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ATI, Inc. (Texas) (ATI)

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Donald P. Newman

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Gautam Khanna

Analyst, TD Cowen

MANAGEMENT DISCUSSION SECTION

Gautam Khanna

Analyst, TD Cowen

Great. Okay. So, appreciate you guys joining, those also on the webcast. It's our 45th Annual Aerospace & Defense Conference [indiscernible] (00:16), led by Cai von Rumohr. I'm Gautam Khanna, analyst who covers the ATI. We're very pleased to have with us Don Newman, who's the Chief Financial Officer. We also have Dave Weston here, who runs the IR. This is an interview format. So [indiscernible] (00:32) just Q&A, and then I'll open it up to questions with maybe 10 minutes remaining or so.

Don, welcome. Thank you for coming.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

Thanks. Thanks for having us.

QUESTION AND ANSWER SECTION

Gautam Khanna

Analyst, TD Cowen

Q

I wonder if, first, just if we could just rehash the quarter a little bit because there were some kind of outages and what have you. If you can just walk us through like what happened, and are those now confined [ph] in a time (00:52) and behind the company? So if you could just walk us through...

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yeah, I'd be happy to do that. We're getting the question a fair amount. So first of all, for the overall performance in the quarter, it was a really good quarter. We performed quite well from a cash generation standpoint, exceeded the high end of our guidance, from an EBITDA standpoint, EPS standpoint, everything went quite well. But one of the events that we did see in the quarter had an impact largely on our Q1. And there were some planned outages that we had late in the quarter. Those planned outages in some cases took a bit longer than we expected. And we are running these assets at a pretty strong pace. And for good reason, we have fantastic demand for our products, and we want to help our customers and get them the materials that they need.

So, we realized that that means that sometimes you're going to spend more time and money around maintenance. It's a ticket to the game. And so we found that in December, we had some outages in our – some of our melt assets, as well as some of our finishing assets. And we're managing a number of bottlenecks that we are creating in the business. Why do I say creating? Well, we're increasing the production capacity in our assets, which means as you flow those assets, that material downstream to finishing, for example, you're going to hit bottlenecks that didn't exist before you increased your production.

So good news is we're increasing production. Bad news is there's a bottleneck downstream. New good news is you get to fix the bottleneck and then you get the benefit of that flow.

And so that was also one of the elements of why did December, the outages in December create some headwind for Q1, whilst we had these bottlenecks and we had planned and as well as unplanned outages, we had – we ran down our [ph] whip balances (02:59) because, of course, at the same time, we're increasing the efficiency of our managed working capital, which means we're taking some risk. And in doing that, because you're – [ph] you don't have as (03:11) much cushion.

And so there's a lot of good news, though, in all of this. One piece of good news is the demand for our products is still absolutely wicked strong. And that's not slowing down at all. Another piece of good news is, our production off of our assets from period to period is actually really good, despite the fact that we had some outages that were longer than we expected.

And as you look past Q1, we expect that we're largely making up the Q1 impact of that outage. And we guided at a very – what I think is a pretty good growth rate from 2023 to 2024. And it sets us up really, really well for the targets that we put out for 2025, which is that we want to make sure we're maintaining the momentum in the business as we progress through 2024.

Gautam Khanna

Analyst, TD Cowen

Q

And if I could just ask you to elaborate, there was – at AA&S, there was an exotic alloy outage that was related to the weather in the Pacific Northwest.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yes. Yes.

Gautam Khanna

Analyst, TD Cowen

Q

And that's the pipes froze or something [indiscernible] (04:23)?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yeah. Yeah. Yeah, it was arctic weather conditions in the Portland and Albany area and we had some pipes that broke. Think of that facility, guys, as like a refinery. There's a lot of exposed pipe. I think we had 20, 21 days of below-freezing weather. In that area of the country, that, believe me, is not typical. And so we had some pipe breakage, that caused – that was a January event. It's all behind us now from a weather standpoint. We're just finishing fixing the pipes, and again, getting the production ramped.

