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ATI, Inc. (Texas) (ATI)

Bernstein Strategic Decisions Conference - Fireside Chat

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CORPORATE PARTICIPANTS

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

OTHER PARTICIPANTS

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

MANAGEMENT DISCUSSION SECTION

Douglas S. Harned

Analyst, Bernstein Institutional Services LLC

Okay. Good morning. I'm Doug Harned, Bernstein's Global Aerospace and Defense analyst. I'm really happy to have with us today Kim Fields, the President and CEO of ATI Materials, I think a very interesting company that fits into the commercial aerospace world quite well. We're going to just go straight to a fireside chat, unless you have anything you want to say...

Kimberly Ann Fields

President, Chief Executive Officer & Director, ATI, Inc. (Texas)

Sure. Well, thanks, Doug, for having me, and thanks, everybody, for joining here and online. I just wanted to give a little background on ATI, if you don't know us. We produce advanced materials and components at scale for critical applications across a range of markets, including aerospace and defense. Our portfolio spans titanium, nickel, zirconium, hafnium, and I'm happy to announce vanadium now as well. We smelted our first vanadium billet yesterday for a fusion customer, and we also deliver that in isothermal forge parts, plate, sheet, and billet and rod.

We've been transforming a bit since I joined the company in 2019. We've exited our low-margin businesses and commodity businesses. We've invested in forgings and advanced materials. We've doubled-down on innovation to position ourselves in aerospace and defense, as well as advanced energy, as I just mentioned. And today, that's about 65% of our revenue is A&D, and when you add in these other markets – energy, medical, and electronics – it's about 80% of our revenue.

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QUESTION AND ANSWER SECTION

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Well, great. So, Kim, you've been CEO for roughly one year now. As you look at that year, how have you looked at the opportunities for ATI and what some of the challenges might be?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

As you mentioned, ATI is a really unique company. Over the last year, we've continued some of the portfolio transformation, continued to focus in aerospace and defense. I was really excited that we were recognized last quarter with the GICS code change to A&D, which really just outlines the accomplishments of us growing our share in that space. Over the last year, we've really been focused on investing for growth, so we can support this aerospace ramp. Defense is ramping, electronics, energy.

There's tons of growth opportunities, and in a lot of the markets, we are one of only two players that provide these materials. So huge amounts of demand for really unique materials and products. And so how do we get those investments in the ground and up and producing as quickly as possible.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Jet engines is a key growth market for you. It's about 37% of revenues. Sales are up 35% in Q1. I mean, I think your guide is for 15% to 20% top line growth this year. Can you describe where you play in that engine space and how you're differentiated from other participants in that market?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Sure. So we shared a little bit on the last earnings call. We put a slide together to make it a little clearer. We operate in the rotating parts of the engine, predominantly in the hottest section. And so we're making the discs. We're making the materials. There is seven proprietary alloys that go into that hottest section, because they're really trying to drive that temperature up to get more efficiency and more lifing out of those parts.

Of those seven materials, we are the sole supplier for five of those, and many of those we co-developed with – in conjunction with the customers. And they're using them not just in this generation of engine, but also the next generation as well as they're continuing to drive efficiency.

So pretty unique position, difficult to replicate, and we're continuing to drive our technology advantage forward there. We're investing some discrete investments we've talked about; others that we have not shared. We have more nickel melt capacity coming online next year, about 8% to 10% increase in capacity, along with the work we're doing around debottlenecking and productivity. That's allowing us to continue to participate not just in the jet engine, but also other transactional, incremental business.

I'm also really excited to share that we've developed and have a patent pending on a brand-new nickel melting process that will eliminate defects, in particular freckles, which have been very problematic and a challenge for the industry. There's been a lot of work done by the industry and the regulators and our customers to put in

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detection and inspection procedures, and now we have a process that will virtually eliminate those from occurring at all.

So very excited. Hope to be able to talk more about that as we get towards the end of the year here and that patent progresses. But really, really great stuff to get us – again, keep that position in control and help support the jet engine guys at increasing their lifing issues. That's really what those freckles turn into, a lifing or a part-limiting issue, and being able to put in a process to control that will allow them to keep those parts flying for longer.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Now, the LEAP is a very important engine for you, and it has been for some time. But the GTF now, I know you're doing more and more work related to that. Can you compare your content on these new-generation engines, the LEAP and the GTF, and how that's gone relative to their predecessors, CFM56, V2500?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Sure, sure. So if you think about this generation, those engines you just mentioned, again, with the hotter core trying to run more efficiently and longer, have more of those powder alloys, more of those proprietary alloys I just talked about. So as I think about – we think about the MRO opportunity of this generation versus the last, you can kind of think in the range of about 2x of the content, because it's using more of those powder alloys, it's using more of those proprietary wrought and cast alloys.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

And you said, I think, the aftermarket is about 40% to 50% of your jet engine revenues. And right now, we're seeing a very high level of MRO activity on these new-generation engines. How does that affect your business?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

So we're seeing a huge effect. The first area we see it is in our iso-forging business. I think I mentioned on the earnings call, our lead times are out to 2027. We are seeing about 50%. Some of it is due to the GTF and the opportunity that we've had there to partner really closely. I know we've had a lot of questions around our long-term agreements or LTAs that we have in place, and really, those become the foundation for us to work seamlessly with these customers.

