

30-Apr-2024

ATI, Inc. (Texas) (ATI)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

David Weston

Vice President-Investor Relations, ATI, Inc. (Texas)

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

Donald P. Newman

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

OTHER PARTICIPANTS

Michael Leshock

Analyst, KeyBanc Capital Markets, Inc.

Richard Safran

Analyst, Seaport Global Securities LLC

David Strauss

Analyst, Barclays Capital, Inc.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Chris Olin

Analyst, Northcoast Research Partners LLC

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Timna Beth Tanners

Analyst, Wolfe Research LLC

Gautam Khanna

Analyst, TD Cowen

MANAGEMENT DISCUSSION SECTION

Operator: Hello, all, and welcome to ATI's First Quarter 2024 Earnings Call. My name is Lydia, and I'll be your operator today. [Operator Instructions]

I'll now hand you over to Dave Weston, Vice President of Investor Relations. Please, go ahead.

David Weston

Vice President-Investor Relations, ATI, Inc. (Texas)

Thank you. Good morning, and welcome to ATI's First Quarter 2024 Earnings Call. Today's discussion is being webcast online at atimaterials.com. Participating in today's call to share key points from our first quarter results are: Bob Wetherbee, Board Chair and CEO; Kim Fields, President and COO; and Don Newman, Executive Vice President and CFO.

Before starting 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 and outlook. It can also be found on our website at atimaterials.com. After our prepared remarks, we'll open the line for questions.

As a reminder, all forward-looking statements are subject to various assumptions and caveats. These are noted in the earnings release and in the accompanying presentation.

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

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

Thanks, Dave. Good morning, everyone. In the first quarter of 2024, our leadership team focused on the things within our control, acting with urgency and a forward-looking perspective. The results reported today reflect those efforts. This morning, I will summarize the three key points I want you to take from our performance.

Point number one, Q1 financial results surpassed expectations. We delivered adjusted earnings per share for the quarter of \$0.48, exceeding the top end of our estimated range. Revenue was over \$1 billion for the seventh consecutive quarter. Our Advanced Alloys & Solutions segment led the way, achieving a 14% EBITDA margin in Q1. This reflected double-digit sequential growth in the electronics and medical markets and strong A&D's sales in Specialty Rolled Products. In addition, our Oregon team delivered an accelerated recovery from January's Pacific Northwest storm-related outages. Really was a great performance across the segment.

We expected the high Performance Materials and Components segment to be down in the first quarter, given the late year production outages we discussed in our last quarterly call. The good news is those impacts are fully behind us, and the business is leveraging the ramping melt rates and new billet forge press capacity. Equally important, our Forged Products business unit racked up another great quarter. That's two in a row, delivering the highest revenue in their history. All of this sets the stage for strong sequential growth and segment EBITDA margins, back above 20% in Q2.

Our commitment to managing working capital intensity delivered significant first quarter improvements for free cash flow over the prior-year first quarter. And we fully executed our share repurchase authorization of \$150 million, directly sharing the benefits of our strong performance with our shareholders. We did what we said we would do and what we needed to do in Q1.

Point number two, demand for ATI Aerospace & Defense as well as aero-like products remains robust. While the percentage of A&D sales dipped slightly below 60% in the quarter due to near-term order patterns and the impact of the Q4 outages, the [ph] comparison (00:03:52) of A&D and aero-like business remained above 75%. We're confident sales in the coming quarters will put us back on the trend line to our target, 65% A&D sales.

ATI's market position is very broad, significantly more diverse than before the pandemic. We're producing for every commercial airframe and every jet engine program. The struggles with the Boeing 737 MAX and the resulting impact on near-term LEAP-1B engine deliveries are much publicized. The impact on ATI is not meaningful.

Any impact is more than offset by demand to support the Geared Turbofan accelerated overhauls, elevated engine spares and increased defense and commercial space activity. And for clarity, the revised lower Boeing 737 MAX and LEAP-1B orders are reflected in our 2024 full-year guidance. Our focus is firmly on end markets and premium products, where our differentiated capabilities and materials are most highly valued.

Point number three, we're increasing our 2024 EPS guidance driven by strong demand, improved operational stability and a healthy pricing environment. We maintain our expectations for both top and bottom line growth in the second half. Our operations are performing at rates that support the second-half guidance. Kim will share more color on this in a moment.

As we leave the first quarter and look ahead to the strong outlook for Q2 and the rest of 2024. We've reached an ideal intersection of effective strategy, top line growth and bottom line performance. ATI has proven to perform and well-positioned for the future.

With that, I'll turn the call over to Kim and return later in the call for a few closing comments. Kim?

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

Thanks, Bob. I'm excited about ATI 's future and look forward to continue executing our strategy. We've invested a lot in the strategy, and I'm confident in our direction. Thank you for your leadership and vision.

Looking ahead, let's add a little color on the strength of the markets and why I'm confident in meeting the guidance for the year. First, let's answer the question on everyone's mind. How are the Boeing 737 MAX challenges and resulting build rate reductions affecting ATI?

