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**ATI, Inc.** (ATI)

Q3 2026 Earnings Call

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**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

**James Robert Foster**

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**Seth M. Seifman**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello, everyone. Thank you for joining us and welcome to ATI Third Quarter 2026 Results Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference over to Rob Rengel, Vice President of Investor Relations. Please go ahead.

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**Rob Rengel**

*Vice President-Investor Relations, ATI, Inc.*

Good morning and welcome to ATI's third quarter 2026 earnings call. Today's discussion is being webcast at ATImaterials.com. Joining me are Kim Fields, Board Chair, President and CEO and Rob Foster, Senior Vice President and CFO.

Before beginning our prepared remarks, I would like to draw your attention to the supplemental presentation that accompanies this call. Those slides provide additional color and details on our results, capabilities and outlook. They can also be found on our website.

As a reminder, all forward-looking statements are subject to various assumptions and caveats. These are noted in the earnings release and presentation. After our prepared remarks, we'll open the line for questions.

Now, I'll turn the call over to Kim.

## Kimberly Ann Fields

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

Thank you, Rob. Good morning, everyone, and thank you for joining us. ATI delivered another strong quarter exceeding the high-end of our adjusted EBITDA guidance by \$13 million. Today, we are raising our adjusted EBITDA guidance by \$35 million for the year, which includes an improved fourth quarter outlook. This is the third increase this year following last quarter's \$125 million increase. Our continued outperformance reflects the growing contribution of the structural improvements we've made across the business.

Demand remains strong across all of our key end markets, with sales growth both year-over-year and sequentially this quarter. Slide 4 highlights our key results. Revenue increased 26% year-over-year to \$1.4 billion, up 13% sequentially. Within that increase, jet engine revenue grew 39% year-over-year and 19% sequentially driven by higher production of next-generation engines and continued demand for our differentiated products.

Adjusted EBITDA was \$328 million, up 46% year-over-year. This was our highest quarterly result since 2007. Adjusted EBITDA margin expanded 300 basis points to 23%. Adjusted EPS increased 72% to \$1.46. Backlog was near and all-time record at \$4.3 billion, up 20% from a year ago. Combined with extended lead times for our most differentiated products, backlog provides visibility and confidence in our outlook.

Adjusted free cash flow was \$80 million in the quarter, bringing year-to-date cash flow to \$223 million, up \$73 million or 49% from the same period last year. For the second quarter in a row, AA&S delivered record performance with EBITDA margin of 25.8%, up 850 basis points from a year ago. This durable performance reflects a full quarter of improved contracts and a richer A&D mix. The segment's jet engine sales increased 45% sequentially, reflecting the benefit of ATI's interconnected jet engine flow path.

AA&S's performance reflects the transformation of the business. We exited lower value commodity stainless steel products and applied 80/20 to focus resources on higher value aerospace, defense and specialty energy products. Aerospace and defense now accounts for approximately 45% of AA&S sales, compared with 18% in 2021. Along with long-term agreements and improved pricing, these changes have created a more durable earnings profile and position AA&S for profitable growth.

Turning to slide 5, HPMC sales grew approximately 20% year-over-year, supported by strong demand for nickel and titanium. Third quarter segment margin was 23.2%. At the beginning of this year, HPMC began ramping production of a new alloy following a contract win. This is the sixth of seven advanced alloys used in the hot section of the jet engine. We qualified the alloy and moved it into production in just nine months. A strong example of the technical expertise that helps us win business and expand our share.

ATI is now one of only two producers worldwide making this alloy. The additional cost from the production ramp reduced HPMC's third quarter margin by approximately 200 basis points versus our plan. We've made meaningful progress through the ramp and we expect the remaining impact to be behind us by year-end.

This is a near-term cost of bringing a valuable new product into production. In return, this alloy expands our content on next-generation engines and positions HPMC for meaningful growth and improved profitability over time.

Now on slide 6. Based on our year-to-date performance and strong backlog, we are raising our full year adjusted EBITDA and adjusted EPS outlook. We now expect full year adjusted EBITDA of \$1.19 billion to \$1.2 billion with a midpoint of \$1.195 billion. That is a \$35 million increase from our prior outlook and represents 39% full year adjusted EBITDA growth from 2025. The higher outlook reflects continued strength in AA&S and stronger fourth

quarter profit expectations in both segments. AA&S is benefiting from durable contract pricing and a stronger aerospace and defense mix. We are also seeing improved pricing for differentiated hafnium and zirconium products.

