

ATI Materials

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Seth Seifman: Good afternoon and welcome back to the aerospace and defense track here at the J.P. Morgan Industrials Conference. I'm Seth Seifman, the US Aerospace Defense Analyst. We are very grateful to have ATI here with us this afternoon to talk about the company. We have Don Newman, CFO, and we have Dave Weston, who runs Investor Relations.

Thank you both for coming. We really appreciate it. Glad to have you here.

Don Newman: Happy to be here.

Seth: Great. Yeah, maybe we'll just jump into some Q&A.

Don: Let's do that.

Seth: Good. Maybe start off with something that's been topical in the news recently has been labor contract.

There's been a few pieces of news, including the agreement with the union leadership last Friday, followed by the news that part of the contract was accepted this week, part of it not accepted, but you'll continue negotiating. Why don't you give us an update on where things stand and how you're thinking about that process going forward?

Don: I'm happy to do that. This is related to our USW representative teams. One team, about 1,000 people on the East Coast up in the Pennsylvania area, Pennsylvania and New York, and a second group, about 150 people on the West Coast.

The ratification vote was held here very recently, and the outcome of it was the West Coast team, which again, is about 150 folks, did ratify the agreement. The East Coast team did not ratify. Up to this point, the conversations between the company and the union representatives have been very positive.

We're expecting that we will reach agreement, and it'll be a good outcome for the company, as well as for our people. We did get an extension on the agreement, which had expired on February 28, and now we have that extended through April 30. We're confident that that'll be, again, a good outcome.

Seth: Can you say anything about where the sticking points are?

Don: We, number one, don't know quite yet.

Seth: OK.

Don: I'm sure the USW representatives are having some conversations with the rank and file to understand where their concerns were, and I anticipate we'll hear more as that unfolds. Our objective as a company is, number one, to take care of our people. We appreciate our teammates, and number two, we want to make sure that we're hearing their needs.

Seth: OK, then just from a procedural perspective, so if the members don't approve a contract, that's one thing. In order for there to be a strike, does it have to be an affirmative vote to go ahead and strike?

Don: I believe that's the case. Also importantly, from a ratification standpoint, it takes a simple majority to actually accept the contracts.

Seth: Right. Do you happen to know, is it a super majority to strike?

Don: I cannot tell you off the top of my head.

Seth: That's helpful update, and so we'll watch this space for the next few months and how it unfolds. I guess, maybe stepping back, thinking about the company overall, in your space, high-end specialized metal applications, especially in aerospace.

There is a couple of different companies out there that people follow. Maybe if you just help people understand what you think makes ATI unique, where you guys play, and what you do.

Don: Sure. I'd be happy to do that. First, we're an aerospace and defense supplier, and we provide materials that are critical to commercial as well as defense applications. Our two primary materials are titanium and nickel. Nickel's about half of our sales. Titanium another roughly 20

percent of our sales.

The applications that those materials are used are very, very advanced in many cases, including the hot section of the jet engine, and that does include rotative parts. As you think about our capabilities, those capabilities include isothermal forgings, which are quite critical when it comes to actually producing the discs that go into that hot section of the jet engine.

From a titanium standpoint, the titanium materials that we produce have application in many cases around the airframe of the plane and, again, are critical to the actual flight of the commercial plane. From a defense standpoint, our defense applications are very broad. It is an area that's growing at a good pace for us.

We saw growth rates in the high-teens to low-twenties in 2024 for defense. Our defense sales have reached about half a billion dollars in 2024. We expect that growth is going to continue.

The applications are broad-based and in high-demand areas when it comes to defense, including the submarine applications as well as armor applications for tanks, for example, with our titanium plate.

Because of the applications that we produce, we expect they'll continue to be in quite high demand as the world continues to arm. In addition to those capabilities, we have the materials that we've talked about more and more recently, and that is our hafnium, niobium, and similar refractory materials.

Those are materials that are used in applications, for example, in electronics and high-performance chips, and also in nuclear applications. Those also overlap into that defense space that I was just talking about, including the use of hafnium and niobium-based materials for hypersonic weapons, for example.

Seth: I would think that's an area we're probably poised to see some significant growth.

Don: Yeah. From a defense standpoint, we're happy to be a part of putting in the hands of our soldiers the weapons that they need for defense. We think we're in a good position to continue to do that.