Let me emphasize this is not impacting our orders in any meaningful way, as you will hear in Don's guidance. What we do see is strong underlying market demand that overcomes any Boeing 737 MAX inventory burn-down and LEAP-1B build rate reductions. We are getting signal that further into the year, we'll see order increases to support 2025 widebody build rates. We are very connected with our customers, and they recognize the importance of smoothing the impact to not derail the momentum that's been built.

With today's lead time, if you jump out the line, you'll face up to 12 to 18-month wait for material when you get back in line and reorder. In the meantime, there is plenty of demand from others until the Boeing 737 MAX gets back on track and returns to a significant growth rate.

Last summer we announced \$1.2 billion in sales commitments. These orders are ramping now. Additionally, we're seeing opportunities for emergent demand and expanded share positions as customers eliminate single points of failure and move business from underperforming suppliers to those who perform like ATI.

Today, our customer base is more diverse than before the pandemic. ATI provides content to all major engine and airframe OEMs. The other airframer in Toulouse is very busy these days. And we've significantly grown our position in certain products upwards of 50% share as they look to diversify their titanium supply chain away from Russian sources.

We're seeing very strong demand in engines, too. Across the board, higher shop visits are driving up spares demand, especially for the hot section materials and parts we produce. This continues to pace closer to 40% overall demand versus the 20% to 25% we've seen historically. We're actively supporting the GTF accelerated overhauls and parts replacement. This multiyear replacement plan is driving GTF forging demand up 25% in the back half versus last year. And we see further growth in this important program in 2025 and beyond.

Another strong market is defense. Defense armor plate continues to grow due to Abrams' re-armoring packages and foreign military sales. We enjoy a strong supply position on the UK's Ajax vehicle Program; and we're winning new programs like the US Army's new armored fighting vehicle, which has doubled the ATI content versus previous designs. The robust demand we are experiencing across most of our markets create pricing opportunities as well. We anticipate seeing these wins hit the bottom line in the back half of the year. This potential is built into our updated guidance.

Space provides significant opportunities for high growth, leveraging our material science capabilities. Commercial launch firms are targeting 100 launches this year, which provides a strong start to our new long-term agreements. In fact, every business at ATI participates in this market, and our material and parts are being designed into next generations of rockets, delivering strength at high temperatures for critical components. It may be a small

percentage of our revenue today, but it is on track to double this year. The business is going where we want it to go. ATI's products are in every major OEM aircraft and engine program. Bottom line, we have strong customer demand across our markets.

Now, let's talk operations. I am confident we are operating at the rate needed to meet this demand and our 2024 guidance. Recently, we commissioned a new 12,500 ton billet press capable of processing both nickel and titanium. This debottlenecking investment gives us maximum flexibility and is a key enabler to achieving our 2025 targets.

Another example, Forged Products is in the process of qualifying products on our fourth isothermal press. A major control system upgrade brought this asset up to best in class and increases our iso forging capacity by up to 40% over the first-half 2024. These are both great examples of debottlenecking our nickel and titanium value streams.

Last, with the increased industry focus on quality, testing and inspection capacity has been very tight. We have substantially expanded our ultrasonic inspection to support the increased testing requirements and relieve a critical industry supply chain bottleneck. By the second half, our testing capacity will triple. This goes a long way to addressing the urgent need of our customer base.

Our team is firing on all cylinders, and their hard work really shines through in this quarter's results. We're operating at the rates needed to meet our second-half guidance. I'm confident we're taking the steps needed to have increased capabilities and capacity, so we'll reach or exceed our stated 2025 targets.

Before I conclude, I want to thank our teams. Every day, they are focused on safely delivering for our customers. As you can see, their efforts are paying off as we achieve solid financial returns for our shareholders. We appreciate all their hard work.

With that, I'll turn it over to Don for detail on this quarter's results and the outlook for the second quarter and 2024.

Donald P. Newman

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

Thanks, Kim. Let me start by noting that ATI continues to deliver on commitments to our shareholders. First quarter adjusted EPS exceeded the high end of our guidance range in a meaningful way. We also delivered noteworthy improvement to cash performance year-over-year. We used that liquidity in the first quarter to repurchase \$150 million of stock. We are also raising full-year earnings and free cash flow guidance to reflect the expected performance.

There are three areas I want to cover today. First, Q1 showed continued improvement in a ramping demand environment. Second, we anticipate a meaningful increase in sales and earnings in Q2. And third, our expected performance in the second half of the year is well aligned to delivering 2025 financial targets.

Let's start with color on the first quarter. The AA&S segment delivered stronger than expected performance in the first quarter, including revenue growth of 7% over fourth quarter 2023, as well as adjusted EBITDA margins of 14%. Aerospace, medical and electronics drove this sequential revenue increase. As expected, certain industrial end markets remained soft, continuing a trend started in 2023. Conventional energy sales increased due to a nonrecurring product delivery. Beyond this singular event, we continue to expect recovery of industrial demand in the second half of the year.

For HPMC, melt outages in late 2023 led to lower first quarter sales and unfavorable mix, as well as lower earnings and margins. But the outages are behind us. Melt rates are where we need them to be to hit our targets. Here, I want to call out the team's efforts to improve cash performance.