HPMC is expected to improve sequentially as production efficiencies increase and the new alloys production process matures. We continue to expect full year consolidated adjusted EBITDA margins in the low 20% range and consolidated incremental margins of approximately 50%. The fourth quarter will be our strongest quarter of 2026 for sales and profit. Our outlook reflects committed customer schedules, contracted pricing and planned shipment timing.

Turning to slide 7, elevATIon is our operating model for converting strong demand, improved commercial terms and targeted investments into higher earnings, margins and cash flow. It helps us increase output from the assets we already own and apply expertise across ATI. One recent example is a project to recover and reuse a critical raw material that has become increasingly difficult to source.

Historically, this material could not be reclaimed and reused. Our team brought together ATI's melting and manufacturing capabilities, metallurgical expertise and processing assets to develop a solution. We are now recovering enough material to support most of our ongoing operating needs that lowers costs and helps secure supply for our customers.

We expect this project to generate several million dollars in annual savings beginning in 2027. This is the kind of benefit elevATIon enables, combining capabilities across ATI to solve emerging industry challenges and improve our performance.

Slide 8 gives a summary of our core markets. All four key end markets show strong growth, both year-over-year and sequentially. These customers need qualified capacity, differentiated technology and certainty of supply. ATI has built durable advantages in each of these areas through proprietary materials, specialized manufacturing processes, and complex customer qualifications. Those advantages support stronger commercial terms, long-term agreements, and attractive opportunities to invest in additional capabilities and capacity.

Jet engines remained ATI's largest and most important growth market. Revenue increased 39% year-over-year and 19% sequentially, reflecting strength in both OEM production and aftermarket. There's been some discussion about whether retirements of older aircraft could pressure MRO demand. ATI serves both demand streams. The disc forgings we make go into new engines and are also used as replacement parts in MRO with comparable margins across both.

The fleet transition from legacy engines to next-gen engines creates a significant growth opportunity for ATI. Next-generation engines use our differentiated materials to operate at higher temperatures and pressures, and our content on these platforms is more than double our content on legacy engines.

We're seeing that opportunity in our results. Demand for our jet engine products continues to strengthen. We now expect full year jet engine revenue growth in the low to mid-20% range, up from our prior expectation of high-teens growth. Just last week, a key engine OEM told us that if we doubled our current production for them today, they would take it all. We hear that kind of demand signal consistently.

In airframe, revenue increased to 11% year-over-year and 14% sequentially. At the beginning of the year, we expected airframe demand to build as the year progressed, with stronger growth in the second half. That is exactly how the year is unfolding. We saw a clear uptick in demand in the third quarter and momentum is building

into the fourth. Our committed backlog and strong orders for Q4 support our confidence in continued growth through year-end. We remain confident in our full year outlook for mid to high-single-digit airframe revenue growth.

Defense delivered another strong quarter and remains one of ATI's most important long-term growth opportunities. Revenue increased 6% year-over-year and 6% sequentially, building on the 36% year-over-year growth of the second quarter. This was our highest ever revenue in defense. Missile demand is strengthening with multiple inquiries for our titanium, nickel and niobium products to support strategic platforms, including Tomahawk, THAAD and PAC-3. We continue to expect high-teens defense revenue growth for the full year.

Specialty energy revenue increased 49% year-over-year and 36% sequentially as we shifted production to meet customer needs. As we discussed last quarter, our flexible assets allow us to balance production between defense and specialty energy demand. Specialty energy is largely driven by commercial nuclear demand, which continues to outpace supply. Demand for industrial gas turbines also remains strong. We continue to expect mid-teens specialty energy revenue growth for the full year.

Overall, demand remains strong across all our markets, and our differentiated positions are translating into growth. ATI delivered another strong quarter and we've raised our full year outlook for the third time this year. We expect the fourth quarter to be even stronger. Rob will walk through the financial results and our updated outlook.

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## James Robert Foster

*Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.*

Thanks, Kim. I'll start with the third quarter performance, dig into segment results and close with the supporting details for our updated guidance. As shown on slide 9, we delivered strong overall results.

Adjusted EBITDA exceeded the high-end of our guidance. We also expanded consolidated margins and generated solid cash flow. These results reflect the strength of ATI's differentiated portfolio and the earnings power of our business model. Third quarter revenue was \$1.4 billion, up 26% year-over-year. Aerospace and defense led the revenue growth and accounted for nearly 70% of our total revenue in the quarter.

