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ATI, Inc. (ATI)

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CORPORATE PARTICIPANTS

Rob Rengel

Vice President-Investor Relations, ATI, Inc.

Kimberly Ann Fields

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

OTHER PARTICIPANTS

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Hi. Good afternoon, everyone. I'm Kristine Liwag, Morgan Stanley's Head of Aerospace and Defense Equity Research. I'm very excited to host our next panel with ATI, and very excited to have Kim Fields, who's our CEO of ATI. And I think, Rob, who is also CFO (sic) [IR Head] (00:04:59), he's going to read some disclaimers and I'll also read some.

So maybe passing on to you, Rob.

Rob Rengel

Vice President-Investor Relations, ATI, Inc.

Sure. Absolutely. Thanks, Kristine. So I'm Rob Rengel, IR Head over here at ATI. Just real quick, and I know everybody loves the disclaimer, but we may make forward-looking statements today. Those, of course, are subject to risks and uncertainties. For a full list of those risks and uncertainties, just look at our most recent earnings slides or our most recent 10-K. That's it. Thank you.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Great. And my disclosures, for important disclosures, please see Morgan Stanley Research Disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley representative.

QUESTION AND ANSWER SECTION

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

So with that, maybe Kim, starting off, you've been CEO of ATI now for more than two years. So what do you think about when you think about your tenure and your role, what has been the most meaningful progress ATI has made and where do you see the greatest opportunities going forward for the company?

Kimberly Ann Fields

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

A

Yeah. Thanks, Kristine. Yeah. As I look at ATI through my tenure, it's really the transformation that we've done with the business. It started back in 2019 in the AA&S segment, as we were looking at and working on SRP and that business, and focusing on our aerospace and defense portion of that business, exiting Standard Stainless, which at that time was about \$400 million in revenue, and really focusing our resources and investments at those differentiated products that bring the highest value to our customers.

Here recently, we continued that focus around aerospace and defense and some scarce resources that we make, hafnium and zirconium. I've talked a lot about that on our calls. And those products go into everything from commercial nuclear, naval nuclear, hypersonics, space launch, and even jet engine additions for those alloys. And taking that with the commercial discipline that we've applied across our business, we were able to capture the value that we were creating for those customers and for that business. And we've seen phenomenal results. In our second quarter alone, we were at about 22% margin in AA&S segment, 23% across the business.

In the AA&S segment, if you go back a year ago, it was at 14%, so really substantial increase. For the segment, over the last five years, we more than doubled our aerospace and defense percentage of revenue up to 44%. And so, again, substantial transformation that has been going on for a long time. I've been talking about it, but really started to see those financial results come through in the last quarter. And so the team's very proud of the progress that they've made, the focus. Overall, from a company standpoint, we've increased our aerospace and defense percent of revenue up to 68%, 70% of our total revenue. And that was down around 50% back in 2019. So when you just look at how quickly that we've transformed and focused our energy, our resources, and our investments around those products that are differentiated and bring the highest value to our customers, it's phenomenal. It's been a phenomenal journey.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

That's wonderful. I mean, those numbers speak for themselves. So with that, Kim, there are so many aerospace and defense suppliers, and you have a very broad portfolio, unique capabilities, but why ATI? And also, what differentiates you from your competitors? And for the products you're making, what's a commodity versus truly differentiated technology?

Kimberly Ann Fields

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

A

Yeah. As I look across the industry, and unfortunately, the time zone wasn't working with me today. I was up very early. But as I was thinking about this, there is no other company in the industry that has the same combination of differentiated, unique products that ATI has. If I look at those areas where we are differentiated, one is the jet

engine. We just talked a little bit about aerospace. Focusing in the jet engine, I've talked in the past on my earnings calls, there's seven proprietary alloys that go into the hot section of the jet engine. We make five of them sole source providers. The sixth, we split with another supplier, and the seventh is made by the OEM themselves. When you think about that, very unique characteristics and capabilities that we bring to this market.

In addition to that, we have isothermal forgings. We're one of two globally that have that capability. Every disc that goes into a jet engine is made through an isothermal forge process. We have the capability. We've developed it. It's a very precise temperatures and pressures and time to make those discs. And again, very unique capabilities that our customers recognize and value. The other two, premium quality titanium, again, goes into a jet engine, but it also goes into missiles, it goes into defense applications, and it goes into specialty energy applications. As we look across that portfolio, one of two globally that make premium quality titanium, we're in the process of qualifying our new asset that we just brought online out in Richland, Washington.

