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ATI.N - Allegheny Technologies Inc Transformation Announcement Corporate Call

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CORPORATE PARTICIPANTS

Donald P. Newman *Allegheny Technologies Incorporated - SVP of Finance & CFO*

Robert S. Wetherbee *Allegheny Technologies Incorporated - President, CEO & Director*

Scott A. Minder *Allegheny Technologies Incorporated - VP of IR & Treasurer*

CONFERENCE CALL PARTICIPANTS

David Egon Strauss *Barclays Bank PLC, Research Division - Research Analyst*

Gautam J. Khanna *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Joshua Ward Sullivan *The Benchmark Company, LLC, Research Division - Senior Equity Research Analyst*

Philip Ross Gibbs *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

Stephen Levenson

PRESENTATION

Operator

Good morning, and welcome to the Allegheny Technologies Incorporated Strategic Transformation Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Scott Minder, Vice President, Treasurer and Investor Relations. Please go ahead, sir.

Scott A. Minder - *Allegheny Technologies Incorporated - VP of IR & Treasurer*

Good morning, everyone. Thanks for joining today's call announcing the next big step toward ATI's future. This call is being broadcast on our website at atimetals.com.

Participating in the call today are Bob Wetherbee, President and Chief Executive Officer; and Don Newman, Senior Vice President and Chief Financial Officer. You've connected to this call via the Internet, you should see slides on your screen. For those of you who dialed in, slides are available on our website. After our prepared remarks, we will open the line for questions.

Please note that all forward-looking statements are subject to various assumptions and caveats as noted in the press release and shown on this slide. Now I will turn the call over to Bob.

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

Thanks, Scott. Welcome, everyone. Thanks for joining this call on short notice. Today's announcement marks a big moment for us. It's a major milestone toward our becoming a more profitable company, delivering on our commitment to our shareholders.

We're sharpening our focus on the markets that most appreciate what we do and reward us accordingly. I'm excited to tell you what this means to our future.

I'll start on Slide 3. This morning, we announced actions within the Advanced Alloys & Solutions segment. We're exiting standard stainless sheet products, our lowest-margin product line. We also announced we're streamlining our footprint and investing to enhance our specialty capabilities. These actions accelerate the execution of our high-value strategy and intensify focus on the aerospace and defense markets. We're taking what we do best, our core strengths in material science and advanced process technologies and applying them to further penetrate differentiated applications, offering high returns.

By doing this, we expect an EBITDA margin improvement in the segment of nearly 90%. That's as compared to 2019 and occurring over time as the aerospace market recovers. We are confident that most of this improvement is in our control as we optimize our footprint.

At a high level, we'll accomplish the strategic transformation through 2 steps. First, by ceasing production at 5 locations by year-end 2021. We're well on our way already having idled 2 of the 5. Secondly, we're investing to upgrade and consolidate our footprint to give ATI best-in-class specialty sheet fencing operations. We'll have some of the best capabilities in the industry.

So let me stop here to underscore 2 really key points. First, we're really taking action to address a long-standing challenge, the underperforming standard stainless sheet product line. And it's time. During the downturn, you may recall, we've talked about it. We took significant actions to adjust cost structure and release working capital, especially in our standard stainless sheet business. As the economy recovers, we're facing a decision. How should we invest in working capital to support the underperforming product? The answer is no. We still struggle to get a return. ATI was not competitive in standard stainless before COVID. That's not going to change. Some of the problem is our cost structure, some of it is the structure of the U.S. industry.

And that leads me to my second point. The business is funding its own transformation. We're releasing standard stainless sheet working capital, primarily inventory and receivables, deploying it to upgrade capabilities serving strategic markets. Plus, largely self-funding over 3 years and generating a return on the investment that's 3x ATI's cost of capital. We're taking unprecedented action in an unprecedented time. Okay, Scott, let's get back to the prepared remarks.