Within A&D, jet engine sales increased significantly, reflecting the next-generation production ramp supported by a high temperature nickel superalloys and favorable pricing. Third quarter adjusted EBITDA was \$328 million, up 46% year-over-year. This was \$18 million above the midpoint and \$13 million above the high-end of our guidance, reflecting stronger pricing and mix in our AA&S segment. The step change we are seeing in AA&S margins was partially supported by the Naval Nuclear contract award and strength in specialty energy, contracted revenue streams that are durable and sustainable.

Third quarter consolidated adjusted EBITDA margin was 23%, up 300 basis points year-over-year. Year-to-date, adjusted free cash flow was \$223 million, an improvement of \$73 million from the prior-year period. Third quarter adjusted free cash flow was \$80 million, reflecting strong cash generation while continuing to fund our growth investments.

We're achieving our objective of generating positive adjusted free cash flow in every quarter this year. Managed working capital was 32.9% of sales at quarter-end, a 140 basis points improvement sequentially. Capital expenditures were \$93 million in the quarter. Through the third quarter year-to-date, total CapEx was \$217 million. Customer funded capital was \$48 million over the same period. All key growth projects remain on schedule and on budget.

Now on slide 10, I'll review segment performance. AA&S sales increased 34% year-over-year to \$702 million, driven by several factors, including stronger demand, price and mix, primarily in aerospace and defense and specialty energy. Segment margin expanded by 850 basis points to a record 25.8%, reflecting stronger pricing and volumes and a more favorable mix. On pricing, we continue to see a favorable pricing environment for our hafnium and zirconium products.

Our AA&S segment once again led the outperformance in the quarter. AA&S is fundamentally a different business today. Our results over the past two quarters are a strong proof point of our progress. The results reflect the improved earnings profile of AA&S supported by long-term contracts, stronger pricing and a favorable mix of aerospace and defense sales. HPMC sales increased 20% year-over-year to \$721 million, supported by a strong demand for our differentiated jet engine materials.

Segment margin was 23.2% impacted by the cost associated with ramping commercial production of our six nickel-based superalloy. The impact was about 200 basis points in the quarter versus our target. We view these near-term costs as a worthwhile investment in an alloy that will support next-generation engine platforms for decades. We made meaningful progress through the learning curve for our new superalloy in the third quarter with only a modest residual impact anticipated in the fourth quarter. Our confidence in HPMC's long-term margin potential remains unchanged.

Moving to slide 11 for our forward-looking assumptions. In the fourth quarter of 2026, we anticipate adjusted EBITDA of \$345 million to \$355 million, translating to an adjusted EPS of \$1.51 to \$1.57. At the midpoint, adjusted EBITDA increases 51% compared with the fourth quarter of 2025 and 7% sequentially. We anticipate consolidated adjusted EBITDA margin to expand in the fourth quarter compared to the third quarter with sequential profit improvement in both segments. In AA&S, we expect fourth quarter margins to remain in the mid-20% range supported by durable contracted pricing and mix, especially in aerospace and defense.

In HPMC, we see margin improvement compared to the third quarter level as we anticipate sequential cost improvements related to the production efficiencies I discussed.

Turning to slide 12, our full year outlook reflects the third quarter outperformance led by AA&S and stronger fourth quarter profit expectations in both segments. We see stronger volume overall and a more favorable mix mainly from jet engines. We are raising our full year adjusted EBITDA guidance to a range of \$1.190 billion to \$1.200 billion. The midpoint of the range represents a 39% increase over prior year and a \$35 million increase versus our prior full year EBITDA guidance.

Keep in mind that this raise follows the \$125 million raise to our full year outlook from just a quarter ago. This outlook translates to a full year adjusted EPS range of \$5.17 to \$5.23. We continue to see full year consolidated adjusted EBITDA margins in the low 20% range and we continue to expect full year consolidated incremental margins in the range of 50% year-over-year. We see the fourth quarter as our strongest quarter of 2026 for both sales and profit.

To be clear, we are converting durable demand into margin expansion and cash generation. At the segment level, we now see AA&S full year EBITDA margin in the low to mid-20% range, an increase versus last quarter. The uplift is supported by stronger volume with mix shifting toward aerospace and defense, as we've discussed.

