morning, everyone, and thank you for joining the call this morning. We have a lot of content to get through, so let me start unpacking some of the items. Let's move to Slide 4. Starting this quarter, we will be reporting the results in two new segments. This is to provide increased visibility into the two successor companies post separation. On Slide 4, you will see that our previous three segments of EP&S, TCS, and GRP will now be reported as Engineered Products and Forgings and Global Rolled Products, GRP. EP&F

contains 4 business units of engine products, fastening systems, engineered structures, and forged wheels. EP&F will be part of the new company, Howmet Aerospace, and will be RemainCo.

Regarding Global Rolled Products, we will be adding our building and construction business to this segment. This entity will be SpinCo and named Arconic Corporation. Throughout the presentation today, we will refer to EP&F and GRP as the new segments.

Now move to Slide 5, and I'll comment on highlights for the third quarter. The third quarter was strong. Revenue was $3.6 billion. Organic revenue, which adjusts for currency, aluminum price, and portfolio changes was up 6% as we continue to grow in many of our key markets. EP&F organic revenue was up 8% year-over-year and GRP up 5%.

Operating income, excluding special items, was up 36%, and margin was up 340 basis points year-over-year and 20 basis points sequentially from Q2. I would like to comment on each segment's year-over-year margin profit expansion. Engineered Products and Forgings segment's operating margin expanded by 330 basis points. Global Rolled Products segment's operating margin also expanded by 330 basis points. Earnings per share, excluding special items, was $0.58 and up 81%. Q3 earnings per share was the best Q3 earnings per share performance for Arconic. Adjusted free cash flow, excluding separation costs, was $142 million in Q3 year-to-date and up $155 million from last year.

We continue to return money to shareholders with the completion of 200 million of common stock share repurchases. Year-to-date, we have completed $1.1 billion of stock share repurchases at a weighted average acquisition price of $20.67 for a total of 53.2 million shares. After tax, return on net assets was 13.8%, up 550 basis points year-over-year. Later in the call, I will comment on the regular items that I stated in the February earnings call, namely cost reduction, pricing, capital allocation, divestitures, and portfolio separation. I will then provide an update to our guidance. Earnings per share guidance will be raised for the third time in 2019.

Let me turn it over to Ken to give a deeper view of Q3 performance.

Kenneth Giacobbe

Thank you, John. Now let's move to Slide 6 and the key financial results for the quarter. Organic revenue was strong for the third quarter, up $220 million year-over-year with EP&F up 8% and GRP up 5%. EP&F had growth in all of its markets. Its highest growth market was aerospace, which represents over 70% of its revenue. GRP was up 5% and delivered double-digit revenue growth in aerospace, industrial products, and packaging with softness in automotive as the Ford F-150 is transitioning to the next-generation model.

In order to give you increased visibility into revenue for the 2 new segments, we have added organic revenue by market along with revenue distribution for each new segment in the appendix. Operating income, excluding special items for the third quarter, was $475 million, up 36% year-over-year. We delivered the third consecutive quarter of price increases with a $36 million favorable impact year-over-year. Price increases spanned across both segments driven by aerospace, industrial, and commercial transportation. We expect favorable pricing to continue as demand for our products remain strong.

Higher volumes in the third quarter also favorably impacted operating income by 22 million, mainly driven by aerospace. Lower raw material costs, including aluminum price was favorable to operating income, 39 million in the quarter. Net cost reductions were led by our cost-out program, which generated approximately $70 million of year-over-year savings in the quarter. This was partially offset by 3 items. First, the transition of our Tennessee plant out of North America packaging to more profitable industrial products. The Tennessee plant continues to improve each quarter. We expect Q4 to be the inflection point with year-over-year profit improvement.

The second item was performance at one of our aluminum extrusion plants. We are addressing the issues with operational improvements and pricing actions. However, we have additional opportunities for improvement.

Lastly, we had higher compensation costs driven by improved performance in profit, cash, and equity value. We have included the reconciliation of operating income, excluding special items, on Slide 32 of the appendix.

Adjusted free cash flow in the third quarter was $175 million or $60 million more than the third quarter of last year. Please note that consistent with our guidance, we have excluded $21 million of unfavorable cash flow in the quarter related to the planned separation. Pension contribution and OPEB payments were $96 million in the quarter, which was $26 million more than the third quarter of 2018. Year-to-date pension contributions and OPEB payments are $276 million, which is on track with our annual estimate of $350 million detailed on Slide 17 in the appendix.