Seth: Excellent. Last year, we had some hiccups throughout the whole supply chain in aerospace industry both with related to seven three seven and strike at Boeing and related to

engine production and CFM. ATI itself had some challenges during the year.

As we think about this year, talk a little bit about how you're situated, and you and Kim Fields, the CEO, how you're thinking about the year ahead and making sure that the company is able to capitalize on the opportunities that are out there.

Don: Sure. I'm happy to do that. Starts with production. We're fortunate that we're in many end markets where if you can produce it and you can ship it, you can sell it. Our first and foremost focus is stable production. And you're right, Seth. We had some challenges in 2024 related to some of our key areas, including melts related to jet engine.

We have seen great stabilization in that area, and I would expect that'll continue. We've also been focused not only on the stable production but also debottlenecking. Because of the stable production, our production rates should improve, which means then areas that were not bottlenecked in the past would be bottlenecked unless they were solved. We're certainly focused on that.

Generally, again, demand very strong. As you think about how we think about 2025 and beyond, we are pretty confident in the ability for us to hit our targets for 2025 and 2027. It starts with jet engine. When you look at the growth rates on jet engine, it's being driven, really, by two catalysts.

One catalyst is the build rates around narrow body and wide body. The second catalyst is demand driven by MRO. Both of those demand drivers are very, very strong. One of the key areas that we see continued strength in terms of commentary from our customers and orders, building a backlog, it's around jet engine.

You can zero in on our forging business, for example. A substantial portion of that forging business is jet engine. The backlog for that part of our business grew 19 percent in calendar 2024, and it's not lightening up at this point. The communications from our customers are, get ready, growth is continuing, and it's not just about 2025, it's certainly strength beyond 2025.

Seth: You talked about production and debottlenecking and being able to handle the level of demand that's coming down to the company. You recently opened up a new facility in Florida focused on additive manufacturing.

Don: Yes.

Seth: Maybe you could tell us a little bit about that. How does that support your ability to produce in aerospace and defense?

Don: It's a nice facility. It is related to additive manufacturing, and it is crossroads between our material science capabilities and our manufacturing capabilities. It is a facility that is primarily focused on supporting secured activities for our defense customers.

We did a grand opening here in the last month, and the response from our customers was very positive. As a matter of fact, orders were coming in as part and parcel to the grand opening. That's a very positive indicator.

It's a space that we can grow into. It's a relatively modest start, and that's consistent with our conservative approach to capital investment. We do not build in anticipation of the customers coming, and instead, we take a pretty conservative approach.

Once the demand is evidenced and orders are coming, then that's when we are more comfortable making extended investments. That's reflected in the contribution we're expecting from this facility over the near term, which would be very modest, probably a little bit of a burn in the first year, and then very modest contribution.

Indications are, based upon the early feedback from our customers and their response to our capabilities in that facility, it's going to do really well for us.

Seth: That's something that will ramp over a few years.

Don: It'll ramp over a few years, and the reality is there are not a lot of secure facilities like this. Couple the fact that there's not a lot of them with the reputation that ATI has raw material science and manufacturing, and it's a strong package to offer up to our customers.

Seth: A related question is about CapEx. You guys have some elevated CapEx planned for this year. Maybe if you could talk a little bit about what it's for and what unlocks the potential of the company? If we think about the current level of engine production at your customers and we think about where that should be in 2027, 2028, it should be significantly higher.

Don: Yes.

Seth: ATI, obviously, would be looking to support that. When you think about getting to those

higher levels of production, the elevated CapEx from this year, how does that enable that?

Don: I'd be happy to. As you think about our CapEx, first, let's set a threshold so you have a sense as to how we think about CapEx spend. First and foremost, we put a stake in the ground a couple of times around annual CapEx spend. What we've indicated is, on average, we would expect to spend around $200 million on CapEx annually over the coming five years.

We have certainly been within that threshold. That $200 million has two components, no surprise, part of its growth, part of its maintenance. The growth, what do you think about growth is it's around $120 million, and a way to think about maintenance, around $80 million. Maintenance is quite important to us. Again, that ability to produce is critical. You don't get revenues unless you make the product.

From a CapEx standpoint in general, what you would see is, beyond maintenance now, a focus on melt capabilities as a key starting point. If you look at the last few years where we have focused our capital, it has been focused on titanium melt. That's where a lot of the demand growth has been seen in the industry.