We continue to see full year EBITDA margin for HPMC in the mid-20% range and we remain as confident as ever in the upside potential for HPMC's future margin. Turning to adjusted free cash flow, we are maintaining the midpoint at \$575 million with a range of \$550 million to \$600 million. The midpoint is \$195 million higher than the

2025 free cash flow, a 51% increase year-over-year. In this period of growth, our inventory levels will be temporarily elevated given the new assets, we are bringing on to support capacity. We expect inventories to normalize over time.

Let me emphasize. Our technical expertise allows us to ramp more efficiently than others. Already in the fourth quarter, we are seeing improved inventory velocity as we work up the learning curve with our new alloys and facilities. We also see strong profit conversion in the fourth quarter. Our capital deployment strategy is unchanged.

Our gross CapEx range remains consistent with prior guidance at \$280 million to \$300 million. Customer funded CapEx of \$55 million to \$65 million will be a partial offset. Share repurchases remain a priority for deploying incremental free cash flow. We view them as the most efficient way to return capital to shareholders.

As of the end of the third quarter, we deployed \$70 million for repurchases with \$425 million remaining under our current repurchase authorization. Overall, we delivered a strong third quarter and expect an even better fourth quarter and full year. We look forward to seeing you at Investor Day on November 12th, where we'll share how ATI's differentiated capabilities, specialized manufacturing processes and organic investments position us for sustained profitable growth. Kim, back to you.

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## Kimberly Ann Fields

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

Thanks, Rob. ATI delivered another strong quarter. We raised our full year outlook for the third time this year and we expect an even stronger fourth quarter. Growth is broad-based with record AA&S margins and strengthening demand in jet engines and airframe. We're focused on executing against that demand and carrying our momentum into 2027.

Now, let's open the line for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Richard Safran with Seaport Research Partners. Richard, your line is open. Please go ahead.

**Richard Safran**

*Analyst, Seaport Research Partners*

Thank you. Good morning. I have a question, and if it's okay, I have a follow-up. But this could be for both of you. But Kim, optically, there seems to be a bit of a contradiction between, what I heard from your opening remarks and about demand signals. And yet we have a slower than expected ramp at Airbus. And we all know Boeing recently just did a reset. So, I think that destocking is on the minds of a lot of people and the impact to ATI.

So I mean, simply put, do you see the potential here for destocking or an OE inventory correction? If no, maybe you could discuss why the difference between what the OEs are saying and what you're saying about demand signals? Thanks.

**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

Thanks, Rich. Yes, I have read some of that and heard some of that. And from our perspective, we are not seeing any change or impact to our demand or order book, including going into 2027. And as you said, from ATI's perspective, we stay very closely aligned with our customers on their schedules and their material needs. We've talked earlier in the year, the airframe inventories are largely normalized at this point. Customer orders are very closely aligned right now with their production schedules.

And I don't see any signs of any kind of inventory changes that are coming. I'd say, if I just will go back at the beginning of the year, we talked about this is going to be a story of two halves and the first half being relatively flat and then accelerating as we go into the second half. And that's what we're seeing with our material – our materials order well in advance of it being used in the production. And so, again, that alignment is really important and those orders are already on our books. And we're seeing that acceleration, as you saw airframe was up 11% year-over-year, but maybe more importantly, up 14% sequentially.

And so, I do think that the normalization of inventory is largely behind us. We do have good alignment with the production rates. And, maybe the other thing to point out is our materials go and feed into multiple programs at these airframers. And there are some other [indiscernible] (00:24:04) and other platforms that are continuing to step up and ramp. And so, what I see as I look forward is opportunities for continued growth as we go through the rest of this year into next year.

**Operator:** [Operator Instructions] Your next question comes from the line of Seth Seifman with JPMorgan. Seth, your line is open. Please go ahead.

**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Hey, thanks very much and good morning. I wanted to ask about within AA&S, we've seen some really outstanding performance. When we think about the sustainability of that over time and both – any headwinds that

might be coming from unique goodness in this year, as well as, tailwinds from the good performance in the business and the new contracts that you're signing, we've seen significant increases in the margin guidance for this year. So, how do we think about the sustainability of that?

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**James Robert Foster**

*Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.*

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Thanks, Seth. Yeah. So, let me remind you that, we fundamentally structurally change that segment and that transformation started, a couple of years ago when we exited the commodity standard stainless business. And, over time, we transformed that business. And we've really done that through kind of three different pillars. Number one, from a pricing and commercial contract standpoint. We've really worked to lock in some of that specifically aerospace and defense work and some of those other markets that were more core to ATI.