Q1 has historically been a quarter of seasonal cash burn. Cash used in operating activities this quarter was \$99 million. Compare that to the first quarter of 2023 when we used \$285 million for operating activities. That's a \$186 million year-over-year improvement. Working capital management and the absence of pension contributions led to the favorable change. Good progress to-date, but we still have many opportunities to unlock when it comes to cash conversion.

We are putting that cash to good use. In Q1, we repurchased \$150 million of our stock, completing the program our board approved last November. Executing the program early in the year reflects strong liquidity and a stable balance sheet. It also reflects confidence in our improving operating cycle and cash generation profile.

We closed the first quarter with more than \$950 million of total liquidity, including nearly \$400 million of cash on hand. That's after executing the share buyback. Our net leverage ratio was 2.8 times at the end of the quarter and should continue to improve because of cash generation and increasing profits. Looking beyond Q1, we remain committed to delivering maximum value as we, one, invest for growth; two, delever the balance sheet; and three, return capital to our shareholders.

With that, let's talk about our Q2 outlook and our updated expectations for 2024. To provide greater clarity into our financial outlook, we have added an estimated range for adjusted EBITDA to complement the guidance we offer for adjusted earnings per share. Demand for our ATI products remains strong, particularly in the A&D and aero-like markets. When combined with the improved operational performance and production capacity that Kim highlighted, the expectations for future performance are compelling.

For the second quarter, we estimate adjusted EPS will be in the range of \$0.54 to \$0.60 per share. We expect adjusted EBITDA in the second quarter to be between \$170 million and \$180 million. Where is that growth coming from? Sales growth in our core end markets, post-outage de-bottlenecked production levels and stable industrial demand.

Expected strength in the second quarter carries over to the full year. We expect full-year adjusted EPS to be in the range of \$2.30 to \$2.60 per share. At the midpoint of the range, that is a \$0.13 increase from the full-year guidance provided last quarter. We also narrowed our guidance range by \$0.10 to reflect confidence in our ability to deliver.

Adjusted EBITDA for the full year is expected to be in the range of \$700 million to \$750 million. This strong performance and improved outlook carries over to cash flows, where we have increased our full-year free cash flow range by \$15 million from previous guidance. The new range is \$260 million to \$340 million. The \$300 million midpoint represents an 82% increase from 2023 free cash flow of \$165 million. We are not changing our CapEx range. It remains at \$190 million to \$230 million.

I know my audience. Most of you have already done the math regarding what this guidance indicates for the second half. The message is that we anticipate strong earnings margin and cash generation momentum as we exit 2024 and focus on delivering our 2025 financial targets.

With that, I'll turn the call back over to Bob.

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

Thanks, Don. Today's call is my 22nd as ATI's CEO. Those of you into material science, like we are, know that 22 is the atomic number for titanium, so I guess, it's fitting. Since being named CEO in August of 2018, it's been a privilege to collaborate with our team to develop ATI's strategy and guide our efforts to execute on that strategy to the benefit of shareholders, customers and employees.

Almost from day one, I got great counsel from our Directors to build a succession plan for whenever the time was right. We've been doing that, building a strong team across the enterprise. That includes investing in Kim Fields. She's learned and led each business unit within ATI. Strengthening our operations and championing our growth.

Kim equally invested herself in the development experience and the development of our A&D strategy. Our deliberate succession plan has paid off. She's ready to become ATI's next CEO on July 1. I'm really pleased for her, and she's earned it and I'm excited for ATI. And as Executive Chairman, I might be stepping away from the day-to-day, but I'll support Kim in whatever way she needs.

As I reflect on the last six years, it's been a great run. Some days, it felt a lot more like a sprint than a run. But a little more geopolitical and market uncertainty than anyone could have anticipated came along, but we've used every opportunity to our advantage. Yet, to be clear, the best days of value-creation at ATI are ahead.

My confidence in ATI's future is driven, first, by the strength of the aerospace and defense market demand. This robust growth is expected for the balance of the decade. Second, ATI's positioned in our core markets with a very broad customer and end-use application base. And third, our capabilities are extraordinary, our operational advantages formidable and our velocity, speed in a defined direction is accelerating. It's a great position to begin for sure.

I'm extremely proud to have led the team that has transformed ATI and positioned us so strongly for the future. And we really have a great team. Thanks to them for all we've accomplished together, we are and will continue to be, proven to perform.

With that, let's open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from Michael Leshock of KeyBanc. Your line is open. Please go ahead.

Michael Leshock

Analyst, KeyBanc Capital Markets, Inc.

Hey. Good morning. And Bob, congrats on number 22.

Q

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

Thank you.

A

Michael Leshock

Analyst, KeyBanc Capital Markets, Inc.

I wanted to start here on the commercial aerospace side. I know the Boeing 737 MAX is incorporated in guidance, and it sounds like you have ample room to mitigate some of the near-term challenges across your whole portfolio. But wanted to ask on how long it would take for subdued Boeing 737 MAX build rates to meaningfully impact ATI. So, hypothetically, if Boeing's rates stayed the same for another year, what would the impact look like on 2025 numbers for ATI? And are there ways to mitigate this if the Boeing 737 MAX issues become a longer-term issue?