Gautam Khanna

Analyst, TD Cowen

Q

Got you. And that was a [ph] \$0.03 (05:03) impact, Q1 and to Q2...

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

That's true. That's correct.

Gautam Khanna

Analyst, TD Cowen

Q

Okay. The melt assets that had a challenge in Q4, what specifically happened? I'm just curious, like, was it titanium melt? Was it nickel alloy melt?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

It was – as I recall, it was primarily titanium, as I recall. And what ended up happening is we had a combination of assets that we were taking down, one was – or not one, but we had some melt assets as well as some downstream finishing assets.

Gautam Khanna

Analyst, TD Cowen

Q

Okay.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

And in combination with that, we also had a press that we were working on to get ready for really the run of 2024. And as you guys can imagine, when you get into an outage, in some cases, these outages are things that you do every two, three or four years, right? So you don't always know what you're going to find when you open it up. And so, that was the case here.

And then once you find that an outage is going longer than you expect, you want to take advantage, if you've got the system shut down, you're going to want to do – take advantage of the time and do some maintenance that would otherwise be done later. And so we had some of that going on. Good news is that that means there's lower maintenance on those HPMC assets that later in the year than we would have planned, right, because we have kind of pulled that forward. So production should be better as you look further out in the year.

Gautam Khanna

Analyst, TD Cowen

Q

Got you. And I just wanted to ask, is this related to any of the new titanium furnaces that you guys have added, or was this legacy?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

No. Yeah.

Gautam Khanna

Analyst, TD Cowen

Q

Okay. To your point though, in – normally Q3 tends to have planned outages. Should we expect that this year we're going to have fewer such outages? Is it going to be meaningful in the P&L to see? Like normally, the sequential decline happens in HPMC, looking out to Q3.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Right. Right. So the Q3 outages that we typically have are in the AA&S segment.

Gautam Khanna

Analyst, TD Cowen

Q

Okay.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

So these outages were on the High Performance side of our business, so probably won't affect that Q3 outage. But when you look at Q4, it's not unusual for us on HPMC to take some seasonal outages in December when the teams are going home for the holidays or whatnot. It could be that we'll see some marginal benefit by having some lower outage for those planned events.

Gautam Khanna

Analyst, TD Cowen

Q

Fair enough. So, one of the questions we get time and again is because the Q1 starting point's like near \$0.40 of earnings per share, and then we have to get to an average of whatever it is, [ph] \$0.60-some-odd (07:57) thereafter, your conviction level around like the visibility of Q2, if you will, could you just tell us like what gives you that confidence?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yeah. So why am I confident about the annual and the trend that we...

Gautam Khanna

Analyst, TD Cowen

Q

You got.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

So we didn't guide Q2. But I do want to give you guys a sense, right, [ph] how to (08:15) think about it. So as you know, we were pretty – we try to be really transparent with the investors around how to think about Q1, the whys, and what was – what really drove that, because you think about Q4, our EPS was \$0.64. And then you think about the guide I gave, midpoint was \$0.40 in Q1. But then you look at the full-year guide, and we're guiding at, I think to a midpoint of \$2.32.

And so where does that confidence come from? Well, the part of the confidence is what were the reasons for the Q1 divot. The Q1 divot was driven by those Q4 outages behind us, right? So the dryness, the low whip condition that was created because of those Q4 outages, those should be fully behind us in Q – by the time we get to Q2. So that's a good guide.

Another thing is, as you look at how 2024 should unfold, 2024 will see an increase in EPS from Q1 to Q2. And then in the second half, [ph] we just have some inflection points that we've had (09:31), and I'll explain those in a second.

But before we do that, one way to for you guys to think about, say, first half versus second half, okay, think of it as first half 40%, second half 60%, okay? So I'll give you a sense as to what this growth looks like, because you already know Q1, right? And so you can do the math on that. And I do expect Q4 is going to be higher than Q3, and so that'll give you some indication.