So, we've done a good job from a pricing and commercial standpoint to really align ourselves with some of these LTA and these long-term durability opportunities. We've also transformed from a mix standpoint. When I think about the transformation, if you look back in 2021, AA&S was 18% aerospace and defense compared to 45% aerospace and defense here as we exited Q3.

So, we've done a lot of mix shift work to that segment. In addition, we've worked a lot on the productivity and efficiency, enabled through our elevATIon operating model. So, we've really kind of transformed that business. And if you look at where we were, just last year kind of in that high-teens and then where we've transformed, most noticeably here in the second quarter, when we stepped up to that mid-20s, the business is structurally transformed. And we now see the full year 2026 margins in that low to mid-20% range with Q4 in the mid-20s. So, overall, I feel that this segment is sustainable and durable and will remain in that kind of mid-20s range for the foreseeable future.

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**Operator:** Your next question comes from the line of Gautam Khanna with TD Cowen. Gautam, your line is open. Please go ahead.

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**Gautam Khanna**

*Analyst, TD Cowen*

Q

Yes, thanks. Good morning, guys. I was wondering if you could give us some color this year, next year, the following year on pricing opportunities at HPMC, given what you described as you know pretty tight supply demand environment. And then, just relatedly, on the ramp of these alloys that you mentioned dampened margins by 200 bps relative to your plan. I just wanted to be clear on what the actual plan was for the quarter, just so we can calculate what the normal underlying should be. Was it just 200 basis points higher or was it – would it have been 200 basis points higher or even more than that? Thank you.

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**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

A

Sure. Sure. Thanks. So, yeah, as I look at pricing, this quarter, the uplift was about two-thirds price and were mix and about one-third volume. So, we are starting to see the benefit of those contract resets and some of the other work that we were talking about earlier in the year. I do see that continuing as we go forward. We do have several contracts that will come up for renewal.

I think the other important thing, as you mentioned, in this quarter, we're continuing to win new business as well. And that sixth alloy in the hot section that we won earlier this year and we've already increased our share on that

continues to expand our content in these markets and give us opportunity to capture both volume as well as mix and price uplift.

As you said this quarter, they had a solid – we had a solid quarter in HPMC. It was up 20% year-over-year and EBITDA increased. But, as you said, that margin came in about 200 basis points below what our plan was. So, that would have been about another \$15 million to \$20 million of additional EBITDA that we would have saw as we had ramped quicker. But I think the important thing to remember, as I mentioned, is we won this business at the beginning of this year, moved that alloy from qualification into production in just nine months.

And that really speaks to the technical capabilities of the team and the hard work that's going on there, because qualifying these advanced engine alloys are very demanding and that's what creates a significant barrier to entry and the moat to competitive advantage around our business. For that alloy in particular, we're one of only two that are producing that worldwide and today we now produce all six of those advanced alloys in the hot section that are coming from non-captive suppliers. No other company can make that claim. So, these engines are designed for decades of service and that ramp impact is really a temporary impact for that supporting a growth opportunity that spans decades.

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**James Robert Foster**

*Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.*

A

And Gautam, the way I think about it is that that 200 basis points of margin compression was really kind of costs associated with the inefficiencies of kind of that ramping. And so, as we think about it, transitioning into the fourth quarter, we expect that to be less than a quarter. But, it's going to be fully behind us as we exit 2026.

So, we do think that these are kind of near term. And as Kim mentioned, this is going to enable us to be in a position that's going to have, three plus decades of profitable growth opportunity. So, there are some near-term costs here in Q3, significantly abating here as we go into Q4 and then getting fully behind us. That's going to be a good thing, though overall. It's a good investment. Unfortunately, it is causing some near-term margin compression, but as I said, we expect that to be fully behind us as we exit Q4.

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**Operator:** Your next question comes from the line of Myles Walton with Wolfe Research. Myles, your line is open. Please go ahead.

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**Myles Walton**

*Analyst, Wolfe Research LLC*

Q

Thanks. Good morning. Kim, you made a comment about an anecdote with an engine OEM saying that they would take twice your capacity if you had it today. I guess, is there a specific area where your engine products, the pull is the highest? And if I just look at your engine products in aggregate, taking you five years to double your output. So, I'm not trying to take the comments literally, but more from a perspective of how quickly do you think you grow your engine products sales. And do you actually think it accelerates from the pace that you've had over the last five years, which is what it took to double the sales. Thanks.