Capital expenditures in the quarter were $108 million, which is down approximately $100 million year-over-year. On a year-to-date basis, free cash flow excluding separation costs is $155 million higher than the prior year. Year-to-date, the improved free cash flow generation was driven primarily by 4 favorable items: higher net income, lower pension contributions, lower capital expenditures, and lower interest payments. These favorable items were somewhat offset by working capital to support our revenue growth.

Diluted earnings per share, excluding special items, was $0.58 per share and 81% higher than the comparable period. The higher diluted earnings per share primarily was driven by operational improvements of $0.15, lower raw material cost of $0.06, and lower share count of $0.03.

Now let's move to the pretax special items on Slide 7. In the third quarter, our reported results included $149 million of pretax special items. Approximately 90% of the charges related to 2 items. First, $110 million noncash charge, primarily associated with the divestiture of the forgings business in the U.K. and an aluminum rolling mill in Brazil. Net proceeds associated with the divestitures are estimated to be approximately 110 million.

The second special item is a cash charge of $25 million associated with planned separation. More details concerning special items for the quarter can be found on Slide 18 in the appendix.

For the year, a majority of the special items incurred to date have been consistent with the stated plan of divesting of assets or businesses that do not fit with our focus, businesses that require significant capital investment with unacceptable returns or businesses that are not material to our bottom line. As you would expect, approximately 80% of the charges to date are noncash.

Now let's move to Slide 8. In the third quarter, EP&F's revenue was $1.8 billion. Organic revenue was up 8%. Segment operating profit was a record at $363 million, up 28%. The increase in segment operating profit was driven by several favorable items, including volume growth in aerospace engines, aerospace defense and commercial transportation. Additionally, we had lower raw material costs, higher pricing and net cost reductions.

The resulting segment operating margin expanded by 330 basis points year-over-year to 20.2%. In the third quarter, GRP's revenue was also $1.8 billion. Organic revenue was up 5%. Segment operating profit was $161 million, up 50% year-over-year. The favorable year-over-year improvement in segment operating profit was driven by growth in our packaging, industrial and aerospace markets. Also, we had favorable pricing in industrial and commercial transportation, lower aluminum prices and net cost reductions, including improvements in our internal scrap utilization. Despite the challenges in aluminum extrusions and the Tennessee transition, GRP's segment operating margin increased 330 basis points to 9.1%.

Now let's move to Slide 9 with the key achievements. Our EP&F business had record quarterly revenue for aerospace engines and aerospace defense. On a year-over-year basis, organic revenue was up as follows: aerospace engines, 11%; aerospace defense, 18%; and commercial transportation, 6%.

Favorable pricing improvements in the EP&F continued in the third quarter as we achieved an $18 million year-over-year increase in prices. GRP's commercial airframe revenue was up 12% organically year-over-year. Price improvements in the industrial products and commercial transportation markets resulted in an $18 million of year-over-year price increases. Improvements in internal scrap utilization resulted in more than a 25% increase in internal scrap consumption versus the same quarter of last year.

Arconic's return on net assets was 13.8%, which is up 550 basis points year-over-year. Year-to-date, CapEx is $412 million, down $85 million year-over-year. Approximately 70% of the CapEx has been spent on return-seeking projects as we expand aerospace airfoils, aerospace rings, industrial products and forged wheels capacity.

Lastly, a comment on our U.S. pension asset returns. As of September 30, our year-to-date asset returns were approximately 17%. At the end of the year, we will remeasure our net pension and OPEB liability taking into account the full year 2019 asset returns and end-of-year discount rates.

Through September, interest rates have declined substantially since 2018. If we remeasured having -- if the remeasurement had occurred at the end of Q3, the strong asset returns would have partially offset the lower discount rate.

Before turning it back to John, let me briefly provide an update on our capital structure on Slide 19 in the appendix. We finished the quarter with approximately $1.3 billion of cash after executing approximately $1.1 billion of share repurchases year-to-date. Gross debt is $6.3 billion and net debt stands at $5 billion. Net debt to EBITDA continues to improve year-over-year despite the cash flow associated with the share repurchases. Net debt to EBITDA stands at 2.25x, which is an improvement of 7% compared to the third quarter of 2018. We expect that based on our current guidance, fourth quarter net debt to EBITDA will be less than a year ago quarter despite executing approximately $1.1 billion of share repurchases.

With that, let me turn it back to John.

John Plant

Thanks, Ken, and let's move to Slide 10 on our key focus areas. For all items, we're either ahead or on track with our commitments. Third quarter year-to-date operating cost reductions were $137 million. The 2019 annual cost reduction target is being increased to $180 million, up from our prior commitments of $140 million. Run rate operating costs are projected to be reduced by $280 million, up from our prior commitment of $260 million.