And the fourth is our hafnium and zirconium. We've talked a lot about that in my last earnings call, done phenomenally well. We are one of three Western suppliers that are qualified to make that product, and the only one that doesn't have a captive commercial nuclear business, meaning they're supplying their own internal business first before they're selling it to the market. We're the only independent.

And so when you look at that four, that combination, that's where I see customers are coming to us. They come to us to solve their hardest problems. They come to us because we have knowledge of almost the full periodic table. And we can work and say, if we add a little bit of this alloy or a little bit of this element, we can change the properties to get to the performance specifications that you're looking for. And so that combination, it's a phenomenal toolkit to have to bring to the industry. And when I look at our competitors, that combined with decades long of process know-how and qualifications, we bring a ton of value to helping our customers solve not just today's problems, but the next generation developments that they're doing.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

Thank you, Kim. Now, there's a clamor from your customers and the rest of the industry for more capacity. How do you think about capacity additions?

Kimberly Ann Fields

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

A

Yes. Capacity has been kind of top of everybody's minds since COVID, as we came out. First thing we do is we start with elevATIOn. That is our operating model and our system, and it's the way we run our business. And it really encompasses everything from procurement savings to operational improvements, as well as commercial discipline and portfolio optimization. So we look at our full set of assets, and you've seen probably quite a few changes over the last few quarters as we've continued to optimize at which markets, which customers, which products really leverage those specialized differentiated capabilities we have for the highest value. So, we do that and then apply incremental improvement, right, continuous improvement in our facilities to get to increase the flow through the capacity-constrained bottlenecks, work on increased yields, work on improved productivity, reduce costs. And that's really the first step, where we can get more out of the assets we already have invested today.

Once we get to that point, with our conversations with our customers, we look at putting in new capacity, and I've announced several new ones. A great example is the [ph] Tech Nickel (00:13:07), superalloy nickel CapEx that we are putting in. In fact, I'm very happy to say we are in commissioning for the remelt assets today. So I'm excited to see that come into operation, and we'll have new primary melt coming next week – next year, sorry, at the end of next year, we'll be commissioning that. And that was really close collaboration with our customers

around what is their demand. And as I talked about this year with our CapEx, about 20% of our CapEx is coming from customer-funded capital.

This year, we're going to be between \$280 million to \$300 million and 20%, our customers have said, we are going to give you capital, because we recognize the differentiated capabilities you have, and we want to invest in that. And we recognize we can't go and replicate it, move it, or get it somewhere else. And so, from a capital standpoint, that's the process we go through. We look to optimize our current installed base, but then more importantly, we look to partner with our customers for both contract and commitments, invested capital, and maybe most importantly, their support at expediting the qualification process.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

That's super helpful. Customer-funded CapEx always sounds good to me.

Kimberly Ann Fields

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

It sounds great to me, and I would say, it seems like a very foreign concept, both internally and to our customers. The first story of Rob, who is my CFO now, but he was the President at the first business that did that. The customer called me the next day and said, you got this crazy guy running your business out on the West Coast because he told me he wants me to give him capital, but I'm not getting anything for it. All I get is a reservation for some capacity. And I said, no, he's not crazy. That's what we need if you want us to go forward.

And for our capital, internally, we made our internal benchmarks for all of our capital project before any investment from our customers. So that's a 30% IRR target, and then any kind of investment they put in after the factor on top of that just accentuates that valuation. But I think most importantly for me, the payback from these capital projects is, and I wish I had anticipated this completely, but the customers not only have skin in the game because they have the contract in place and they have capital now that they've put in place.

But the most important part they've said is the scarce resource they have is their engineering talent. And with this capital comes a prioritization saying, no, no, no, we need this product. They're one of two people in the world that can do it. And we've put our own money and our cash into that. We're going to have our engineering team put that as their first priority. And so that's allowed us to rapidly qualify new assets, bring them online, as we've come out of COVID and get them up and running.

And so, yeah, some of our customers were a little surprised in the beginning, but I think even with current announcements, you're seeing this investment and focus on making sure that that investment around critical capabilities and very unique capabilities and products are continuing to happen. And there is a willingness partner to do that.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Thank you, Kim. Now on operations, ATI has [ph] been meeting full (00:16:17) progress year-to-date. You called out the margin expansion also versus a year ago, and you seem to continue to raise the bar. So what gives you the confidence for the balance of 2026? How do you think about jet engines, airframes, and defense?

Kimberly Ann Fields

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

Yeah. So, we're very proud of the progress the team's done. It's been a phenomenal year, as you just said, the year-over-year growth, EBITDA was up 57% (sic) [37%] second quarter, so really phenomenal work by the team. The confidence is coming from things that we already have in hand. We have committed customer orders that are on the books. We've got contractual price and mix improvements that are in place and we're starting to ship against. We've got new capacity that's coming online that we've got commitments and support to qualify. And we've got that backlog and continued commitment from our customers.