Q

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

Well, hi. So, I think, I'll take this one, Bob. So, just to give you a little bit of color, as we mentioned, there's been minimal impact on us, and primarily, because it's more than offset by demand across all our other programs. So, even if it was, as you said, further out and multiple quarters forward, as we're looking at it, a couple things are true.

A

One is widebody demand is starting to ramp, which has much higher titanium content than the Boeing 737 MAX, which is more of an aluminum plane. The engines programs kind of across the board. We're seeing really strong demand on all of those programs. Engine spares and MRO visits are up, which are some OEMs are predicting increases in that as well. We're a key part of the GTF overhauls and parts replacement. And that's going to be elevated for several years as we work with them to help lower their AOGs.

And lastly, you can't forget the LEAP-1A has just as much jet engine content and titanium as the LEAP-1B, and that is continuing to grow and we anticipate that. So, as we said, in the near term, minimal impact and we anticipate that for many quarters out that we're going to be in good shape.

Michael Leshock

Analyst, KeyBanc Capital Markets, Inc.

Got it. That's really helpful. And then, on industrial demand, just wanted to get your take on what gives you confidence in a second-half recovery, and what are the moving pieces that you're seeing on the industrial side? Thanks.

Q

Donald P. Newman

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

A

Yeah, this is Don. I'll take that question. Really, we've talked for a while now about our expectations that industrial is going to recover largely in the second half of the year. And what we're looking at is signals within the individual end markets that make up our industrial. And what I would say is, this last quarter, we saw some positives in oil and gas. Some of those are recurring, some are not, but we are seeing some indications from a book order volume standpoint that there's positive trend.

So, what it does is it gives us great confidence that our expectation for Q2 is still strong. Now, in addition to that, we've seen recoveries in Asia demand with our Asian precision-rolled strip business and stability in industrials overall.

Michael Leshock

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you.

Operator: Our next question comes from Richard Safran of Seaport. Please go ahead.

Richard Safran

Analyst, Seaport Global Securities LLC

Q

Good morning. Bob, congrats to you.

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Thanks, Rich.

Richard Safran

Analyst, Seaport Global Securities LLC

Q

Kim, I have the first question for you, and then, I have one for you, Don. Any time, Bob. Kim, could you expand a little bit more on this widebody demand you were mentioning in your opening remarks? Is that coming from both Boeing and Airbus? And is it possible could you discuss the Boeing 787 Dreamliner orders that you're getting right now? I mean, is it supporting higher rates than what we're seeing right now, given your lead times? Thanks.

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

A

Thanks, Rich. Appreciate the question. Yeah, there's been some – obviously, the Airbus A350, they've come out and stated higher rates as they're going forward. And I got to take everyone back. The material lead times for these for these programs are 12 to 15 months out. So, we are starting to see and talk with our customers. We're very aligned with them. So, we're starting to see that demand as they're talking us around, how do we ensure that the material flow is going to be available as they start to ramp up?

As you said, the Boeing 787 Dreamliner has continued to ramp. And so, we've started having those conversations on that side. And we anticipate seeing those orders being placed to get into the lead time for the second half of this year as we gear up for shipments into 2025.

Richard Safran

Analyst, Seaport Global Securities LLC

Q

Okay. Thank you for that. Don, just quickly, could you go over, discuss a bit about how you're thinking about capital deployment now, given that you used up the \$150 million in the first quarter? One point in time, I think you were talking about M&A also. So, if you'd include a bit of a discussion about that in your answer, thanks.

Donald P. Newman

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

A

Sure, happy to do that. We talked many times about our balanced capital deployment strategy. And we're focused on three elements: Growing the business; delivering; and returning capital to shareholders. Those three priorities and the balance around them is not expected to change.

You're pointing out that we did fully consume the authorization that we had for share repurchases in Q1. It was \$150 million. So, we expecting to do additional additional share repurchases this year would be a fair conclusion of the question that you're asking. The short answer to that is we have clearly prioritized returning capital to shareholders. Since early 2022, we've repurchased almost \$400 million of our shares. We are in a very fortunate position where we expect to have healthy cash generation, just have to look at the targets that we've shared. And so, that, coupled with strong balance sheet and liquidity, Rich, we're in a great position to continue to make choices.

So, what does that mean for maybe an additional share repurchase program this year? And the short answer on that is, I don't want to get ahead of my board, but I would point out that our board has been extraordinarily supportive of this of this balanced capital deployment strategy and prioritizing return of capital to shareholders. I would not expect that the \$150 million program we just completed will be the last program, quite the contrary.

In terms of M&A, our bias on growing the business and investment has really been toward organic investment. And we've got a long list of great projects that provide robust returns, and we don't see that changing. It doesn't mean that we're not interested in M&A, but I can tell you the hurdles that we have, internally, hurdles in terms of very close adjacencies, overlap to our current business return profiles, those kinds of things. They're very robust. So, if we were to do any sort of acquisition, it would certainly be – it would be challenged to hit our internal targets.

It isn't something that we're putting great emphasis on or priority. We have a great business to run that's growing with CapEx and is going to provide the returns and the targets that we shared with the market. And so, we're happy with where we're at. But, I will tell you, it's nice to have choices. And it goes back to your original question capital deployment. Our starting objective with our capital deployment strategy and focus on cash generation, Rich, was to put us in a position where we can make healthy choices for our shareholders. And that's something that I think you're starting to see.