Regarding pricing, we had three consecutive quarters of year-over-year price increases. Third quarter year-to-date price increases are $111 million. And as commented upon in a prior earnings call, price increases are not just a 2019 phenomenon. They're now part of our rolling LTA renewal process. With the future Howmet Aerospace business, 2020 and 2021 price increases are already planned.

Moving on to capital allocation. Year-to-date, we completed 3 common stock share repurchases totaling $1.1 billion. The weighted average purchase price was $20.67 or 53.2 million shares. Management has a total of $400 million of remaining common stock repurchase authority approved by the Arconic board in May of this year. In addition, our convertible notes settled in cash for $403 million on October 15, and no new shares of common stock were issued. These retirements further reduces our diluted share count by 15 million shares. This is additive to the $1.1 billion shares already disbursed on stock repurchases in 2019 and that also has the benefit of reducing both gross debt burden and share count. Absent other activity, year-end diluted share count is reduced by approximately -- sorry, it reduced to approximately 440 million shares, a 13% reduction year-on-year.

CapEx continues to be on track with a year-to-date spend of $412 million, which is down 17% year-to-date. 70% of our CapEx is for return-seeking projects and sustaining capital, 30%. Moving onto divestitures. We are on track. Year-to-date, we have signed, foreclosed 5 transactions with approximately $180 million of net proceeds, including the transaction last week, which is the sale of our Changwon Korean extrusions plant for approximately $60 million. Our target proceeds were between $100 million and $200 million.

These five transactions, upon completion, will reduce annual sales by approximately $350 million with unlimited operating income impact as they were close to breakeven in aggregates. We have a further two planned disposals. Lastly, we have an update on separation. We continue to be on track for our stated Q2 2020 implementation with the Form 10 filing expected to be available during this quarter. Appointment and recruitment of two boards and management teams are on track. Estimated onetime operating costs of separation and CapEx costs remain unchanged. Having Howmet Aerospace be RemainCo results in debt breakage costs being a maximum of only $38 million. By stating this, you can deduce a substantial part of the future capital structure.

Moving on to Slide 11. Before updating guidance, I mentioned in Q2 that I intended to provide another example of profit improvement as part of my statement that I saw price and mix making significant further contributions beyond the cost reduction program. This is further to the BCS example I provided in Q2. This time, I'll focus on Global Rolled Products. This segment improved operating income by 330 basis points in Q3 compared to the prior year. As we look forward to 2020, a key driver of margin expansion will be the completion of the Tennessee rolling mill profit improvement plan. At the end of 2018, we exited the North American packaging business and repurposed assets, including making a $100 million investment to expand our industrial rolled products business. The project is on track to be completed by the fourth quarter of 2020.

The plan has been to transition from North American packaging and marginal business to industrial products, which is supported by the China common alloy trade case implemented by the International Trade Commission. The trade case has enacted antidumping duties and countervailing duties on Chinese imports ranging from 96% to 176% effective December 2018, and we expect them to at last for at least five years.

These duties were applied to approximately 800 million pounds of Chinese industrial rolled product that were being imported into North America annually. Our transition to industrial products began in Q1 of this year and resulted in an unfavorable year-over-year impact in Q1 of $22 million. The second quarter improved but was still unfavorable year-over-year and an impact of $16 million. As we discussed earlier, Q3 has improved once again to an unfavorable $5 million hit year-over-year, which is in line with our expectations.

Q4 is expected to be our inflection point, where we will see year-over-year profits. We expect this transition when complete to more than double the profitability of our Tennessee rolling mill by the end of next year. Tennessee is our second largest rolling mill in terms of revenue. As you can model, eliminating low-margin packaging business in North America and substituting an increasingly profitable industrial rolled coil business and sheet significantly adds to our margin expansion.

A second item that I would like to discuss is earnings volatility in the GRP segment, which results from changes in aluminum prices. We continue to improve our commercial agreements with pass-through arrangements. Additionally, this year, our aluminum hedging program no longer requires quarter end mark-to-market. This combination of pass-through contracts and our hedging program mitigates over 90% of our aluminum exposure in our rolled product segment. We expect reduced earnings volatility from aluminum prices going forward. Hence, our business is essentially the conversion of aluminum ingots into rolled coils and plates and the dependency upon metal and, hence, volatility reduced.