As you said, those markets that you mentioned, those are our three core markets. We've got phenomenal demand that's across all three of them. Aerospace continues to grow with jet engine being 50% MRO today for us on top of the [ph] OEE (00:17:32) growth that is continuing to come. Defense has been a bright spot. It was up 36% last quarter. Missiles is a small piece of that. Most of our foundation is coming from the naval nuclear programs, as well as the rotorcraft and fixed wing. But defense is up – our missiles are up 4x when you look at our growth and it's a small part, but it's growing rapidly and we're seeing increased activity around some of these missile and munitions programs. We're starting to place some orders for Tomahawk. We're seeing inquiries and we're getting orders for THAAD. So we're starting to see as this funding becomes more realistic and they're seeing that come through, we're starting to see those orders being placed.

And then the last one is specialty energy. They all vie for the same assets. The fungibility of those assets go back and forth. There's tremendous demand around gas turbines. And now with nuclear refueling and restarting, we're seeing demand coming from both of those aspects. It's a unique time where we've got demand across all of our core markets and we've got great contracts in place and we're seeing those – that execution through elevATion really help drive our volume and productivity.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

That's super helpful. Now on margins, diving deeper on that, you've had significant expansion already. Can you talk about what drove the margin step up? And also, when you look at this incremental volume that's about to come through, which sounds like quite substantive and with strong visibility, how should we think about incremental margins for these new programs coming online too?

Kimberly Ann Fields

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

A

Yeah. So we did share some of that in the earnings call. We have shared that we're at 50% incrementals today, and that's phenomenal, and we see that continuing through the rest of the year. As we look forward, we've got an Investor Day that's going to be in November, and I'm happy to share lots of details about that forward path and what we're anticipating. But as I look forward, I see that strength continuing for all those structural changes and improvements that I shared with you.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

Well, thank you. Now, when you think about the – I know it's a little early, but can we talk about 2027? How do you see the earnings trajectory into next year?

Kimberly Ann Fields

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

A

Yeah. And we did touch on that a little bit with the implied run rate of going into 2027 at \$1.35 billion of EBITDA. As I look forward, what I see is this continued momentum. We've got that as a run rate coming into the year. And

when I look forward, I see we'll have a full year of these price and contractual resets that happened this year, and that will continue to step up in the back half. We'll get a full year of that next year.

In addition to that, I see that we've got new assets. As I've just mentioned, the remelt's coming online. We're in the process of qualifying EB2. We've got our New Mexico inspection and testing facility coming online. So all of those are going to provide incremental opportunities for us to continue to grow our capacity and throughput. And then lastly, we're going to continue to do the continuous improvement work through elevATion, both from an operational production standpoint as well as continuing procurement, cost savings and commercial discipline as we're going forward and we're resetting and renewing these contracts between now and the end of the year. So yeah, next year, we've got great momentum as we go into 2027, and I'm really excited about the future.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

So, Kim, these contract renewals, do they usually come with significant step-ups in pricing?

Kimberly Ann Fields

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

So, I will say, because of that differentiation I just mentioned, it does, the current environment with demand being as high as it is, I was sharing this morning with some investors. There's really – jet engine has always been our most accretive market and there's really been a narrowing of the gap between jet engine and our other markets and other customers, because they recognize these are fungible assets. And I had one customer say to me, Kim, I'm going to take this price increase, because I want capacity on these assets and I know I'm competing with aerospace to get it. And so that is the reality. Customers understand that, they understand the need to be able to compete and have a good return for the assets that we've got.

And so, yeah, between that and some of the trade restrictions with China and then hafnium and zirconium in particular, with them restricting a lot of the defense programs and energy programs, it is providing a great backdrop for us to get not only price but also mix. I'm seeing – I don't want to underestimate our quality and our service levels. We're getting many opportunities still where either our customers are looking to diversify, they want to bring in more suppliers. And so, they're asking us to qualify, or one of their other suppliers isn't quite able to meet the full need. And they said, hey, can you come in? And so, we're still seeing share gains, mix improvements, portfolio optimization along with that pricing and terms.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

How exciting?

Kimberly Ann Fields

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

It is. It's a fun time to be in this industry, for sure.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

So on defense, defense clearly has strong positive momentum, but also space. So when we think about these two end markets, how do you see the growth opportunity for ATI?