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**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

A

Yeah. So, that comment, our materials and our forgings go into both MRO and new engine production. Today, it's about 50/50 between the two. And that's been consistent since the pandemic. And just to share with folks, for us, when we make a forging and send that to the customer, we don't know if it's going into a new engine build or into

the MRO stream. And so for us, it's the same part. It's the same price. It's the same margin. And so, to your point, I'm thinking here around the five-year growth standpoint. I do see continued growth as we go forward.

We've got very strong positions. Rob just made that point with the sixth alloy. Several, many of those, five of those were sole source supply. So, as these next-gen engines continue to grow, continue to hit their shop visits and those major shop visits where they're replacing the discs and the hot section parts, we'll see that continued growth. This quarter, very strong growth, 39% year-over-year. We did raise our guide that we anticipate low to mid-20% as we go through the rest of this year.

But I do think that continues to grow as we go forward, just based on the conversations I'm having with our customers, their expectation both upgrade packages and shop visits of that next generation alloy and engines coming in. So, I'd have to take a look at it. We're not providing any forward guidance today on that growth.

But I would say that this growth that we've had over the last year, we don't see that abating, and demand continues to be very strong as we look at next year. We'll share some more of that. And I'll take that question when we get to Investor Day and we'll share more of our outlook over the next three to five years, and we'll answer that question more fully.

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**Operator:** Your next question comes from the line of David Strauss with Wells Fargo. David, your line is open. Please go ahead.

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**David Strauss**

*Analyst, Wells Fargo Securities LLC*

Great. Thanks. Good morning, everyone. Now, with AA&S margins, at these levels in a similar range as HPMC, could you just talk about kind of margin differential between jet engine and kind of airframe or structural? I mean, I was under the impression engine is, much higher margin, but maybe that's not the case. If you could just touch on that. And any thoughts, Rob, maybe on the CapEx plan from here? Is it, as we look beyond this year, should we think relatively stable as a percent of sales or any framing you could do there? Thanks.

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**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

Great. Well, I'll take the first half, if we think about the margin differentials. And I'll let Rob talk a little bit about the capital and our outlook there. Historically what you said would be true. Our engine has been the most accretive and the highest value products for us. But what I would say has happened since we came out of the pandemic is those margin differentials have compressed.

And a lot of it comes down to, we're seeing strong demand, as you mentioned, in airframe. We're seeing strong demand in defense. We're seeing strong demand in specialty energy. And those products are made on the same assets. Those are fungible assets that can be directed towards different product flows. And so, customers recognize that. And I think, that's unusual. It's different than it's been in the past that they've had to think about these other market demands coming into these assets.

And early on, I think I shared that, that story that some of our customers were a little caught off guard when they heard our lead times, which are very extended. I shared some of that PQ titanium is about 20 months and iso-forgings are out more than two years. So, they recognize that. If they want that capability and that capacity that they have to look at higher pricing to get on those assets and get that capacity. Now that said, that is also what's helping to drive. And I'll let Rob get into capital. But that's also driving this investment in focus by customers at

bringing customer capital co-funding to that capital. So, they have access to that limited differentiated capabilities that we provide.

And so, you've seen, we've announced several of those projects. We haven't announced all of those projects. I think, that's continuing with the recent acquisition announcements where customers are looking at that differentiated, important capacity and products to help support their ramp. And they're investing in that. And that's what we've been talking about here for the good part of a year now.

But Rob, I'll let you talk a little bit about our outlook as we think about capital.

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**James Robert Foster**

*Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.*

A

Yeah. So, we're not going to be doing formal kind of updated guidance for the longer term. I'll be giving some additional color and context here at the upcoming Investor Day on November 12th. But what I can say is, how I'm thinking about it. And the way I'm thinking about organic growth is, I definitely see, a pipeline of really interesting projects for us. We're going to be very disciplined as we go through our approach. First, we're going to be looking to unlock efficiencies that already exist. elevATIon is going to be that, business model that we use to unlock all of the capacity that already exist on our existing footprints and assets.