Moving to Slide 12. Finally, an update on our 2019 annual guidance. In the light of current performance, we're updating and raising our earnings per share guidance for the year. This reflects our performance expectations in the fourth quarter and the fact that year-to-date, we have already earned an adjusted earnings per share of $1.58. The adjusted earnings per share forecast for the year increases to $2.07 to $2.11. At midpoint, this will be an increase of approximately 54% year-over-year and at the higher end, will be in the 60% plus. Annual revenue will be revised to $14.15 billion to $14.35 billion. This change is mainly attributed to the lower assumed aluminum prices for both LME and Midwest premium, which are mostly passed on to our customers and also to the divestitures, which are closed and planned to be closed by the -- during the fourth quarter.

Organic year-over-year annual revenue growth for the year is expected to be between 6% and 7%. Adjusted free cash flow guidance, excluding separation costs for the year, remains at between $700 million and $800 million. Further to the free cash flow guidance, capital expenditures are projected to be $625 million, excluding CapEx associated with separation. 2019 CapEx as a percentage of revenue is expected to be 4.4%. The CapEx guide for 2020 and going forward is less than 4% of revenue.

Regarding free cash flow conversion, it's projected to be approximately 80% of net income in 2019. The EBITDA guidance has been increased and narrowed to $2.325 billion plus or minus $25 million. At midpoint, this is an increase of approximately $350 million year-over-year with the execution of our fundamental improvement -- profit improvement program, including pricing. The updated guidance assumes that the Q4 737 MAX will remain at current levels pending the outcome of regulatory release of that aircraft.

Let me provide context for the full year guidance. Earnings per share at midpoint have been raised again and by more than the beat from Q3. The savings program results, as noted earlier, are being raised by a further $40 million and have more than offset the effects of 3 items: firstly, the increase in estimated cost to cover compensation due to the higher profit performance and the higher share price estimates for the fourth quarter;

second, slightly lower rolled products, aluminum coil sales due to a quarter of inventory correction by distributors following their overly imported product from Europe to cover the market shortfall emanating from the Chinese tariffs; and thirdly, the effect of the GM strike, which has now been settled. The midpoint of the EBITDA guidance range has been raised and timed.

Moving to Slide 13. You will see that the new segment historical performance, this segment information shows the EBITDA performance of what will become part of the future Howmet. This shows that Howmet is -- it is in the top quartile of aerospace companies. And it shows that it is a truly differentiated company.

Also of note is the improvement in rolling asset returns and from what is and also a truly unique set of rolling assets. Improvement in volume, price and the cost-out program are improving revenue segment operating profit and margin year-over-year, and we expect continued year-over-year margin expansion in both segments in Q4. As we look to 2020, we will be providing revenue and profit guidance on the next earnings call as we get greater clarity on aerospace build rates, which impact both segments.

Regarding 2020 corporate costs and free cash flow conversion, projections are as follows. Annual corporate costs, including corporate depreciation and amortization for Howmet Aerospace, are expected to be between $80 million and $90 million. Arconic Corp. will be similar at between $75 million and $85 million. As previously mentioned, the total corporate costs of the combined 2 new businesses will be less than the corporate costs of today's Arconic Inc.

Regarding free cash flow conversion. For Arconic Inc, it is projected to be approximately 80% in 2019. In 2020, we estimate that Howmet Aerospace free cash flow conversion will be higher than 80% and Arconic Corporation to be less than 80%.

Two final items before I turn it over to Q&A. First, regarding Grenfell Tower. Last quarter, I mentioned that in addition to funding replacement planning for relevant high-rise public building and sector housing, the U.K. government has established a fund to refurbish private high-rise buildings, which have aluminum composite planning systems, and which are unlikely to meet future U.K. building regulations.

This fund will cover buildings for which owners, architects and structural engineers specified the ACM from our AAP SAS, our French subsidiary. This cladding was then fabricated and fitted by contractors as one component of the cladding and insulation system. This potential cladding remediation will be beneficial regarding contribution of these systems to the future fire risk in U.K. high-rise buildings. The details of the refurbishment process and fund still continue to be developed.

Secondly, the first U.K. public inquiry has now been completed and its report was issued last week. This is available for your reading. You will recall that the first inquiry and report had the objective of examining the events that took place on the night of the fire and how the fire spread and the response to it. The second public inquiry will commence in 2020 and is expected to most likely report out in 2021. This inquiry will examine why the events unfolded as they did and why certain choices were made with regards to the refurbishment of the tower.

Lastly, our next quarter updates will be the Form 10 filing, which will be available later this year -- this quarter; the Q4 results at the end of January, which will include guidance for 2020; and finally, assuming everything continues to be on track for separation, investor days will be held later in February for Howmet Aerospace and Arconic Corp., at which the guidance and outlook we'll provide you for each of the separated companies. A save-the-date note will be issued.