Turning to Slide 4. Let's take a look at this announcement from a big picture standpoint, where it puts ATI. These actions put us on the path to become the aerospace and defense company we're meant to be. Once completed, we'll have a product portfolio focused exclusively on these high-value products that meet the demanding requirements we're known for. It goes without saying, but I'm going to say it anyway, that end markets with highly engineered specifications and stringent quality requirements are higher margins for those who can deliver capable solutions. That's our sweet spot. We do that with our unmatched material science capabilities, advanced process technologies every day. We're enhancing ATI's revenue mix to optimize the materials that solve our customers' greatest challenges. We'll significantly increase our profitability as the aerospace market and broad global economy recover. Our targeted revenue mix is 70% aerospace and defense, with another 20% in differentiated applications like specialty energy, medical and consumer electronics. All of these products will be high value.

So why is this a big deal for ATI? It's clearly a big deal for us because we've made substantial progress and have increased line of sight to give us confidence to declare our revenue mix targets. 70% aerospace and defense is within reach, and we're committed to getting there. And 20% of that additional revenue for us is in differentiated applications that leverage ATI strengths, both material science and advanced process technologies. And they come with aero-like margins, and that's the key to our future, a stronger position for the coming recovery. And equally importantly, we're doing it now, but we have the opportunity to get it right, get it in place and be ready to capture the opportunity as it comes back to us. It's an important moment for us.

Moving to Slide 5. Let's look at the impact of this announcement within our AA&S segment. Using 2019 as a baseline, the pro forma impact of today's announced actions is a $445 million decrease in revenue. This is a very low-margin product line. You can see that EBITDA remains flat despite the revenue reduction, resulting in a 200 basis point improvement in margin for AA&S. That's important, but it's really just simple math. The real driver here is that these actions position the segment to reach margins of 15% or more over time.

We'll achieve this margin expansion in 2 ways: cost reduction and a richer product mix. The majority of the improvement comes from significant cost takeouts, driven by our dispersed footprint. These are things within our control, and we've already proven we're pretty good at executing. To achieve the target, we do assume the aerospace market and broader economy recover to near pre-COVID levels, but we're not waiting for that recovery to happen.

We have actions underway that will deliver benefits as they're executed. We plan to be out of the standard stainless sheet business in about 6 months, idle most of the operations we've identified in 12. We'll have the majority of savings within 12 to 18 months, hitting the run rate in early 2022. Then we improve AA&S' competitive position as we install and commission new equipment, expected to be complete in 24 to 30 months. That will be transformative for the business and completed in less than 3 years.

As we demonstrated in our immediate response to the global pandemic, we understand that speed matters, and we're accelerating. An additional benefit of these actions is increased earnings stability as we reduce the AA&S segment's exposure to nickel and other volatile commodity prices by 2/3.

We also made progress toward our goal of eliminating pension funding obligations. You've heard me say several times we don't want to be in the pension business, and we're committed to removing the variability it brings. These actions take us 1 step closer to making that a reality.

Turning to Slide 6. Let's talk about where this upgrade and consolidation will take us. The rolled products part of AA&S' current flow path has multiple finishing sites that were pieced together over time, mainly through acquisitions. It was built to serve various end markets that primarily rely on distributors and product standardization.

In this structure, our Hot Rolling and Processing Facility, the HRPF, was essential to expanding our specialty capabilities. The strategy in 2008, when the decision to make this investment was made, was rooted in a higher volume approach. But the world has changed dramatically since we originally envisioned this asset. Today, we announced an asset impairment that included the HRPF. In our analysis, we've taken a very realistic view of our future demand. We control for the variables that we can and have taken a conservative view of those outside our control.

Moving on to the consolidated footprint. We're repositioning our assets and operations to create a purpose-built flow path for plate, specialty sheet and precision rolled strip, significantly streamlined, built on the best assets in the industry operated with ATI's unique material science expertise. You've likely heard me say that there's more favorable products than stainless steel. And our actions today are going to unleash that. There are elements within the specialty rolled products business already earning aero-like margins. We'll further exploit these markets using the assets we already have, along with the enhancements we announced today.

Our Vandergrift, Pennsylvania, facility has begun shifting its product mix to produce specialty sheet. We'll further build our capabilities there, investing between $65 million and $85 million of incremental CapEx over a 3-year period. It's important to understand this investment will be largely self-funded by ongoing working capital releases from the exit of standard stainless sheet and operational flow improvements from the footprint consolidation. We expect this project to deliver returns about 3x our cost of capital.