Richard Safran

Analyst, Seaport Global Securities LLC

Q

Thanks a lot.

Operator: Our next question comes from David Strauss of Barclays. Please go ahead.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Thanks. Good morning, Bob, and want to offer my congratulations as well and best wishes going forward.

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Thanks, David. Appreciate it.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Of course, I guess the first question for you, Don, the EPS guidance increase, obviously, some of that is the a share count. But beyond that, what actually changed since we didn't have an EBITDA expectation before this or guidance before this? I guess, what got better in terms of end markets or maybe break it out by business unit, basically. And what has improved versus when you gave initial guidance?

Donald P. Newman

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

A

Yeah. It starts with our Q1 performance being better than expected. And so, that was helpful in getting comfortable with raising the guidance. But really, it's starting with two pretty key items. One is continued strength of demand in our core end markets, aerospace and defense and aero-like. And that strength is reinforcing growth, especially in the second half of the year in our business and growth that we expect is going to carry to 2025 and beyond. So, seeing that continued strength of demand was helpful.

Another thing that I would point to that has increased our expectations of the business are tied to our debottlenecking activity. And of course, that's related to production. And as we saw successes in the first quarter around our debottlenecking efforts and seeing improved flow around products that are melted, and then seeing those progress through our production cycles, through finishing and getting out the door, very positive trends that we see there.

And so, that's what I would point to. We've got some additional debottlenecking focus that – or efforts, rather, in the second half that will continue to add incremental EBITDA to the business, and so those are the primary drivers.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Okay, great. And you've talked about a second half of the year recovery in your industrial end markets, I think, mainly, pointing to oil and gas. If that doesn't materialize, how much risk is there to your guidance? Are we at the low end of the EPS range? If industrial just kind of holds where we are today, does that put us at the low end, or are we outside the range? Thanks.

Donald P. Newman

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

A

Yeah, the magnitude of, if that were to happen, it wouldn't have a significant effect on the guidance, or us performing against guidance that we shared today. It would be marginal, I would say, to the EBITDA guidance of \$725 million. And so, I would still expect, with stable industrial – stable being defined as kind of where we were in Q1, I would expect pretty high confidence in our ability to deliver on the guidance that's on the table today.

David Strauss

Analyst, Barclays Capital, Inc.

Thanks very much.

Q

Operator: The next question comes from Scott Deuschle of Deutsche Bank. Your line is open.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Hey. Good morning.

Q

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

Good morning.

A

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

Good morning.

A

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Hey, Kim. Reading between the lines on the prepared remarks, it sounded like ATI maybe recently expanded its role with Pratt and its work scope on the GTF. I guess, did I read that right? And is there any additional context you can add, if so?

Q

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

Thanks, Scott. Yes, you did. You did read that, right? I'd say, ATI is part of the solution there. We've got a great relationship that's only grown through the pandemic. And it started with us partnering that with them on the angle scan testing protocols, and practice and helping them work through both what is was necessary, and then how to streamline that so that it didn't create more bottlenecks in the supply chain from an industry standpoint.

A

And second, as I mentioned, we are partnering with them, and we are part of the solution with helping them address the GTF issue and the accelerated overhauls that they're driving. I think, was mentioned during their earnings call, material flow is really going to be the key, and we're partnering with them to accelerate that flow through parts. I talked a little bit about our investment in ultrasonic inspection and testing. And again, that's in conjunction with helping to help support them really to accelerate bringing those AOGs back down.

Just you didn't ask, but as we look at our guidance, that is something that we did anticipate some of that incremental work in there in terms of scope. But as we look forward, I'd say, my bias and you've probably – you're hearing Don's bias as well, is to the upside of the range because, clearly, if we're able to move quicker, and as we work with them, they want to do that as well and get those planes back up in the air and back in service.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And can you say what specific parts you're selling into them now? Is it powder metal or more forged products? Just trying to understand more specifically?

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

A

Yeah, no. So, they're powder metal, I think, they've shared this publicly that they, through their joint venture, provide that material to our Forged Products group, so we're making the forged parts. And just as an overview, we are typically participating with all of our engine OEMs in the hot section of those parts, so the HPT and HPC disks and so forth.

So again, as you look at overhauls both in the powder metal situation they've got, but also just from the expanded overhauls that as they're bringing these planes and that they may want to do some additional work, so that they don't have to come back in again as soon, both of those opportunities are hitting us.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Okay, great. And Kim, are you able to say ATI was one of the new sources of supply for titanium that Collins Aerospace recently signed on?

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

A

Well, what I can say is, RTX is a longtime customer. We are partnering. We've grown our business over these times. I don't usually get into specifics about specific contracts and customers, but this example, on the GTF, we just talked about, is a great example of where we are continuing to grow our business with them. And as I said, we've got a great partnership with them.

Scott Deuschle

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: The next question comes from Chris Olin of Northcoast Research. Please, go ahead. Your line is open.

Chris Olin

Analyst, Northcoast Research Partners LLC

Q

Hey. Good morning.

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Good morning, Chris.