We also expended monies for a press that supported not just titanium, but also nickel. Those investments are very well positioned to take advantage of the ramping build rates as well as the ramping emerald.

Then what you'll see going forward is, I believe, a bit of a pivot. Now that we've got our titanium settled and we've got that in place, we haven't spent a lot on expansion of our nickel capabilities.

The next phase of our strategy would be to enhance our nickel capabilities in addition to other key items like the additive facility that we've talked about. Nickel is the primary material that is going to drive our growth related to jet engine, especially in the differentiated products in the hot section of the jet engine, for example, or forgings being a key example of that.

We want to make sure that we have the right capacity and the right capabilities when it comes to nickel. That means melt, it means finishing, and all the equipment that comes with that. This is an opportunity for us continue to extend our competitive advantages around the jet engine space and do that within the spending limits that we have put on ourselves.

That $200 million is a limit that is self-imposed, but we think that it gives us enough to give us a sensible capital allocation that will feed both growth as well as de-levering and ultimately return of

capital to our shareholders.

Seth: These growth initiatives are intensifying the capability or building out and adding on to existing facilities?

Don: It's both. What it is also is some of those investments are tied to debottlenecking. When you think about it, through our operating efficiencies or through incremental capacity upstream in our production, we create new bottlenecks downstream. Those new bottlenecks you have to fix them in order to get the true benefit of your upstream production expansion.

Those downstream investments we're finding are often very modest investments to pick up significant increases in production because, if you have five pieces of equipment, you need to add one piece of equipment and that opens up the pipe. As a result, you can get very outsized returns on those types of investments.

It also de-risks us from a reliability standpoint in some cases. That would be another reason for that investment.

Seth: Within the engine business, how do you think about the mix evolving between forgings and nickel alloy?

Don: A high, high percentage of our forgings are nickel. What I would expect is that our overall nickel sales or our volumes will increase at a faster rate, I would guess, than our forgings, just because of demand for non-forgings-related materials.

Seth: I guess that's what I was getting at. If we think about the more downstream finished nickel-based forgings versus some of the more non-forging nickel demand for parts that are a little bit more upstream, as we think about that mix evolving, the demand is a little bit faster in the non-forging piece of it?

Don: Yeah. That's what I would expect. Let's talk about that a little bit more. Make sure that I'm answering your question effectively. What's driving our growth in jet engine? Our growth in jet engine, it's again, our number one sales category, and what's driving it is the growth in builds as well as MRO, and the builds includes narrow body as well as wide body.

Those are our key catalysts for the growth in our jet engine business. If you break down and you think about the growth rate that's occurring or the growth that's occurring in those three particular

areas, we're still very early stage on the build rates and their effect on demand for our nickel products as well as titanium.

Can't forget titanium. That growth is still early on. What we've seen primarily at this point, from a new build standpoint, is growth in narrow body. Think about wide body and the step up that we see in terms of sheer volume per plane when it comes to those wide bodies. We see triple or more the content requirements when you go to wide body.

So, the ramp in wide body builds is going to be a really nice tailwind to our growth. Then there is, of course, a lot of room to grow when it comes to narrow bodies, and that feeds the jet engine. Again, I can't not mention, we've got a nice airframe business as well, so it feeds that.

Getting back to jet engine, MRO. MRO is an area where we have seen significant growth, and it is not slowing down. Our jet engine business is current generation. Current generation MRO is still early stages in its growth. That's because you look at current generation, the LEAP engines, LEAP engines are starting to come in for their overhaul cycles.

That's just going to become bigger, and bigger, and bigger, so that's going to hit our business in a growing way. You combine that new build and the MRO tailwinds, and we see some pretty substantial growth opportunities. It's reflected in our 2027 targets. If you look there, we expect our business to be north of five billion dollars in revenue, and EBITDA margins well north of 20 percent.

Seth: I want to touch on, you mentioned titanium, which I think is important to touch on in light of current events. I get the question very often.

ATI has a 20-ish percent titanium exposure, and the Trump administration wants to normalize commercial relations with Russia, and therefore, VSMPO is going to come back in the market and end up taking share as we look forward. How do you see all that playing out?

Don: It's a fair question. Not a surprise to anybody in the room. Back in 2022, when the invasion of Ukraine happened, the VSMPO ended up in the penalty box in our industry, for the most part went into the penalty box, and up to that point, had been a supplier of, what, upward of 30 percent of the titanium that was used in commercial air.