And with that, I'd like to open the line for your questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from the line of David Strauss with Barclays.

David Strauss

John, you previously talked about, I think, 300 basis points of margin upside at BCS. Can you give us an update as to where that stands in terms of your progression towards that target?

John Plant

I think we've already exceeded it. I can't remember the exact number. Ken is just going to pull it up, but I think we're already there. But Ken, if you can...

Kenneth Giacobbe

Yes. So, the 8-K filing we did last week, they have the former segment structure and then you can look at the adders for each of the businesses. But if you looked at BCS from 2018 to the second quarter of '19, looking at about 390 basis points of improvement, so . So that's accelerated from end of '18 to Q2. So, to John's point, already there. But if you look through the 8-K filing, you can see that the former segments have accelerated from 2018 to the current state and then you can also see that BCS has accelerated and wheels has accelerated as well.

David Strauss

Okay. As a follow-up on the free cash flow guide for the full year, it looks like working capital days were up a little bit in Q3. Where do working capital days have to get to in Q4 to hit the free cash flow target for the full year? I think it looks like $600 million to $700 million in free cash flow that's implied in Q4.

John Plant

I'll go in first and pass it across to Ken. First of all, inventory days improved in the quarter. We were slightly off on the receivable days. But Ken, if you can comment on...

Kenneth Giacobbe

You're exactly right. So, we missed about one day on the DSO primarily. A lot of our customers have been pushing out terms[ph], however, inventory payables offset, I don't expect a material change, David, in terms of working capital contribution for the inventory side of the house. But in aggregate, our working capital will be a contributor to free cash flow as we exit the year.

Operator

Your next question is from the line of Gautam Khanna with Cowen & Company.

Gautam Khanna

A couple of questions. First, I was hoping you could talk about the 737 rate you guys actually experienced in Q3, and what you expect in Q4, and maybe just categorize that by engine and airframe, and then I have a follow-up.

John Plant

Yes. The aircraft, we understand is being built out at 42. Spirit, on the fuselage, has been building at close to 52. And in engine, I'm going to say it's around about 48 engine builds, and maybe a little bit of, I'm going to say, inventories come out of -- on that side in favor of the CFM, whereas CFM spares have been prioritized in our supply.

Gautam Khanna

Okay. What's your expectation for Q4 as well?

John Plant

Yes, exactly. I think it'll just stay in line with that. I think the next event is the recertification, which everybody's waiting for. And hopefully, that will occur at the end of the year and that will help us when we give our revenue guidance at the end of January and chose not to do anything further at this stage until we know what the position is regarding that aircraft.

Gautam Khanna

Okay. And as a follow-up, may I ask if -- Ken, it's all about the capital structure and the pension allocation, how that might split between the two new entities. And maybe Ken, if you can just talk a little bit also about where the pension resides right now, the pension OPEB deficit, the earlier[ph] proportion to the two companies.

John Plant

[Multiple speakers]I mean basically, the majority of the pension and its allocation are set by the plants, and the allocation of the corporate costs into the 2 future corporate headquarters in total is probably about 20% discretionary, which is the remaining corporate what -- where is that allocated for, say retirees. We have a plan, and let's say we're going through that and finalize that at our December Board meeting to get that part of the capital structure nailed down.

Kenneth Giacobbe

And the only thing I'd add to that, Gautam, is we'll line up the pensions on January 1. You should have a view of the capital structure in Q1 as we're targeting separation in Q2. So, you'll see the capital structure in Q1.

Gautam Khanna

Okay. May I just ask one last one? John, are you actually considering staying on as part of the management structure for Howmet or is this going to be [indiscernible]?

John Plant

Well, I clearly don't want to preempt the search committee of the Board, which is active and been moving through that, and first round, I think, interviews have now been completed. I will engage with the search committee as they, I'd say, short list during the latter part of November and then see where we are. I mean the way that we've left it is that I have agreed to provide continuity through the piece and beyond as necessary. And meanwhile, the search committee is trying to find the right candidates to go forward. And then, it remains for a dialog between myself and the Board should that process come to fruition and then also what engagement would they like to see and what engagement shareholders would like to see for me going forward.

Operator

Our next question is from the line of Carter Copeland with Melius Research.

Carter Copeland

A question on the CapEx for -- you stated for 2020, the expectations around the 4 -- less than 4% of revenue for the aggregated entity. Should we think about CapEx for the two pieces being materially different than that or having different investment profiles in 2020 and beyond?

and beyond?