But the why, [ph] now it's (10:06) the why. Well, we got – we have a few things that are happening in certainly from Q1 to Q2, but especially from Q2 to the second half. The – so some of those things are in Q2. We have the billet press that Bob Wetherbee, our CEO, talked about in our earnings call. We have a billet press that we're bringing into service. This was an investment that was started a number of years ago. We paused during COVID. We restarted that and finished that project. It's a really cool asset. It's a press, a billet press that is – that can be used with both titanium and nickel. So that's pretty powerful.

It's also a really critical asset to debottleneck part of our production process. When you think about we've added melt assets, part of it's been restarting idled assets. We also, in 2025 largely, we're going to see another melt, titanium melt asset come online, and we're picking up efficiencies in our nickel stream. So having that press capacity is really critical. Well, that should be online starting in Q2. And then it should really be present to help debottleneck the stream in the second half of the year. So that's a good [ph] guide (11:30).

Another good [ph] guide (11:31) for us is think about the titanium demand, really high, guys. Super high. Well, what about our capacity? Well, one of the things that we shared with the market was, in 2022, we said, hey, we have an idle asset that is in Albany, Oregon. Great facility, but it had some issues. Well, as we looked at that, as we saw the titanium demand ramping, we saw an opportunity to address the deficiencies and eliminate them, and restart an asset that we knew that could be restarted very quickly, especially relative to a new asset. And economically, it was just like a slam dunk.

So imagine this. So we have a facility out there that I think it was constructed originally in 2008, which is pretty relatively new in this industry, right? And it had a number of [ph] bars (12:34). And so, that facility was shut down very responsibly and wisely, and we figured out we could restart that in – within a matter of months. And sure enough, when we decided to do that, we were getting initial melts out of that asset within, I'll say, 90 days. Now, my colleagues in operations would say that's probably wrong by days, but trust me, it's kind of in that direction.

By the end of 2023, we were at run rate for that plant from a production standpoint. And the way you think about it as you guys are modeling it, first of all, that asset is ultimately going to be responsible for increasing our titanium melt capacity by about 45% from our base period. Base period in this case is 2022. So by 45%, as you do the math on run rate revenue out of that facility, think in terms of \$150 million to \$170 million of revenue off that facility, at an incremental EBITDA margin of between 30% and 35%, okay? You guys have already done math in your head. Now, understand that the restart costs on that asset was about \$10 million. \$10 million. It's – so, clearly, it was an easy economic decision, especially when our operations colleagues figured out how to eliminate the ongoing cost penalty that historically existed.

Gautam Khanna

Analyst, TD Cowen

Q

Yeah.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

And so, as that facility ramped up, we originally thought it would make economic sense to restart three machines, three bars. But then as we really started unwrapping that business and seeing where the demand was, we identified a fourth bar. And so, that fourth bar, we are going through the process of restarting, that should be producing certainly in the first half of 2024. But the basic question, the fair question is, okay, Don, when is this whole thing going to hit run rate on my income statement? And the answer on that one is really second half of 2024.

Gautam Khanna

Analyst, TD Cowen

Q

Okay.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

So that's another reason why, hey, why are you comfortable with this step-up? Well, I've got that ramping production and revenue stream coming from those assets.

Gautam Khanna

Analyst, TD Cowen

Q

Do you think all four will be contributing to the P&L by Q3 or is it really Q4?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Safely, it's Q4. But certainly, the three, let me give you a little bit more granularity here. So when you think about the \$150 million to [ph] \$170 (15:26) million, okay, is every one of those units contributing pro rata [indiscernible] (15:31)? The answer, of course, is no, right? So the first three units would generate roughly \$110 million to \$120 million of incremental revenue. About the same amount of incremental margin, okay? And then the fourth unit, think of that as bridging the gap to the \$150 million to [ph] \$170 (15:51) million, right?