Chris Olin

Analyst, Northcoast Research Partners LLC

Q

I wanted to ask a little bit more about the titanium market share and maybe focus on the Airbus supply chain sourcing strategy. So, looks like the Canadian government officially exempted the Russian titanium imports from that sanctions list. And that decision confused me, but I guess what I was really confused by was the customer

behavior, because it looks like some of the suppliers in Europe and Canada under the Airbus umbrella really either did not have any intention of breaking away from Russian supply or adhering to what Airbus was officially saying.

So, I guess, what I'm curious about is kind of your views on what's been going on lately with the contract movement or lack thereof. And does the fewer breaking off of contracts from Airbus hurt the Northwest titanium capacity expansion strategy? And I guess, finally, Bob, as one of your last acts as CEO, I'm wondering if you're going to throw away your Bryan Adams records as a protest of these exemptions from Canada. Thanks.

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

So, let me deal with the last question first. I don't have any more records, but I hang on, on the digital [indiscernible] (00:39:26) for sure. I love the Canadians. They're friends, right. So, I would say, let me start with kind of the broader picture and kind of work out the color around that, right.

So, I think, your question was, how do you see Russian supply and the risk to those of us who are investing? I think our operations in the Pacific Northwest going to come online. Customers have committed across the board, gives us a great capability to marry up with our other titanium melting. And so, I think, we don't see any risk with that. It certainly gives us a lot of flexibility, both in terms of the input materials as well as the alloys and the end use. It's a very broad capability and we look forward to that.

I think if you look at the overall supply chain, you know what's going on perhaps in Canada, I don't think the Russian material in the supply chain has been totally consumed yet. It's still working its way through. It's not a zero. It's probably going to take into 2025 to do that.

I think we have to recognize it's important to the national interest, to the US, the Canadians, the Europeans to build airplanes, and that's what they're going to do. They're going to have to build airplanes. And so, that's going to be their first priority. And that's what you see in some of the exemption activities is. But it's going to be spotty kind of stuff because I think the vast majority of the supply chain are being filled by the incumbents. We certainly are seeing that. I think all of our competitors around the world are seeing the same thing.

But think back to the experiences and learnings over the last two years of the supply chain and what's going on, right. Number one is this commitment to eliminate single points of failure. So, where people relied on sole sources, perhaps out of Russia, right; not going back to that. Number two is the requalification issues, right. Think about the effort over the last two years to requalify. And here, we are heading into the start of a widebody demand increase. So, who's going to take real risk on their ramp to switch supply when they've gone to great pains over the last two years to put it in place?

So, I think, that's – I can't speak directly for Airbus and their strategy, but I would say that's the apparent strategy that they're on because they're acting like they've made the move and they're sticking to it. But the titanium industry needs to perform and meet the need [indiscernible] (00:42:00) need to go back to another source. That's our daily mantra.

And I think the OEMs are wanting to be – they want a level competitive playing field, but boy, it's got to be reliable. As Kim said earlier, every CEO on calls in the last few weeks has talked about the importance of material flow. So, I don't think they take the situation lightly, but I do think there'll be spot situations where the industry that doesn't have the right capability or the right capacity at the right time where you'll see material flowing.

But I would put it at low to no risk, for the balance of the decade, that the major OEMs would go back to Russian supply in a big way. I can't predict politics, but you can certainly predict economics and I think they're committed to doing what's right for their customers to build the planes and reliable flow of high quality material that's been qualified over and over again in the US and Europe. It's going to be their priority. So, I'll say, did I answer all the questions? I think I did. Brian Adams is still in my Rolodex and his thug life is going strong. And we're all for that.

Chris Olin*Analyst, Northcoast Research Partners LLC*

Q

Okay. Thanks a lot. I appreciate it. Go listen to Summer of '69 on your retirement.

Robert S. Wetherbee*Board Chair & Chief Executive Officer, ATI, Inc. (Texas)*

A

All right. Thank you.

Operator: Our next question comes from Seth Seifman of JPMorgan. Please go ahead. Your line is open.

Seth M. Seifman*Analyst, JPMorgan Securities LLC*

Q

Hey. Thanks very much, and good morning, everyone. And let me add my congratulations, Bob; and congratulations to Kim as well. I wanted to ask maybe starting off of...

Kimberly Ann Fields*Chief Operating Officer & President, ATI, Inc. (Texas)*

A

Thanks, Seth.

Seth M. Seifman*Analyst, JPMorgan Securities LLC*

Q

Sure, starting off about the HPMC profitability. You talk about some lower shipments of high-value aerospace parts and we attribute some of that to outages. Were there more timing issues in the quarter rather than outages? And then how do you expect this to bounce back? And does that lead to a margin back above 20% in the second quarter for for HPMC?

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

A

Sure. Let me cover that. So, first of all, the primary driver for the lower revenues in Q1 were really tied to the melt outage impacts from that Q4 set of events and the impact I had on our inventory positions for Q1. So, as we have those outages behind us, we're expecting, of course, to be back up to the production levels. And we are seeing that, not just expecting it, we're seeing it. And then, take another step upward in terms of our debottlenecking activity.