Kimberly Ann Fields

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

A

Yeah. So defense is a broad-based market for us. It's an important growth market. As I said, it was up 36% last quarter. Missiles, I think, is a very exciting space, although small for us today, was up 4x. It's going to continue to grow. And as you mentioned on space, it's one of my favorites. It leverages all of our strengths and our capabilities as a company. It requires some of these very unique exotic alloys that are used in high temperature, high strength applications.

And so, things like the launch thrusters and the propellant. And so, as you think about those structural applications, alloys like hafnium and zirconium are being used in niobium-based alloys, titanium alloys are all being used to help support that. Small today, still a very small part, but as I look at just what's happened over the last few years, see a tremendous amount of growth coming from that space as well as missiles.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

That's super helpful. Now GE's acquisition of CPP, this has raised a lot of questions about vertical integration and supplier pricing power. Kind of view is your acquisition of this is to kind of keep the suppliers in check. How do you see that kind of transaction and their approach affecting ATI?

Kimberly Ann Fields

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

A

Yeah, it's interesting. So, I've gotten a lot of questions on that. We don't do castings, and we don't really supply to CPP at all. So from a strategy standpoint, from our business standpoint, there's very little impact. What I will say, though, is I think, it's an extension of what I just talked about with the customer capital that we've been receiving. It's this recognition by the supply chain, by our customers that there are these very unique capabilities, casting being one of them, that there are very few people in the world that can do that.

But if they're not managed and invested, could become the bottleneck for the whole industry. And that's been the case in the past, right, with castings. And we're seeing that with our own products, as I mentioned, around those four differentiations, Isothermal forgings and superalloy nickel and titanium – or premium quality titanium, as well as – did I mention the zirconium and hafnium?

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, the zirconium...

Kimberly Ann Fields

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

A

The zirconium and hafnium is the fourth one.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Q

Yes.

Kimberly Ann Fields

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

A

So when you think about those four, those investments, this is a continuation of that strategy to continue to invest. And ultimately, if this doesn't become a bottleneck, it's going to be better for all of us from a supplier, because we won't have to see a slowdown to allow that casting step to catch up to make more product. So I think it's interesting, it's a bold move, but I do think it's along the same lines as investing in core capabilities and unique differentiated capabilities like we've been seeing here the last couple of years.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Great. So with that, Kim, is there anything that you think investors don't understand about your stock or miss about your story?

Kimberly Ann Fields

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

Yeah. I think, especially folks that maybe haven't been following the last few years is they still may think of ATI as a Standard Stainless Metals company that we were back in 2018, 2015. We've transformed substantially, as I just shared with you, we've changed our focus around aerospace and defense now at 70%. We've invested on some of those very differentiated core capabilities, both from a resource standpoint, as well as from an investment standpoint. And today, we don't only have one growth engine, which was always HPMC. It's been the core of our company, and our most important and biggest growth engine.

Now, we have two that are very similar in margin profiles, have very similar opportunities in aerospace, defense and specialty energy, and provide us an opportunity to leverage these capabilities across multiple markets in multiple alloy and in product forms. And so I think that's the one thing that people are surprised if they haven't looked at us in a while that they come back and they think, hey, that's the old ATI, I remember. We're a very, very different aerospace and defense company today.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Well, and so now, looking into the future, what are your key priorities?

Kimberly Ann Fields

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

So the first and foremost, our priority is to continue to perform for our customers. All three of those industries have tremendous amount of demand and backlog for their products. Aerospace obviously continues to grow. The airframers are doing a fabulous job at continuing to step up. And the engine guys have still elevated MRO levels on top of that OE demand. Defense, unfortunately, the world's not getting more peaceful. We're seeing continued demand across all of our forms around naval, air defense, as well as missile and space. And then you got specialty energy, which I think I heard, what 2032, 2033, backlogs just continue to move out as the need for more and more energy. So, that's our number one goal.

And so where our focus and priorities are, are continuing to implement and execute elevATIOn, get more from the assets we already have in the ground that we've already invested in, improve our quality, improve our yield, increase our productivity, reduce our costs so that we get the most out of the assets we have today. Continue to focus and partner with our customers around investing for the future, making sure that we are making the right investment choices at the right time so that that capacity comes online to continue to maintain those proprietary sole source positions. And then last, continue to make sure that we're optimizing and capturing the value that we're creating, which is tremendous for our marketplace and for our customers.

Kristine Tan Liwag

Analyst, Morgan Stanley & Co. LLC

Well, great. Well, thank you very much, Kim. This concludes our session on ATI. And it's not ATI Metals, it's ATI Materials.

Kimberly Ann Fields

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

Thank you. Thank you so much.

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