We'll install a new bright anneal line with the newest technology in the industry by early 2023, gaining state-of-the-art control systems, quality, surface finish and improved cycle time. Vandergrift is the ideal site for upgraded and consolidated sheet finishing operation. Its proximity to our Brackenridge, Pennsylvania, site and the HRPF will enable reduced flow times, operational efficiency and efficient rail transport and help us to keep our inventory levels low.

So what's the bottom line here? Very simple. 2 dedicated flow paths; 1 for the specialty sheet products and 1 for plate products. Gives us the opportunity to optimize and improve our flow times in a highly efficient footprint, which we expect to give us tremendous advantage as the market recovers, and we're able to respond to our customers in a very fast way. It's a true trifecta. What is that? Excellent specialty melt assets, including a state-of-the-art furnace in Latrobe, Pennsylvania. World-class rolling, powered by the HRPF to hit exacting standards. You've heard me say it many times, wider, thinner, faster, higher quality given flow times that nearly anyone in the world cannot meet, okay? We're in a great position. And now finishing capabilities that will be among the best in the industry. We'll have market-leading flow times for a range of specialty products. It's a great list, titanium, nickel, cobalt, zirconium, hafnium, niobium and tantalum. Specialty materials used in very demanding applications around the world. The best assets, the best people for great markets, and we're positioned to win with and for our customers.

Go to Slide 7. We're also changing the way we manage our business segments. After 25 years with ATI, John Sims has expressed his intention to retire. As you know, John has been instrumental to our growth in the aerospace and defense markets. His vision and dedication have helped position ATI as a critical supplier of advanced materials and components for next-generation jet engines. Thanks to his passion, ATI is set to achieve future success. I thank John for his leadership and service to ATI. Across our time together, we've not just been colleagues, we become friends. I count on John to tell me what he thinks, and he always does. Often succinctly in just a few words and to think big for ATI's success. And I truly value his insights.

With John's pending retirement, we're evolving to a leaner, more focused organization. We'll combine segment leadership for HPMC and AA&S under Kim Fields. We believe this new leadership structure will more closely align priorities across the businesses, driving more integrated actions and faster decision-making.

I have tremendous confidence in Kim. Having watched her lead the team integrating the AA&S segment and adjusting its cost structure to meet the new expectation of future demand. This work, most notably in the specialty rolled products business unit, is a key enabler to execute the strategic move we announced today, positioning specialty rolled products to be globally capable and sustainably profitable.

Kim has a history of being a transformational leader. That's why we brought her to ATI, and the organic growth opportunities within our business segments play to her strengths. So let's wrap up and close with Slide 8.

To recap, we're laser-focused on specialty products for strategic markets. We've taken and will continue to take actions to accelerate this strategy. Our goal is clear: create significant shareholder value. In the first quarter 2020, we realigned our business segments, creating cost and commercial synergies and driving increased organizational focus. We've responded to the challenges brought on by the pandemic by variabilizing our cost structure.

In essence, we've changed our definition of what is a fixed cost. Today, we announced our next leap forward. Exiting standard stainless products, transforming our specialty rolled products business by rightsizing capacity and enhancing efficiency. We're upgrading and consolidating to make the most at the moment we find ourselves in. This is a major milestone toward our becoming a more profitable company, delivering on our commitment to our shareholders. As I said earlier, our path is clear. We know where we're going. We're gaining velocity.

[If there are] engineers on the call, important thing about velocity is you got to have speed in a very defined direction. And I think we're gaining velocity every day. We're intensifying our focus on aerospace and defense markets and the differentiated applications that deliver aero-like margins that hasn't been able to be something we could say in the past. It's something that we're committed to moving forward, and we're taking action. Now it's about taking what we do best, our core strengths in material science and advanced process technologies, along with our relentless, innovative people to solve the world's toughest challenges.

With that, Don Newman will join me as the operator opens the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will be from Phil Gibbs with KeyBanc Capital Markets.

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

So if I'm looking at the numbers here correctly, in 2019, you had about $1.1 billion in aerospace and defense sales. Can you remind us what -- what is in that business specifically? Because from what I remember, there's very little, if any, engine after your resegmentation?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

Phil, you're talking about the Advanced Alloys & Solutions segment, the $1.1 billion?