John Plant

First of all, the 4% was not meant just for 2020. I actually said 2020 and beyond, Carter. That was trying to give like a view of how I think capital should be deployed in the business on a long-term basis. And so, I was trying to get more meaning into those words, which may have not been spotted. Inevitably, there will be a difference between the 2 companies, but in my current thought, which will be amplified in those Investor Days going forward is that both entities will be below 4%.

Carter Copeland

Should there -- should we consider that there -- I guess, at the heart of the question is are there different investment profiles and opportunities in the 2 entities? I would assume that some of the rate upside for Howmet will point to different opportunities, but I'm not sure how you consider that comparing.

John Plant

Yes. I mean, if you look at the underlying, I'll say, growth and growth opportunity with what I think I'm trying to say is a truly differentiated aerospace business, then I think the prospects or the percentage growth over, let's call it, the next phase of the aerospace cycle, inevitably are greater. And it's particularly not only when I look at the future aircraft build, but when I -- but and really importantly for me is that when I look at the last decade and beyond, then we've had aerospace builds above 6% -- maybe 6% or 7%. And of course, what that's been doing is to put a huge amount of aircraft, which will be in the aircraft park, and I've been particularly focused on what is that increase in aircraft park look like over the next decade. And therefore, the solidity of the future order book and things like -- just take the CFM engine, which is -- it's not going to peak in service visits just back to shop until 2025.

So when you look at the superb aerospace, I'll say, production over the last decade or so, those aircraft are going to be in the park and requiring future servicing, which is really important for our engine air force business, and I'll talk more to that in February.

There are also growth opportunities on the rolled product side, but in -- I mean these are huge singular asset investments. And we've -- I'm only intending that we would add capacity breaking for bottlenecks where we see. And I do see the opportunity of increasing substantially the throughput from our mills with very little capital.

Carter Copeland

Great. And then Ken, just a quick follow-up. Can you help us maybe with the sensitivity around pension and OPEB funding as you look out now given the change in the discount rate?

Kenneth Giacobbe

Yes. Carter, what I would look at is the 10-K from 2018. We gave a 2-year look in there in terms of the cash contributions. I'd use that to your average based on where we are right now. If we had to strike it today and remeasure it, those asset returns, it's 17% or about better than 90% of our peer set. So you push all that together, I don't see a material change in the contribution that are listed in the 10-K from 2018.

Operator

Our next question is from the line of Seth Seifman with JPMorgan.

Seth Seifman

John, I wonder if you could talk a little bit about the 787 rate decrease that Boeing announced and the impact that, that might have.

John Plant

Yes. I mean, I've seen the announcement of 14 aircraft coming out of 12 at the end of 2020. Inevitably, because some of our products, for example, our fastener business, which will ultimately be impacted before that from the supply chain. And as I think everybody knows that in fact, our total content for Howmet was actually greater on a composite aircraft compared to a, let's say, an aluminum-skinned aircraft, which is obviously good news in terms of the overall direction for the company if there are more composite aircraft builds, in particular for fasteners. But when we look through the whole piece for next year builds, in particular for fasteners. But when we look through the whole piece for next year, at the moment, we see the impacts of that rate reduction probably of around about $0.02 impact, which within the context of our 2020 guidance when we give it, we just lost in noise.

Seth Seifman

Okay. And then maybe following up on the CapEx discussion you were just having. I mean 70% of the -- this year's CapEx, I guess, return seeking. I mean, the implication there, should we think about that the -- kind of the maintenance CapEx level is $200-ish million or a little below? And the gap between that and the four -- a little bit sub-4% of sales that you talk about is expectations of future return-seeking projects?

John Plant

Yes. I mean I think it's probably a little bit below the $200 million. I'm going to probably try to nail that for you a little bit more accurately at the end of the year when we've completed the year. And the future percentage will obviously vary by the compression of the top line of the total capital expenditure. But as you can imagine, when you adjust for the underlying growth of our businesses, those are going to be up in 2020. We adjust obviously negatively for the disposal and apply a sub-4% number, then you can see it's going to be less than this year's number for sure. And maybe the percentage, which will be maintenance, will flex according to the -- what the total number is and that, we intend to give you at the end of January.

Kenneth Giacobbe

And Seth, the only thing I'd add to that is there's 4 major projects this year on the CapEx that were in that return-seeking number with that aerospace airfoils expansion in Whitehall, Michigan; the aerospace rings in Rancho Cucamonga in California; and the forged aluminum wheels in Hungary. Those projects, those growth projects pretty much complete this year, fully operational in Q1 of next year, might have only about a $50 million CapEx tail in 2020 for the Howmet Aerospace business.