Gautam Khanna

Analyst, TD Cowen

Q

Okay. Got it. And so, I have to do the math in my head quickly. If you were like \$150 million, 30% margins, 23% tax rate, 150-ish million shares, it's like it's about, then you get half of it, say, for the year. So it's about [indiscernible] (16:10) cut it in half, it's what, \$0.12 in the second half, something like that, right? Rough amount. It's \$0.06 a quarter if it's Q3, Q4, at [indiscernible] (16:19) thereabouts.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yeah, yeah. Yeah.

Gautam Khanna

Analyst, TD Cowen

Q

Okay. So that does support that lift. And then you guys have other assets coming online beyond that. There was another.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

We do.

Gautam Khanna

Analyst, TD Cowen

Q

And that's – that takes a while to qualify, correct?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

It does. But let's talk about that.

Gautam Khanna

Analyst, TD Cowen

Q

Yeah.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

So I just described a 45% increase in our melt capacity – titanium melt capacity. There's another 35% of increased melt capacity off that 2022 level. That is a brownfield investment that we have. It's already under

construction. We expect that we're going to get first melts off those assets at by the end of this year. And then it takes about a year to qualify. And so, these are assets that are going to produce very high quality, very, very high-quality material. And so, there can be a longer qualification period because of that.

And so, the way to think about the earnings contribution from those assets is from a revenue standpoint, it's probably going to be more revenue relative to the other – to the 45% I described. And there's reasons for it, and I won't – it'll take the rest of [ph] your time, and (17:35) I don't want to do that. But I think there will be more incremental revenue. And we'll probably see something less than \$50 million of incremental revenue in the second half of 2025, and then you'll hit run rate on those assets in 2026.

[indiscernible] (17:56)

Gautam Khanna

Analyst, TD Cowen

Q

So one of the questions we get a lot is Boeing has had some challenges on the 737 MAX, just raising the rate. Are you guys, do you know what rate you're at? On the [ph] 737 MAX (18:09) in terms of the engine channel and the airframe channel, are you at their stated rate? So does this impact, if there is a delay that's extended in terms of taking up the rate, when would it impact ATI, if at all?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yeah. So of course, like everything else, there's not a straightforward answer [ph] again (18:25). So what we can – what I can tell you definitively is we do not produce to build rates. Build rates are interesting and it helps everybody with your modeling. But the reality is we manufacture the material or we produce the forging when we get the order, long, short. And so what I can tell you is that despite the recent announcements around capped production levels, et cetera, we have not seen a pullback in any order activities, period. Engine or airframes, demand is quite strong.

And so, then the next natural question is, well, how long would that be true if – how long does this cap need to be in place before we start to feel it?

Gautam Khanna

Analyst, TD Cowen

Q

Yeah.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

It would have to be a pretty long time.

Gautam Khanna

Analyst, TD Cowen

Q

Okay.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

And keep it in mind that our business, there's two main airframers, and the other guy, I think you're seeing some pretty strong ramp, and our relationship with that company continues to grow. And so, we're not worried about a slowdown.

And another thing to keep in mind, Gautam, is when we put out our targets for 2025 and 2027, we were well within the assumptions that the OEMs had out for build rates. We do see demand hit sooner. Our typical lead times are 12 to 15 months for airframe, kind of probably closer to 12 is typical. And for engine, it's like six to nine months. That's our typical lead time. Right now, our lead times are, yeah, for those airframe, it's probably better than a year, and certainly for like engine forgings, I mean, we're out 12 to 15 months.

Gautam Khanna

Analyst, TD Cowen

Okay.

Q

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

Yeah. So, yeah, we've got a – and our backlog, by the way, is growing.

A

Gautam Khanna

Analyst, TD Cowen

Got you. So you're not seeing a slowdown in order entry. You're not getting fewer orders in January...