Add to all that, if you're talking about HPMC, some of the things that Kim had talked about around forgings. When we talk about forgings, you have to remember, they've had two running quarters in a row where they've set all time records on their revenue. In addition to that, we have started the fourth isothermal press, and we have added sonic testing. And that sonic testing was a bottleneck in the business.

So, as you look forward to Q2 and the second half of the year, for HPMC, you're seeing a lift in volumes, you're seeing – and that should have debottlenecking, as well as production efficiency. Don't forget the new assets that are coming online. We've talked about the Albany, Oregon facility that we restarted in 2023, that, that would be ramping up and really hitting the income statement run rates in the second half of the year. That's a good guy. And then, just the general overall the efficiencies that we're going after in HPMC.

And then, just one more thing, if you'll bear with me, as you think about the volume increase, where is it happening? Well, it's happening in aerospace and defense and aero-like. Those are our richest margin product offerings. And so, that's going to be beneficial to margins. So, volume increases, greater efficiencies, great mix impacts and faster flow. Those all set the stage for answering your question. What the heck's going to happen with HPMC margins?

The good news is, they're going up. We expect by – certainly in Q2 we're going to see HPMC margins back above the 20% level. And as the year progresses, we would expect that those margins in the Q3 and Q4 kind of timeframe would be in the 23% range, which is right in line with the targets that we have for 2025, which as you know are low-20s to mid-20s for HPMC.

Now, if we're talking about margins, I want to also just give you a sense as to how we're thinking about margins in the broader business. And so, if you think about ATI consolidated, so our experience this last quarter was 14.5% EBITDA margin. And I would expect that with each passing quarter, our consolidated EBITDA margins would be increasing.

And for the overall business, our 2025 targets, our EBITDA margins in the 18% to 20% range. Where we exit 2024 is an important point in terms of our ability to close the gap and hit that 18% to 20% margin target. So, how should you think about our expected margin exit rate for Q4 of this year? I would expect the consolidated EBITDA margins to be in the range of 16.5% to 17%. And of course, we're targeting 17% in our business, so that – delivering 17% as the Q4 exit EBITDA margins really sets us up well to hit our 2025 range of 18% to 20%. So, hopefully, that's helpful.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Q

Yes, that was great. And yeah, although it was such a robust answer. I'll leave it at one for this morning. Thanks very much, Don.

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Thank you.

Operator: Thank you. Our next question today comes from Timna Tanners of Wolfe Research. Your line is open.

Timna Beth Tanners

Analyst, Wolfe Research LLC

Q

Yeah. Hey. Good morning. Can you hear me okay?

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Yes. We got you loud and clear, Timna.

Timna Beth Tanners

Analyst, Wolfe Research LLC

Q

Okay, great. Bob, congrats on a great run. And it seems like it's been like – I don't know, yesterday that you just started, but it's great to see all your progress. Wanted to just ask about CapEx and capital allocation. So, on CapEx, I know you've done a really good job of debottlenecking and having bite-sized kind of growth, but just want to know, is that – how much more runway do you have of debottlenecking? How much more can you continue to kind of do these bite-sized increases in growth that way? What inning are we in there?

And then second question, just a little bit more on the buybacks. Is this a good cadence to expect going forward? Is there an opportunistic element to your buyback where you look at the share price or do you just look at a steady amount over time? Thanks again.

Donald P. Newman

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

A

Sure. Let me take that. In terms of CapEx and debottlenecking, first, I want to reinforce, the growth that we're seeing in the business and the really strong trajectory that we're sharing a part of today is all built on the CapEx guidance that we've shared with the market up to this point.

Our plan is, we expect to average \$200 million of CapEx each year between now and through 2027, plus or minus. So, in terms of debottlenecking and what are the opportunities, I would say, we're nowhere near really fully exhausting the opportunities and improving the production efficiencies and flows in our business. And I think that it's fair to say, that those opportunities exist throughout the business. And it starts with melt, and so unlocking the melt capacity, like we have been working on and we saw significant steps forward in Q1, that is the first step in really unlocking the bottlenecks in this business.

So, it's very, very, exciting. Talking about it's effectively free capacity and whatever debottlenecking investments that we're making in support of increasing this flow is subsumed in our CapEx guidance that I just mentioned, so it's not incremental to it.

And then, could you repeat your question around share buybacks?

Timna Beth Tanners

Analyst, Wolfe Research LLC

Q

Oh, sure. Yeah. It was more about what's the cadence that we might want to expect, or does your board think about it in terms of a steady state or opportunistic?

Donald P. Newman

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

A

I would say a combination. We try to do with our board is really look at things on an annual basis based upon our planned liquidity and cash generation. We make a recommendation to the board in terms of a level of CapEx, delevering and share buybacks; that balance deployment strategy I've talked about. And so, it's typical to talk to the board about that earlier in the year. And that's what we did this year. Actually, we accelerated a little bit at the end of last year. And that worked out extremely well. We repurchased shares early enough in Q1 before the run up in our stock. That probably saved us \$15 million to \$20 million because of that, being proactive on that, Timna.

In terms of being opportunistic, the short answer there is yes, we would expect to be opportunistic and to have a cadence. Opportunistic, this is a great example. So, we expanded the 2024 program of \$150 million that was originally planned to be executed late in the year. But we pulled that forward for a number of reasons, a number of really good reasons. Now, we're seeing this very healthy cash generation profile for the rest of the year. We would go back to our board and have conversations around them – around the topic with them, should we allocate more capital for additional share repurchases this year?