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

$1.1 billion of aerospace and defense sales in 2019 and AA&S? What's in that number?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

Yes. So it's heavy in defense, right? We have some major programs that we've won over time. A lot of armor ground, armor-type systems. And clearly, the other chunk of it for us is the airframe side, where we'll actually, in 2019, I think the pro forma that you're looking at was mostly the titanium plate that goes into airframes, that will be the basis for gaining more share as we go into 2020, 2021. It will be the predominant, too.

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

Okay. So largely defense and the airframe business. So it's (inaudible) still.

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

Yes. I think one thing about defense is really the nuclear Navy for us is a big part of what we do in defense, in addition to a whole host of other applications.

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

So if I look -- just so I have this correctly, in AA&S in 2019, you had about $2.1 billion in sales with an 8% margin, including the stainless business. Seems like your expectations are that the aerospace business in -- with defense eventually recovers to 2019 levels, whereby aerospace and defense is 70% of the business. So my math says that's about $1.6 billion in sales for this business. And then you said with a 15% margin, that would be about $70 million of EBITDA improvement. How much of that EBITDA improvement is efficiency based or will be a direct result from you reorienting your portfolio?

Donald P. Newman - *Allegheny Technologies Incorporated - SVP of Finance & CFO*

So Phil, this is Don. Let me take a run at answering that question. And I know you were kind of shifting between segment level and consolidated levels. So we'll try to make sure that we're keeping pace in terms of how you're viewing the cutdown. But here's the bottom line. As you look at the benefits of the actions that we're announcing today, consider that $1.7 billion of revenues in the AA&S business ex stainless steel, a 500 basis point improvement in EBITDA margins represents, by math, almost $100 million of incremental EBITDA.

As you [burn] into that $100 million of additional EBITDA that we're creating through this process, think of it in terms of about 70% of that is tied to cost reductions with streamlining our footprint and eliminating some of the costs related to the facilities that are being shut down. So about $70 million of the $100 million. The rest of that, of course, is really tied into volumes, which should come with end market recoveries in part and -- but that's generally the way to think about, the baskets of value that are being created here.

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

Okay. That's -- that's very clear. And then my last question is just on the CapEx of the stainless business. I know you're investing 65 -- $85 million of Vandergrift, which I would imagine is part of your $70 million of streamlining over the next couple of years. But just remind me what the CapEx of the stainless business is?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

I -- yes. The normal CapEx levels are in the business?

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

Well, yes, you're getting rid of commodity stainless effectively, and there were certainly some sort of recurring CapEx tied to that business. So I would assume that goes away. But what's that number?

Donald P. Newman - *Allegheny Technologies Incorporated - SVP of Finance & CFO*

So here's the way to think about it, Phil. What you're really trying to drill into is, guys, what's the delta that I should be thinking about versus the existing run rate. And the way to think about it is, we're going to be saving ourselves probably between $5 million and $10 million a year in sustaining CapEx with this change.

Operator

The next question will be from Josh Sullivan of the Benchmark Company.

Joshua Ward Sullivan - *The Benchmark Company, LLC, Research Division - Senior Equity Research Analyst*

Bob, Don, and congrats to both John and Kim. Just as far as the working capital release, do you anticipate the cash flow to kind of exactly match the reinvestment? Or could there be some variation? And I think, when you guys exited grain-oriented steel, does that provide a flow path here? Just how do you think this plays out relative to when you guys exited those businesses? Just on the (inaudible)

Donald P. Newman - *Allegheny Technologies Incorporated - SVP of Finance & CFO*

I'm glad you asked that. So here's the punch line. It's our target to try to match as best we can the working capital releases with the capital spending that we shared, the $65 million to $85 million.

That's our objective. Now I could imagine that there could be periods where it could be plus or minus. I think in terms of, A, we're probably going to spend that $65 million to $85 million relatively evenly over the next 24 to 30 months, and we would expect generally the working capital releases to largely match that.