The second part of that discipline is, we're going to be looking for alignment with our customers and generally that comes through either capital commitments and customer-funded capital or contracts. So, we're going to be very disciplined as we go through the organic growth process. And I can say the areas that are the most intriguing to us right now are the areas that, ATI has a differentiated moat and differentiated capability, such as, nickel superalloys, premium quality titanium, hafnium and zirconium areas, isothermal forging.

So, we've already announced CapEx projects within the nickel superalloys and the TQ titanium. The areas that are interesting, as I said, would be those differentiated moats. So, more information to come. But I can say that we don't have any plans for any monolithic assets. We're going to be very disciplined. We're going to be very rational and aligned with our customers and more information to come.

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**Operator:** Your next question comes from the line of Pete Skibitski with Alembic Global. Pete, your line is open. Please go ahead.

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**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Yeah, thanks. Good morning.

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**James Robert Foster**

*Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.*

A

Good morning.

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**Pete Skibitski**

*Analyst, Alembic Global Advisors LLC*

Q

Kim, could you maybe update us on how things are progressing at the new facility in Mexico and then also with the new furnace in Richland? I think they were kind of a – you had some sticking points there last quarter. I don't think they're related to the issue this quarter with the nickel alloys. But could you maybe update us on how things are progressing there, productivity wise?

**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

A

Sure, Pete. Yeah. And you're right, they're not related to each other. This quarter was really around that ramping of that new product line that we want earlier this year. But both of those are making good progress and we remain on plan to our milestones. On the Mexico side, we shipped about 25% of the deferred revenue that I talked about in Q3 and we expect to ship the balance of that in Q4.

If you remember the revenue was around \$30 million to \$40 million that we deferred from the second quarter. So, that's about \$10 million last quarter and third quarter and then the rest of it this year. I think, the positive thing is that, we'll leave this year at a run rate that it matches or exceeds, slightly exceeds what our original footprint was as we enter 2027.

And so, the team's done a fantastic job. They tripled output this last quarter. They are, like I said, well on track to our plan. As we look at EB2 in Richland, the furnace in Richland that you just talked about, we're making progress there, but not all of those qualifications are complete. We expect the qualification of the standard or most of our standard quality products to be done by the end of the year and will be in production as we go into next year. Those more are technically demanding engine alloys are going to continue through qualification into 2027 with us completing those qualifications as we get into mid-2027 timeframe.

And again, just to remind everybody, this is important because we built that furnace in Richland to give us flexibility to allow us to make both standard quality as well as that very highly differentiated premium quality titanium and gives us flexibility to be able to meet the needs of engine products as well as defense.

And so, those go into defense products too. And so, I think the bottom line, though, is they're on track. They're making good progress. We'll leave this year with the majority of that behind Mexico completely be at run rate. In fact, it will be higher than our original footprint and then our titanium qualifications in Richland will be well ahead.

**Operator:** Your next question comes from the line of Scott Deuschle with Deutsche Bank. Scott, your line is open. Please go ahead.

**Scott Deuschle**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi. Good morning. And can you comment on whether the forging business has much widebody exposure? Isn't it so what you're seeing in terms of widebody forging lead times and the progress you're making on ramping output there? And then for Rob, can you be any more precise on the margin you're expecting at HPMCs for the fourth quarter? Thank you.

**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

A

Sure, Scott. Yeah, widebody is starting to pick up. I think I talked about last quarter that we started to see some emergent orders with materials going into the airframers in particular opportunities to grow our product content and our share around those landing gear alloys that are very complex and difficult to produce and allow us to use our differentiated capability.

On the forging side, we do have widebody exposure, primarily through the engine side. Just to remind you, engines of our A&D segment, our A&D revenues, it's about 40% of our overall company. And so, most of our exposure is going to come from those large engines for the widebodies.

**James Robert Foster**

*Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.*

And Scott, in terms of how we see the HPMC Q4 margins, we see that mid-20s range. So, we're going to see a sequential step up from Q3 to Q4 that would land us in the mid-20s for the HPMC segment in Q4.

**Operator:** Your next question comes from the line of Samuel McKinney with KeyBanc Capital Markets. Samuel, your line is open. Please go ahead.

**Samuel McKinney**

*Analyst, KeyBanc Capital Markets, Inc.*

Hi, good morning, Kim and Rob.

**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

Good morning.

**James Robert Foster**

*Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.*

Good morning.