But it is important to remember, as we think about capital deployment and cash generation, the idea of having a balanced deployment strategy is not a one-off one year or two-year kind of strategy. So, investing for growth, investing for delevers and returning capital to our shareholders is something that is a continuation in our business.

Timna Beth Tanners

Analyst, Wolfe Research LLC

Q

Okay, thanks again and best of luck.

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Thank you.

Operator: And our next question comes from Gautam Khanna of TD Cowen. Please go ahead. Your line is open.

Gautam Khanna

Analyst, TD Cowen

Q

Hey. Thanks. Good morning, guys. And congrats, Bob and Kim.

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Yeah, thanks, Gautam. It's been a quick six years. That's for darn sure, but I'm confident, I'm ready to go and...

Gautam Khanna

Analyst, TD Cowen

Q

Yeah, definitely. Yeah, it's been quick. And I was just thinking in that I finally stopped calling you Rich, and now you're leaving?

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Well, if I was you, I call Kim, Bob. I think.

Gautam Khanna

Analyst, TD Cowen

Q

Exactly, who knows, we're laughing. But hey, I wanted to just revisit what you said in your prepared remarks on Boeing 737 MAX and destocking. And I was wondering if you could – maybe I missed it, but explicitly has there – this has had no impact on lead times, nickel billets on your titanium airframe shipments, et cetera? Is that true? You have have seen a change in schedule, but it's been entirely offset by the other programs. Is that a fair characterization?

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

A

Yeah. So, you raised the question on two different alloys series, and they have slightly different answer. So, I'll take the titanium side and I'll let Kim add the color on the nickel side because I think it's important to differentiate the two. So, when it comes to titanium the Boeing 737 MAX, as much as we love it, it really is much more of an aluminum-intensive vehicle, as they say.

And so I would say, the uptick in the widebody space is more than offsetting the downside on the Boeing 737 MAX. So, I would say what we see at the moment is stability in the order pattern from the guys in Seattle. So, yes, little bit down on that Boeing 737 MAX, starting to see the up on the widebody.

So, the message on titanium I think in the aero structures in the United States is stable with an upward bias. And so we haven't seen it go down, we've just seen it stabilize. But we are definitely seeing interest in the second half, which is also an indication of the build rates of 2025, given the lead times of 12 to 15 months.

So, we are seeing that activity. It helps when Airbus A350s are going to go to 12 from 10. That'll will be exciting. And we are looking forward to the day when they deliver 10 Boeing 787 Dreamliners a month. And so, we're starting to see that activity. So, that's kind of a titanium story.

Kim, you want to fill in Gautam's question on the nickel side?

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

A

Sure. Yeah, because that kind of leads us to the engine side and the LEAP 1-B. And as I mentioned there has been some modifications, and we're staying aligned with our customers. But as we look at it, it's more of a modifying of the growth, but we're still seeing growth. And so, instead of maybe 20% to 25% growth. It's closer to like 10% to 15% growth that we're going to continue to see from the LEAP program overall. And that includes that LEAP-1A and LEAP-1C for that matter.

As we look out over these different programs, as I mentioned, there are a couple of things happening. The widebody is bringing the Rolls-Royce demand forward. And so, they're looking at some of their large engines and how do they support that, so there's a lot of activity there. And then the GTF overhauls, obviously, they want to get through that overhaul and replacement as fast as possible, and so that's ramping very quickly. And any capacity that we have that can go to helping them move through that program quicker is going to be used. So, yeah, we don't have a lot of concern as we look at this more slight modification of that LEAP-1B ramp rate. And everything else seems to be very robust and growing.

Gautam Khanna

Analyst, TD Cowen

Q

And just as a follow-up, Kim, what are the nickel billet lead times at this point? I think, last quarter, we were thinking over 60 weeks. Is that fairly consistent?

Kimberly Ann Fields

Chief Operating Officer & President, ATI, Inc. (Texas)

A

Yeah, we do have some – there are some products that are over 70 weeks. I do think Don mentioned some of the work that we're doing on productivity and debottlenecking. And so, I say, it's up 12 to 15 months still, but we are working and we are seeing some capacity increases that are allowing us to pull some of those orders in, and

frankly, using those to react to emergent demands that our customers are having that they need to get a little bit further up in line to help them out. So, we're still in that same range. We do have some investments coming on that'll help that lead time, but it's still kind of in that 12 to 15 months.

Gautam Khanna

Analyst, TD Cowen

Thanks a lot, guys.

Q

Robert S. Wetherbee

Board Chair & Chief Executive Officer, ATI, Inc. (Texas)

Thanks Gautam.

A

Operator: Thank you. We have no further questions. So, I'll turn the call back over to Dave Weston for any closing comments.

David Weston

Vice President-Investor Relations, ATI, Inc. (Texas)

Yes. Thanks, everyone, for your time today. Please reach out to our Investor Relations team today with any follow-up questions. And with that, thank you very much again, and have a great day.

Operator: This concludes today's call. Thank you for joining. You may now disconnect your line.

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