Joshua Ward Sullivan - *The Benchmark Company, LLC, Research Division - Senior Equity Research Analyst*

Okay. And then just a follow-up on that $30 million of the recovery in the markets that you're assuming, is that in aero? Is it defense? I mean you list out the differentiated applications in specialty energy, medical, consumer electronics. Can you just go through that $30 million? And where you're anticipating the recovery?

Donald P. Newman - *Allegheny Technologies Incorporated - SVP of Finance & CFO*

Yes. And in broad strokes, the way to think about it is not in individual pieces, but in general, you've got some key drivers in that recovery. One is the commercial aerospace, which is obviously a really important part of our business. And then we know that with the recovery in the general economy around medical and other key areas that we'll see some revenue growth as we get back to a pre-COVID world. So I would just look at it as kind of a holistic economic recovery, but certainly, commercial aerospace is an important part of it.

Operator

The next question will be from Gautam Khanna of Cowen.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Congratulations to all of the guys, John and Kim and Rich (sic) [Bob] and Don on this decision. I was going to ask a couple of questions. And the first one, just a basic one. What is the run rate D&A now of AA&S that we should be thinking about?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

I would say the run rate DA -- did you say, I didn't hear quite here. Was that DA or a bit more, was it GA?

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Depreciation and amortization. So that -- I'm just trying to back into what the EBIT level will be once we've taken the write-down and everything else?

Donald P. Newman - *Allegheny Technologies Incorporated - SVP of Finance & CFO*

Yes. So what I was going to say is the number I've got in my head that I can give you immediately is the delta. And so the way you want to think about it is we would expect relative to 2019 or even 2020 levels, when you look at 2021, depreciation and amortization, that'll drop about $10 million in 2021. So that's how you want to think about it.

As far as the run rate goes, let me test my memory a little bit, and I'll give that to you here in a second. Probably something in that $65 million range, and that will drop down by roughly $10 million -- by roughly $10 million. So sorry, I didn't have it (inaudible)

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

No, Don. It's okay. I appreciate it. And then maybe just another -- a big picture question, Rich. I'm sorry, I don't know why I keep calling you, Rich, I'm so sorry. I don't know what's my problem. Yes. It's horrible. Anyway, I was going to ask you just big picture because you used to run the flat-rolled segments and you lived through the HRPF development and all that. What are the lessons learned, if there are any? I mean it sounded like a pretty -- at the time, it sounded like a great idea to talk about $150 million to $250 million of EBIT improvement once it got operational. But I was just curious, like what are the lessons learned? What changed? How do you -- how does it inform your views on organic CapEx investment going forward? Just -- because it was a big project, and obviously, it didn't turn out. But what should we kind of take away from that?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

So appreciate the question. A couple of things here. Number one is the HRPF actually delivered the technology that it was intended to deliver and more so. So from a technological standpoint, it's great. And we have a specialty rolled products business today because of it. And so it was a huge enabler to the decision we're actually making today. If we had the old mill, we wouldn't have been having this conversation.

When you think about what we've learned as an organization, it's probably what everyone else is learning in the business world, too, is speed matters. The world changed a lot since 2008 when the decision was made. You think about the grain-oriented electrical steel business and certainly, our position in stainless, but the competitive nature and the structure of the industry changed as well. So for us, speed is a key part of the decision-making for us.

I think the other thing that we've learned a lot about is sometimes you have to test the paradigms that you live with. What's the fixed cost, right? We've done a lot of work managing the things within our control, and we've certainly taken on a lot of issues to think about our supply chain differently.

So I think from a -- how has the HRPF impacted our thinking and the experience, great technologically, got to move fast to capitalize up in the market and don't be wedded to old paradigms about your cost structure. And if you think differently and the pandemic certainly was a great catalyst for that, not that we weren't thinking about this problem, I think the day I met you and Rich was with me, that's why we look alike, a lot alike, the challenge is sometimes you got to think differently about the business and the pandemic, whether it forced us to do it or enabled us to do it, we did it.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

No, I appreciate that perspective. And just maybe thinking about the next 5 years or as you reposition to the higher end markets, are there any big CapEx projects that you think you guys might need? Like big ones, a couple of hundred million type of investments? And if so, in what areas?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

Yes. I think in the Advanced Alloys & Solutions segment, the answer is no. We're -- to have the HRPF and certainly, the state-of-the-art melting and Latrobe that we've upgraded over the last year or 2, and now this bright anneal was the last major issue for us to make sure we had the capability for the future. And so no. On AA&S, no. I think on the high-performance materials and components side, it's all a matter of the growth in aerospace and particularly the jet engine business. So you may see some capability investments, but nothing in the $200 million, $300 million range, for sure.