Q

[indiscernible] (20:35)

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

No, no. Our book is building. And the strength is still there. Signals in the conversations with our customers are also very positive around A&D.

A

Gautam Khanna

Analyst, TD Cowen

Yeah. Okay. I actually wanted to ask a little bit more about AA&S because one of the questions that used to – well, one of the factors that used to dog the stock, if you will, and sentiment the stock was the sensitivity to nickel prices because of the commodity stainless business, which you largely have – ATI has largely exited that business. But I am curious, what are you seeing in some of the shorter-cycle AA&S stuff right now, and what's your visibility, if at all, to it getting better in the second half? Maybe talk about STAL as well.

Q

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

Happy to. So when you think about AA&S segment, so AA&S was previously referred to as our flat rolled products business, right? We started a transformation in that business back in 2020 we announced, but it really hit in 2021. The goal in that business was to materially change the profitability of that business. So you're talking about a business that would generate, wouldn't be unusual to have low single-digit EBITDA numbers [indiscernible] (21:50). Well, we – that's not acceptable. And so, we got pretty aggressive in our transformation that's designed to raise the AA&S EBITDA [indiscernible] (22:05) at the segment level. AA&S EBITDA margins, which were about 8% in 2019, we see those getting to the middle to upper-teens as a result of the transformation that's happening.

A

Transformation is not about just taking costs out. We walked away from over \$400 million of standard stainless sheet sales, right, that contributed, now \$400 million of sales contributed \$1 million of EBITDA. Not a good use of our assets, right? While we walked away from that business in 2021, our team was able to replace that with value-added sales by the end of 2022. Pretty remarkable. We've seen the A&D exposure on that segment rise to about 35%. Before the transformation, I think it was in the range of 15%. So a lot of great things that are happening there.

We have, as a result of moving away from that standard portfolio, we've seen our exposure to volatility tied to commodities like nickel drop by roughly two-thirds, okay? That's enormous, reduces the risk in our financials significantly.

So we got all those great things going on. We are in transition. We have not fully gotten away from the market, the end markets, and the distributors that we sell to in for about 25% of the business.

Gautam Khanna

Analyst, TD Cowen

[indiscernible] (23:52)

Q

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

And what did we see? In – from Q2 to Q3, we saw a meaningful pullback on those end market sales to what we call general industrials. And it includes auto, it includes appliances, and it includes oil and gas, okay, for example. So we saw a meaningful pullback. We, in Q4, saw that leveling off.

So when you think about 2024, how should you guys think about that part of our business? Well, we've seen stabilization. We believe that we will see recovery in that part of our business in the second half of the year. And that's based upon when we've experienced pullbacks in these markets before, it doesn't instantaneously drop and it doesn't instantaneously come back. But we've seen this pattern. It's great when it comes back. That's another reason why you think, why is Don assuming second half's going to be better? We are assuming some recovery in those markets, which is great for absorption and just other profits.

Gautam Khanna

Analyst, TD Cowen

Right. And maybe you could just talk about the STAL JV, [indiscernible] (25:09)?

Q

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

Happy to.

A

Gautam Khanna

Analyst, TD Cowen

Yeah. So what's happening over there? Because that started to soften early last year, if I recall.

Q

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

So for the benefit of folks that aren't familiar with STAL, so STAL is what we refer to as our Asian precision rolled strip business. It's a joint venture. We own 60% of it. It really serves the electronics and automotive end markets in Asia and specifically China. And what Gautam's referring to is if you go back to 2022, we started to see slowing in that business tied to slowing economy – a slowing economy in China. And we expected in the first half of 2023, we'd start to see recovery. But guess what? The Chinese economy didn't really come back strong, right?