So a very significant supplier. Well, when that happened, we were one of the key folks in the industry that helped to fill that void. Now, keep in mind, there is the build rates that existed

historically, call it '18 and '19. At that point, there was already concern in terms of the volumes in the industry to meet demand.

Then you think about the ramp that I think is generally universally expected around airplane builds, and what it screams is demand for titanium is going to be higher.

You look at what happened in 2022, we were part of the solution for our customers when it came to titanium replacing the VSMPO share in part, but also putting them in the position where they were ready for the ramp for the plane builds.

We signed up quite a number of LTAs. We took share, not just from the VSMPO vacuum. We took other share as well. Very happy with the share that we got. As you think about VSMPO coming off the sidelines, they're no doubt going to pick up some of their prior share, but we feel very good about the share that we have under LTAs. That's number one.

We also feel very good about the position that we're in to help meet the customer's needs around the ramping build rates. Generally, that's how I would answer. Now there are some unanswered questions, and I can't help answer them because we don't have the answer, and that is, what will customers ultimately do?

We do have some theories. First, you look at Airbus. Airbus is one of those folks that we added LTAs with, and we have significantly increased our book of business with Airbus. Our suspicion is that Airbus, who was certainly a bit single-threaded before 2022 when it came to their titanium sourcing, is probably very comfortable with not being single-threaded, fair to say.

Our relationship with Airbus has prospered. The LTAs that we have are a very clear indication of that, and I don't expect that we'll be giving back any share when it comes to that book of business.

Same thing with Boeing. We've had a long-term relationship with Boeing, and we expect that that's going to continue, and so we feel very comfortable with our position in terms of the airframers in that regard.

Seth: Is there any place that seems a little bit more vulnerable?

Don: None that come to mind. None that come to mind.

Seth: Those agreements take you out how far into the decade?

Don: They're typically multiyear arrangements, and they have varied maturity dates. At this point, I would say the cadence of renewals has indicated that we're in pretty good shape in terms of being able to sign up extensions. We've been pretty successful in expanding share.

Seth: Another geopolitical topic that seems relevant for everything these days is tariffs.

Don: Yes.

Seth: I'm sure you've probably, like all of us, have spent more time than you would like learning about tariffs over the past few weeks and months. Maybe if you can share with us how you see the impact of tariffs on ATI, both what we've know so far and then potential.

Don: Sure. Tariffs, the headline of the day, or the minute. I don't know what it is. We, of course, just like every business, have unpacked our tariff exposures. It's not an area that we've been waiting to work on.

Our legal team has been really proactive for years in making sure that our contracts pass through mechanisms that are built into them so that, if a tariff does hit, we're able to push that through. We've significantly de-risked our position on, in that case, titanium contracts would be a great example.

Material pass-through on titanium contracts are not, I would say, an industry standard, but the majority of our contracts, more than 70 percent of them, have an ability to pass this through. Same thing, though, with nickel. With nickel, we have surcharge mechanisms that are industry standard, and we also have some contractual mechanisms that safeguard us further.

In addition to all that, what I would say is we've been very good at diversifying our supply stream. I'll give you an example. Back in 2022, when the invasion of Ukraine happened, at that moment, we were buying 95 percent of our nickel from Russia. That was a non-rotative nickel we were buying from Russia.

Within months, we were able to largely take that to zero. We were able to diversify to multiple suppliers. We were able to do it at a lower price. I'm very confident that we have de-risked and that we can continue to de-risk. Here's the punchline. I don't expect a material effect from tariffs on my business.

Seth: Excellent. Maybe let's just take a quick pause here. I'll look out to the audience and see if anybody wants to ask a question. If not, we'll keep going. We've got one right here.

Audience Member: Thank you. How much visibility, in your jet engines business, do you have on where the parts go OE versus AM? Are you able to give us a bit of color on how to think about that?

Don: You said, the second part, it's OEM versus MRO. Is that right?

Audience Member: Yeah.

Don: OK. Sorry. Couldn't hear you. The long and the short of it is, nothing formal. The reason for that is the replacement forgings that we produce, those discs, they're identical whether they go into a new build or whether they go into an MRO application.