Operator

The next question will be from David Strauss of Barclays.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Bob, I think you mentioned about the impact on pension and your liability there with regard to this move but you didn't offer anything kind of quantitative. Maybe you or Don can help us understand what this means from a pension perspective going forward?

Donald P. Newman - *Allegheny Technologies Incorporated - SVP of Finance & CFO*

Sure. This is Don. Let me give you some perspective. So we've been on this glide path for the last number of years that really is pointed toward us eliminating our pension -- or net pension obligation. And what you see in the actions that we announced today, are really supportive of continuing and accelerating that glide path.

What do I mean? If you think about the levers that are available to work down a net pension obligation, there's a few very distinct levers you want to keep in mind. One is, you want to close out your plan to new entrants. We can check that box for us, we're already there.

The second thing that's really important is to reduce the number of active participants. Those are folks that are continuing to earn additional benefits every shift that they work. Well, the actions that we're taking today are going to reduce the number of actives. So we had talked about an incremental 400 folks coming out of the organization as a result of these plant shutdowns. Think in terms of probably half of those folks are active participants in the plant. So that will reduce the number, probably in the range of 15% to 20% over time. So that's very important.

Another important lever that's available to us is if you think about actuarial benefits -- our actuarial calculations rather, things like discount rates. Well, the fewer active participants that you have, the less impactful those actuarial adjustments are. So it reduces the volatility in that liability. And so what we're doing here today is, in my mind, a very clear and important part of continuing the glide path, which will end with our pension net liability being the minimum.

And I think you've heard Bob say numerous times, we don't want to be in the pension business, and we've been very, very active as an organization at getting out of that part of the business. And so we're excited about this next step.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

And any time frame, Don, in terms of when the contribution side will be fairly de minimis and not impact the cash flow as much as it does today?

Donald P. Newman - *Allegheny Technologies Incorporated - SVP of Finance & CFO*

Yes. I think in broad strokes, what you want to think about is probably in the next 4 years to 5 years, it becomes a very -- certainly, in that time frame, it should become de minimis based on the actions that we're taking.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And Bob, I guess a bit of a follow-up on Gautam. Coming from an aerospace guy that doesn't really understand this side of the business, the stainless side of the business that well, I mean, this always seems like an obvious move to us that you guys should make. But I know as it's come up over the years, it was -- you couldn't do it because the production facilities were kind of co-mingled and you couldn't -- it wasn't easy to go about doing this.

So I guess what changed there? What's the risk in doing this in terms of any sort of disruptions? Or I mean, was this just purely that for years, you've been holding on to this idea of the demand side would be there? And it just -- you just don't see a pathway to it being there, and that's the reason to do this now?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

Yes. That's a pretty all-encompassing question, David. So I'll give it a shot here. But I think it kind of fits into the vernacular about what's the future, right? We look forward and said if the industry structure going to change, how are we going to change our cost competitiveness. We certainly, over the last 3 or 4 years, have tried a lot of different things to make sure that our stainless business was going to be successful and return the cost of capital. And we just got to the point where the crisis of the pandemic came. We learned a lot. Took some really good action, great action about our cost structure.

And the challenge we've always had with the stainless business is its footprint. And we're managing as many as 7 or 8 different locations across the country. And we needed to consolidate to release the inventory, a lot less freight, a lot less time. And it gives us an opportunity to leverage our people.

A good example of that is Vandergrift, Pennsylvania, is 15 miles away from our Brackenridge facility, 20 minutes. What that allows us to do, we've leveraged a rail length for inventory movement. We end up with the flexibility to share resources. And when you look at the cost structure, what we discovered was 70% of that was really within our control if we're going to step up and deal with the footprint.