Then if you look on the GRP side, it's the industrial expansion that John talked about, probably have about a $40 million to $50 million tail next year there. So the growth CapEx major projects are done. To John's earlier point, if there would be growth, it will be the debottlenecks in plants at some smaller amounts. That's why we feel so comfortable in the sub-4% CapEx spend.

Operator

Your next question is from the line of Martin Englert with Jefferies.

Martin Englert

In GRP, you noted strength in packaging volumes. Can you remind us again of your packaging exposure? How much volume growth you saw there for the quarter versus the prior year? And also, if any contracts are reopening soon and anticipated pricing on that?

John Plant

Yes. I'll give you the overall context and then give -- pass it across to Ken for the specific percentages. So let's do it by region. North America packaging, zero. We pulled out of it, and that's the transition to industrial, which we've been talking about.

In Russia, we have something like 95%-plus market share of the packaging business in Russia. And I think the exports a little bit in Europe, we're examining further opportunities there given what I think is an emerging market for additional packaging in that region. We also -- and that has exhibited strong growth in the third quarter and this year.

In China, we also have packaging, which also grew -- I mean, not that we don't have the market share that I talked. It's going to be coming out of Russia. But again, good growth in the quarter. But those are the 2 regions of the world where we still do packaging. And as you know, we will have withdrawn from Brazil by next year, so that's -- I choose not to comment on. And Ken, just specific percentages?

Kenneth Giacobbe

Yes. Martin, so for third quarter, Slide 22 of the appendix, it's up about 17% year-over-year for the regions that John mentioned. And again, we've taken our traditional organic revenue by market chart for total Arconic Inc. and split it out into the 2 new segments. You have visibility there in terms of what the growth rates are as well as the distribution of revenue. So for example, as I mentioned earlier, at Howmet Aerospace, you can see the 70% plus of the revenue is tied to aero.

Martin Englert

And maybe just circling back, I know you're expanding the Tennessee or repurposing the Tennessee GRP operations away from packaging. But have you given any thought about reengaging the North American packaging market after your noncompete concludes like 2020?

John Plant

We haven't decided anything at the moment, that's not been our focus. As you say, we have a noncompete and therefore, for us, it's not -- it's been a moot point. I mean, I think the only thing I do note is that I'm going to call it the anti-plastic environmental movement seems to be gathering speed. It's probably led more from Europe and Asia. But there are clear examples of where major, I'll say, beverage companies are moving to aluminum cans. And what that produces over the next few years, I don't think any of us truly know this point. I don't think it's a point yet where we can say that there is a clear case for market capacity shortage. And maybe we'll just watch that and see what opportunity, if any, come of it and to see what response the, I'll tell you, the plastics industry makes to this because they've been particularly innovative over the years. So I see currently no case for jumping back into something. And I think to wait and see is probably a more appropriate at this stage, and we'll see how it develops.

Operator

Your next question is from the line of Josh Sullivan with Seaport Global.

Joshua Sullivan

Can you just expand on the overall pricing improvements? Are you getting price on the growth CapEx you're investing in here? And then what products or markets are you really having traction with on the pricing front?

John Plant

It's going -- normally, reversal, it's a normal -- I mean on GRP, it's a function of the industrial pricing year-on-year because of the international trade agreements and combine that with that shortage in the market in terms of shortage of capacity. So there's that and that, combined with the mix opportunity of pulling out of North America packaging. On aerospace, on Howmet Aerospace, it's really examining each of the contracts as they come up for renewal. And now I'm going to call it as an average cycle of LTAs. There's something every year, but they're on a roughly a 3-year cycle. So that we have now clear line of sight of those which occur in 2020 and 2021 and so on, and really examining the competitive dynamic in those segments and also making sure that Howmet really has the value for what I think is some truly unique capabilities especially in the hot end of the aircraft engine. And the most -- the best example I'd like to give is the engine temperatures, which are there on the latest military jets.

So for example, the Joint Strike Fighter, where those operated very much higher temperatures than the commercial engine markets. But -- and we have the unique capabilities to meet those requirements with not only the sophistication of the coils to go inside these foils to provide the airflow, but also the coatings that go with them and to operate substantially above the melt temperatures of those, and those are up well into the -- well above 3000 degrees Fahrenheit. What happens afterwards of course is that with the emissions requirements for commercial aviation, the -- so lower, I'll say lower emissions, higher fuel efficiency. What that does is basically, it's more pressure and higher temps, and so that unique capability that we have enables us to flow that down into successive generations of the commercial aerospace market. And so that will be the answer, the prime example. But it's not confined just to that. I would look at other commodities as well, but that would be the best example just to give you one on the telephone here. And so I'm just trying to make sure that unique differentiated technology that we have is truly valued in the industry.