So right now what we see is a real stabilized business. So we saw the revenues in that business drop. It's about – it was about a \$300-million-revenue business, drop to \$250 million plus or minus range. It is a good business, it's really good business, has accretive margins to us. So, what I would expect and what's assumed in our guidance is that this Asian precision rolled strip business, it's going to remain at about the current level for the full year. And until we start seeing signs of recovery, we're not going to assume anything different.

Gautam Khanna

Analyst, TD Cowen

Q

Okay.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Hopefully that helps.

Gautam Khanna

Analyst, TD Cowen

Q

No, that definitely helps. At AA&S historically, there was always some sort of large project, high-value project coming through, whether it be a pipeline repair, whether it be a desalination plant [indiscernible] (26:56). I remember, over the years there've been a number of things. Are there any such kind of high-value projects that you're pursuing right now that could [ph] maybe benefit also (27:06) the upside?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yeah. For sure there are, and I'm not sure that I can name them specifically, publicly, so I want to be cautious on that. But the short answer's yes. And that is something, we have seen some of them hit, and that is part of the reason why we've seen some stabilization in our numbers. And so the expectation is, yeah, we'll see more of that. But the recovery, the full recovery in the end markets that we're anticipating in the second half aren't tied to just a specific or a couple major projects. It's more of a general recovery in those end markets.

Gautam Khanna

Analyst, TD Cowen

Q

Okay. I hate to ask, but given the 2025 guidance is \$800 million to \$900 million of EBITDA, do you have any way of handicapping where you would be in that range, like based on what you see today? Obviously, it changes. Next month may be different.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yeah. So first...

Gautam Khanna

Analyst, TD Cowen

High end, low end?

Q

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

Yeah. Yeah, yeah. No, I'm happy to. First, so this is true of the [ph] 2027's, too (28:14). So we guided on some revenue, give you guys an idea of what's revenue and EBITDA margin, okay? So if you look at the ranges that we gave, if you take the low end of the revenue and the low end of the margin and you do the math, it gives you the low end of the EBITDA range, and same thing on the high end. And so, by its nature, that meant that at the midpoint, it's \$850 million, because the low end is \$800 million, high end is \$900 million for 2025, \$850 million. Do I believe we're going to be at \$850 million? No, I believe – I certainly don't believe we're going to be at the low end of that range, I would expect we'll be somewhere in the mid to – if everything goes in a great straight line, we could be at the top end, but it's probably in the \$850 million to \$875 million range. And it's – I'm not guiding, I'm just giving you my guide...

A

[indiscernible] (29:09)

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

So, same thing, by the way, as you think about 2027, I don't think we're going to be at the low end, but I don't think we're going to be at the high end. Somewhere in the midpoint, but maybe probably better than, a little bit better is a fair assumption.

A

Gautam Khanna

Analyst, TD Cowen

Yeah. No, I just wanted to get your impression, and I recognize that's not formal guidance [indiscernible] (29:30).

Q

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

Yeah. Of course, I'm still hoping that you don't push your expectation...

A

[indiscernible] (29:33)

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

...but we'll do our best.

A

Gautam Khanna

Analyst, TD Cowen

Okay, fair enough. I was also going to ask, when you guys talk about cash deployment, there's been increasing focus on buybacks, it sounds like. Any kind of a pace of buybacks this year and beyond, and then appetite for M&A, if at all, and where are the gaps in the portfolio, if you have any?

Q

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

Yeah, fair questions. So first, when you talk about how we think about returning capital to shareholders, it's important to understand our philosophy around capital deployment, because wherever you deploy the capital, you're doing it at the expense of some other potential.

And so, the strategy that we're executing around capital deployment is what I call a balanced deployment strategy. There's three legs to the stool. We're investing a modest amount for growth and modest in our business. And we've guided to this multiple years, think in terms of, between now and 2027, averaging around \$200 million of all-in CapEx, it's an average. And of that all-in CapEx, about 60% of that would be growth. So the math says \$80 million of it is maintenance, okay? I don't expect one year to be \$100 million and the next year to be \$300 million, okay? It's going to be in that range. So that's one leg of the stool.