And what happened to us here as we got in -- we've always thought about the different options we had. But with the pandemic, we basically had already started by idling the facilities. We moved our cost structure around. You saw evidence then in the third quarter. And we said, you know what, now is the time. We can't project the future that the profitability returns for stainless, so let's reinvest in places that can generate those kind of returns.

So you're right. Historically, when I was responsible for the business, I can say it was very difficult to move the product lines around. Over the last couple of years, we've made some key investments, small, improving our melting capability in Latrobe. These investments that we're making in Vandergrift, actually, half of them are really about capability-driven investments that allow the consolidation to occur.

So I think that what's changed for us is how we view our cost structure, and the pandemic gave us a great opportunity. We already had the disruption in the business. And we're just going to pull our future forward, accelerate our future forward actually, just -- we knew it was inevitable, but now is the time.

Operator

The next question is from Stephen Levenson of Big Rock Research LLC.

Stephen Levenson

I see what you're doing, and I think you've explained well that you're really doing addition by subtraction here on the existing business, but I'm trying to see where the value is going forward beyond that? I just have a question. Bob, you mentioned bright anneal. Will your investments enable you to use the full 60-inch capability of the HRPF as opposed to what you were doing before?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

We'll have some additional with capabilities, but in the nickel and titanium space. So a lot of the specialty materials. There's not as much 60-wide opportunity there that there -- that was part of the Achilles' heel that hurt us in stainless. But if you look at the specialty side, we should have -- a lot of that stuff gets split into multiple width. So we'll get a lot of efficiencies out of the consolidation. So 60-inch wide isn't really as key to the success in those markets. (inaudible) Sorry.

I was going to say, when you talk about the value in a AA&S, I think that was also -- you had kind of 2 questions in there I think. When you look at Advanced Alloys & Solutions segment, we definitely have the Specialty Rolled Products business. We have our Precision Rolled Strip business that's doing very well in Asia, continues to see -- actually, the markets have rebounded, as we talked about in our earnings call. And we still see great opportunities there in some very specialized applications.

And then our Specialty Alloys and Components business, which is out in the West Coast, primarily dealing with nuclear Navy, dealing with some very unique products in the hafnium, niobium space that we continue to see growth, whether you call it nano technologies or not, it kind of fits into that category of growth. So I think when you think about the aerospace and defense, specialty energy, which is things like land-based gas turbines improving, some of the flue-gas desulfurization processes, some of the clad piping, those kind of applications. And then you add to that consumer electronics and medical. It's a pretty robust growth environment and certainly brings aero-like margins with it.

So I think we're positioning the business to focus on where the growth is. And we're spending a lot of less time worrying about where the problems in the business are. So I think from a leadership focus standpoint, and we're going to be really focused on the differentiated sector through that segment.

Stephen Levenson

Got it. And there's one for Don. On an earlier question, you talked about $100 million of incremental EBITDA compared to 2019, but 2019 was not a real good year for 737 MAX, how would that compare to 2018?

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

Yes. So I'll let Don speak to it. This is Bob. But 2018, from a material supply and the production and the supply chain was actually pretty good. I think the supply chain didn't really put the brakes on until late in 2019. The jet engines did it first. And then I think with the MAX, as they got into the reality of the situation, 2020 is probably -- it's not quite the low watermark. Actually, I think on the airframe side, 2021 will be the low watermark for airframe-type applications. But for the most part, 2019 was a pretty good year on the airframe side.

Donald P. Newman - *Allegheny Technologies Incorporated - SVP of Finance & CFO*

Right. I don't think there's much more I can add to that.

Operator

The next question is a follow-up from Phil Gibbs with KeyBanc Capital Markets.

Philip Ross Gibbs - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

All my questions have been answered. Congrats to Kim on the promotion and wish John the best.

Robert S. Wetherbee - *Allegheny Technologies Incorporated - President, CEO & Director*

Thanks, Bill.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Scott Minder for any closing remarks.

Scott A. Minder - *Allegheny Technologies Incorporated - VP of IR & Treasurer*

Thanks, Kerry, and thank you to all participants for joining us today. That concludes our strategic transformation call.

Operator

Thank you. The conference has now concluded. Thank you all for attending today's presentation. You may now disconnect your lines. Have a great day.