Joshua Sullivan

Got it. That's helpful. And then just on the divestiture front, do you feel you mostly have the portfolios of the two entities where you want them at this point? Or could we see some additional portfolio shaping that hasn't been announced so far?

John Plant

I think in terms of disposals, when we've completed the next 2, that will probably be it in terms of, I'll say, disposal of assets, which I saw as fundamentally underperforming and contributing -- in fact, dragging on the overall portfolio and chose that rather than try to change that view. I'll say the view that we can fix everything, the answer is no, there are certain things we can't and shouldn't bother with. Let's play our energies to where we see more opportunities, and so getting rid of things, which I think we are structurally disadvantaged, is the best approach. Focus our energies on where we have true differentiated advantage for the future and to see where we can expand those both organically, but also if there are opportunities, we'd look at those as well. So if you're asking are we going to sell lots more stuff, the answer is fundamentally no.

Operator

Your next question is from the line of Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani

A question on the revenue side given all the moving parts coming into the end of the year. Can you give us some puts and takes as we look into next year around the impact from aluminum and the end market noise like the 787 or commercial transport? And then the impact of asset sales there too? Essentially, I'm trying to see if we shouldn't be thinking of next year as being a mid-single digit plus type year in organic revenues or overall revenues, for that matter, given all the moving pieces.

John Plant

Let me deal with metals first. Because again, I'd like to blow away -- if I could blow away, once and for all, the confusion which sometimes come around that. Inevitably, I mean, this Howmet Aerospace, low volatility company, top quartile performance. That's that way you should think about it. In terms of GRP, inevitably, there is metal volatility associated with -- essentially with the packaging business in those entities. But we've been working hard to reduce the volatility on earnings because of the pass-through aspect of it. We're a conversion business. Of course, at the top line, on what will be Arconic Corp, inevitably if LME drops -- as its drops, let's say, $150 per ton in the last few months, that's about a dropping Midwest premium. Inevitably, it's a revenue fall, so that's why the large reason why we've trimmed our guidance for the year, it's irrelevant for the bottom line. And so in the quarter, you have revenue, we are probably $30 million light first. Metals was like almost $70 million, and so we overperformed on an organic basis.

When you look forward, what I expect is fundamentally low volatility from Howmet, aircraft build increases, we'll get the MAX out of the way. And so I see that we should be adding value over and above whatever aircraft build will be if they were how I think about Howmet. In terms of GRP, there, you've got a little bit of volatility on the -- I think, I'd say volatility on the top line according to where does LME go and Midwest premium. And that's dampened volatility in the future on the bottom line, but inevitably you've got fundamentally a little bit of a fraction more volatile business there exposed to obviously a much wider mix of that market so industrial, commercial transportation plus aerospace and packaging outside of North America. And where do those markets go, I'm thinking again, aerospace up, industrials steady, commercial transportation's probably on a downward thing at the moment into 2020. But when you look at the opportunities from the shortage, which was in capacity -- in the North American aluminum market, I just think it all ends up as a wash. And with our ability to bring further throughput from our assets, I'm encouraged by our GRP business. So more to be done, but that's the way I think about the top line.

Rajeev Lalwani

Okay. And then as a follow-up, looking at the engineered products business. Previously, you talked a lot about operational headwinds. Where are we in that overall? Any parts of the business where there's some weakness? And then relating to that, as we do start to get the MAX ramping again, how confident are you that we won't start to see some of those prior headwinds start to show up again?

John Plant

MAX being where it is has been -- obviously, it's just been a steadying influence for us. It's enabled us to further improve down the learner curves from the -- on the LEAP engine in particular. So on that side, I'll say everything is smooth. That's the way I see the engine build developing into 2020. I would imagine it'll stay where it is for the time being and may begin to inflect upwards towards the back end of the year should Boeing increase their production rates of the 57 that they've talked about. So with the additional capacities coming on stream from both Whitehall for the casting operations and Morristown from the core operations, that's going to take a lot of stress out of our system and with the revenue opportunity of delivering more. So I don't expect headwinds going forward in terms of production issues. And we're trying to address those this year, including where we've had capacity shortage in our structural casting business.

Operator

Ladies and gentlemen, that is all the time we have for questions today. This does conclude the Arconic's Third Quarter 2019 Earnings Conference Call. Thank you for participating and you may now disconnect.