What we do have is anecdotal information, statements that are made by our customers as to what their rates are, MRO uses versus new build uses. It's just a statement in a conversation, but those statements are pretty consistent.

If we had talked three, four years ago, I would have said 25 percent of our jet engine sales are tied to MRO, 20 to 25 percent. Now, clear indications are really 50 percent. I think I mentioned this earlier.

Another clear indication is that growth rate on MRO is not expected to trim in the view of our customers. For the current generation, they're expecting really strong growth, strong MRO business going forward. I think the facts would support that. Makes a lot of sense.

Audience Member: Very helpful. Can I have one more if that's all right? Is there anything you can do to protect your pricing if/when VSMPO do come back into the titanium market?

Don: If you think about this, we have two segments. We have our high-performance segment, and we have our advanced alloy segment. The segment that you're really talking about here, the jet engine, part of it, for example, is HPMC. That's the high-performance.

To the degree we have aero business on the advanced alloy segment, we have about 40 percent LTAs on that side. Those LTAs are typically long-term in nature. We have some of those in

aerospace and defense contracts that are as long as 15 years. Average is probably closer to five years.

I do not expect that we would see headwinds in terms of pricing, certainly at any point in the near term. The demand for whether it be titanium or nickel, there's a pretty strong consensus that demand is going to remain quite high.

There has been additional capacity put in when it comes to titanium. I don't believe that the industry is over-capacitized, which should mean, in combination with the strong demand, good pricing, favorable pricing for some years. Does that help? OK.

Seth: Excellent. Maybe I'll ask another one. You mentioned the two segments in the business. The HPMC, the high-performance business, is one where investors expect a fair amount of margin expansion and see opportunity. Given some of the challenges that emerged during 2024, we saw that margin stay in the low 20-ish percent range. Where does that trajectory move from here?

Don: For context, that HPMC segment, again, heavily focused on aerospace and defense. About 80 percent of that segment is pointed toward those end markets. Very differentiated capabilities around forgings as well as in nickel melting and also titanium melting. Very, very good business with good prospects.

We expect the margins for that business, even by the end of 2025, should be north of 23 percent. We're expecting them to march toward mid-20s in our 2027 guidance. "How are we going to get there?" is a fair question.

Number one, we do expect improving mix. As the demand for jet engine and some airframing business that we have in that segment, as that continues to grow, that's going to give us a favorable mix. We're also expecting to get benefit from absorption as we increase our volumes. Price is one of the sources of that margin expansion. There's a lot of opportunity there.

In addition to that, what I would call an upside to the numbers that we have shared. We've looked at our business. This is a transformation. We have transformed the business away from commodity products such as standard stainless sheet. We walked away from a half a billion dollars of revenue that's related to that activity.

We focus this business on the end markets and capabilities that we think are going to generate

the greatest value for our shareholders. Aerospace and defense are important categories, as are electronics, specialty energy, and medical.

We believe that we are going to experience some significant margin expansion that comes with it. As a transformation, we also see where there's operational opportunities in our business that we have to unlock. None of them are easy, but it's things like yield. It's things like debottlenecking, like I talked about, modest investment so that you can produce more overall.

We think we have very good line of sight as to how to do it. Part of it is, as you go back and you look at the changes in our workforce, we've added a lot of people since COVID. No surprise. We do not make widgets. We do not make easy-to-make things. If we did, we wouldn't be differentiated.

It takes time to learn how to be excellent at making them. We've hired a significant number of new folks. The penalty for having new folks has lasted longer and is a bit deeper than, certainly, I expected or I penciled out in my estimates. The good news is all that's available as an opportunity for us because we are seeing an improvement in terms of their expertise.

That means that there's better quality that's being produced. That means that there's better yield. That means that there is less downtime because they don't break machines or cause outages as much as a new person might. There's a lot of opportunity that we see from an operational standpoint that we have to go after.

The second benefit that comes from that is, if you're able to successfully do these things I described, it also has an indirect effect of improving your working capital because your inventories drop. Your ARs become more timely because you're billing more timely. I see that as another source of margin opportunity. Again, not a lot built into our future targets related to it, but it's meaningful.

Seth: That was perfect, actually, because productivity and working capital were two items on my list. I would love to take another question, but we're already two minutes over, I'm afraid. We'll have to cut it off there. Don, Dave, thanks so much for being here. We really appreciate it. Thank you.

[applause]



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