The second leg of the stool that is important to not ignore is the leverage on the balance sheet. Right now, we have \$2.2 billion of gross debt, which on a net debt basis we're at about [ph] a \$2.3 billion (31:25). And if everything goes as I'm currently expecting, we would be certainly [ph] sub 2 times (31:32) by the end of 2024. And – but we have to start, you want to start paying off some of your debt, and not just rolling it over and over and over again, because at some point you can find where things cycle down. And we don't want to be in a position where we have too much debt at the wrong time because it'll be too expensive for all of us, if that's the case.

So let's just be rational. Let's work it down in the normal course so we don't have to do anything crazy or exaggerated. So that's the second leg to the stool. Let's work down gross debt. We don't have any current maturities, but we do have some options as to how we could do that.

Third leg to the stool is a really important leg to the stool and our capital deployment strategy, and that's returning capital to our shareholders. And right now, our preferred vehicle for doing that is share repurchases, okay? That's the intro to the answer, okay? So here, so right now we've got \$150 million program that we're executing. When we're done with that program, it will mean that between early 2022 and the completion of that program, we will have repurchased almost \$400 million of shares in that modest period of time. I don't expect that that will be the last share repurchase program that will be approved by our board of directors. And so we will keep that going. We'll also keep balance. Often I'm asked about, well, how should we think about how big is that ultimate basket of share repurchases, which, of course, I can't give a specific number, but I can give you, again, a philosophy.

So one thing that is an easy target for us when it comes to share repurchases and the magnitudes is we have a convertible note that's going to convert 18.8 million shares. It's deep in the money, right? The shares have performed really well. So my goal, and I think it's a goal that my board would say it's their goal too, is let's attack that and buy shares back with the intention of offsetting that dilution. It's a good target. There's no magic to it. It's just a known target. And pulling in 18.8 million shares, and we have 126 million shares outstanding today, that seems like a good move, a good objective.

So that's the goal. I can get all those shares in, in all likelihood, between now and the maturity of the note, which is 2025, mid-2025. But I think we can do that not too far after the maturity of the note.

Gautam Khanna

Analyst, TD Cowen

Q

Got you. Okay. That helps. And then M&A, is there any desire, do you guys have what you need basically?

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

A

I would say that there are some capabilities that would be nice to have. But we've looked at most every deal that's been in the market. And it's not, guys, it is not because we're just desperate to do M&A. It is not the case at all. But when you look at a business, you learn, and when you look at the business, you could identify, yeah, there are capabilities here that really value-add to us and would make sense. We haven't seen that yet, the combination of really differentiated capabilities that are critical for us to have and economics that make sense for us. So I'm not going to say never, but I will say we're just going to continue to be disciplined. We have a lot of organic opportunities, and none of the senior management team or the board of directors feels and – a drive to go out and do M&A.

Gautam Khanna

Analyst, TD Cowen

Q

Okay. That's good to hear. I just wanted to open up to the audience. Does anyone have a question for Don?

Gautam Khanna

Analyst, TD Cowen

Okay. With that, I think we are done, but thank you so much.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

I will do one clarification. I'm second-guessing myself, and you asked if whether outages are titanium or nickel, and I said mostly titanium. And so, assume that it's a mix, because I'm hedging it because I have this feeling that there's a piece I'm missing, so.

Gautam Khanna

Analyst, TD Cowen

It's okay.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

Dave, I don't know if you have that answer off the top of your head. Yeah, okay. So I'm going to hedge a little bit. Assume it's both.

Gautam Khanna

Analyst, TD Cowen

Fair enough. All right. Appreciate it. Thank you, Don.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

All right.

Gautam Khanna

Analyst, TD Cowen

Take care.

Donald P. Newman

Executive Vice President-Finance & Chief Financial Officer, ATI, Inc. (Texas)

You too.

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