**Samuel McKinney**

*Analyst, KeyBanc Capital Markets, Inc.*

The AA&S margins took another meaningful step upward. First, can you just confirm that the third quarter represents the first full quarter of shipping under the new naval nuclear contract? And second, any more color you can provide us around the incremental margin impact that that had on overall AA&S given the continued segment mix shift to A&D?

**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

Yeah. Good morning. So, yes, this is the first full quarter we have on that new contract. But I'd say the step up also encompass demand coming from our commercial nuclear customers as well. You saw a significant step up year-over-year in our specialty energy of 49%. That was being driven by both gas turbines as well as those commercial nuclear customers. And so, both of those as well as increased demand, exceeding supply, around that zirconium and hafnium products that we talked about last quarter. [ph] You up (00:45:08).

**James Robert Foster**

*Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.*

Yeah. And as you think about the margins there, as we talked earlier, the sustainability of these, we expect the kind of mid-20s for Q4 and from an incremental, we guided the full year incrementals to about 50%. But seeing the AA&S segment a bit above the 50% level for the full year. So, overall, AA&S is very well positioned for sustainable profitability in this kind of mid-20s range.

**Rob Rengel**

*Vice President-Investor Relations, ATI, Inc.*

Operator, we have time for one final question before Kim closes the call.

**Operator:** Copy that. Your final question comes from Andre Madrid with BTIG. Andre, your line is open. Please go ahead.

**Andre Madrid**

*Analyst, US Bancorp / BTIG*

Q

Yes, thanks, Kim, Rob. Appreciate the time. Real quick, I kind of wanted to stick on specialty energy. Can you maybe just parse out the bigger moving pieces there for us to really understand what's driving growth? I understand, Kim, commercial energy is, nuclear energy is probably the largest moving piece there right now. But also, can you talk more to the IGT contributions in the quarter and maybe in the long-term as well as you see it moving out?

And then, I guess, beyond that, I want to kind of go back to jet engine and maybe talk about some of the demand trends you've been seeing. Obviously, it looks pretty robust. It remains around half of what you guys are doing on jet engine. But is there any kind of flattening related to higher fuel prices from the Iran war? Or are you not seeing that as upstream yet?

**Kimberly Ann Fields**

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

A

Okay. Great, Andre. Yeah. So, on specialty energy, as you said, I mentioned they had a great quarter up 49% year-over-year, 36% sequentially. So, strong customer demand. As you said, the majority of that is the nuclear energy. But demand remains healthy in both, the commercial nuclear and the industrial gas turbine. So, we're seeing demand coming from both sides. I think, part of what you saw in this quarter is that our fungible, flexible assets allow us to balance production between specialty energy and defense as our customer orders and their needs evolve.

So, that can lead to some quarter-to-quarter variability in shipments. We talked a little bit about that last quarter as we manage that capacity based on customer orders and priorities. But specialty energy growth continues and our underlying demand view of the market has not changed.

So, we continue to expect mid-teens growth for the full year there. Now, on the jet engine side, as you said, and we can talk a little bit more about that. We haven't seen any impact from those fuel prices, something that clearly that we're paying attention to. But as I mentioned, that comment from the customer that we had just last week, engine demand continues to grow and be strong. And what I'm seeing is coming from both the new engine as well as the MRO, as I said, for us, those forgings that we make and those materials that we send, go into both demand strength, and so we don't necessarily know any specific part or shipment which direction that's going.

So, it's for us, it's the same part, same pricing margin. And we have not seen a step down in those – in demand as we're looking at that. As I were talking with our customers, they're looking at both the MRO and even if aircraft starts to be retired because of higher fuel cost, the next-gen engines are actually that transition is beneficial for ATI, because those next-gen engines have two times the content of those legacy engines. And so, those really fall into those differentiated materials as well as those isothermal forging, which are two of those highly differentiated spaces that that Rob just talked about.

**Operator:** We have reached the end of the Q&A session. I will now turn the call back to Kim Fields for closing remarks.

## Kimberly Ann Fields

*Board Chair, President & Chief Executive Officer, ATI, Inc.*

Great. Thank you, everyone, for joining us and for your questions. As we've been talking about today, we see strong demand across the markets that we serve and the differentiated capabilities really position ATI to capture that demand. I think, that's what you saw with that strong lift across all of our markets. We're focused on executing well and converting that demand into earnings and cash and finishing 2026 strong and then continuing to build on that progress in 2027. Thank you.

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**Operator:** This concludes today's call. Thank you for attending. You may now disconnect.

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