So when an issue or an opportunity comes up, we're in the room. And in that case, with the GTF, we came together, and the leadership at RTX said, hey, we're going to treat ATI like we're all one company, and we're going to look at these assets holistically and work really transparently with no hidden information or proprietary information. We were able to ramp very quickly to help support that program.

So those are the kinds of opportunities, and we're seeing those not just from the GTF, but also any of the upgrade packages. So we're seeing MRO continue to drive demand, and we're expecting that to continue through the decade as more and more of these engines are coming in for shop visits.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

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The GTF clearly has had some real challenges with powder metal parts and discs and fiber. And so it sounds like you're playing an important role in helping them on this component. But this is something that we would expect they're going to work through this once you get to the other side. Do you look at the work you're doing there as this sort of a surge and you'll come down on the other end? Or do you see this as a long-term situation for ATI that will lead to growth there and elsewhere?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

Sure. Yeah. So, as we're talking, in the past, we've done a small percent of their forgings. They do a lot of that in-house. We're the only other supplier that they partner with for this. And as we've talked to them, as they worked through this particular issue and they shared their projections, they see an increase of shop visits and MRO needs as they're going into the future. So they don't see that coming down, in fact, that they're talking to us about doubling that or maybe even more in the next 10 years. So we do see considerable growth even after this one issue is behind them.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

So when you look forward in general, do you expect this – that the aftermarket – what's your sense on the aftermarket in terms of the percentage it will occupy in your business? At the same time, we're seeing ramp-ups. We just heard Kelly talk about Boeing plans and how they're looking at production. How do you sort of see this mix evolving over time?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

Yeah. I mean, both of them are great for us. Obviously, the material goes in, it either goes into a new engine, it goes into a shop visit. I'm excited about Boeing and their recent successes at ramping. And we shared a new contract we just signed with Airbus that – for five years, $1 billion brings us into parity. Both of those are great for our business. A lot of the airframe is going to use the titanium assets that we've been investing in over the last couple of years. And on the engine side, it's going to be using those proprietary nickels, those powder alloys, some of those very, very difficult or, in some cases, sole-source supply positions that we've got for the next decade or two.

As we think about MRO, we're anticipating that it's going to continue to rise and stay in this range of 30%, 40%, 50% through the rest of this decade into the next decade.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

Yeah. So, when you look at this, this suggests your volumes are – they're growing rapidly right now. The volumes continue to grow. That should give you operating leverage. There should be also some attractive mix shifts as you have more and more on these new engines. So how does that set up for margin expansion opportunities in HPMC?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

Yeah. Well, in the first quarter, we were at 22.4% from a margin standpoint. So we're already starting to see some of those advantages that are coming through: the equipment reliability, the productivity, the debottlenecking.

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We're starting to see that capacity come online, and we're taking some more transactional business, which I think we'll be able to continue to operate in underserved markets like [ph] Aero 100 (00:11:40) and other alloys.

From a mix standpoint, as each of these contracts come open, we have an opportunity to renegotiate at-market pricing that then locks that in for the next decade or two decades, in some cases. So I do think that it's still a seller's market for materials. Somebody said it's a material world. It's definitely still a material world. I don't anticipate that changing any time in this decade as demand continues to rise. I mean, I just heard Kelly talking about that, that huge order they just got over in the Middle East, we just see demand continuing to come in.

And for us, we're talking mainly aerospace here, but we're seeing similar kind of strong demand in defense. Energy is another great market that's continuing to grow, the executive orders this week around nuclear, we're one of only two suppliers that supplies zirconium and hafnium for the nuclear market in the US for commercial applications. So we're seeing demand kind of across the board in all these markets.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Yeah. And I wanted to jump over to defense because can you kind of take us through what some of the key programs are for you in the defense arena and how that plays across? I know it applies to both of your segments.

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Sure. Sure, it does, yeah. The AA&S segment is the nuclear naval program. And so we're providing materials for that. Obviously, with a lot of the discussion around focusing in the Indo-Pacific, that plays very well to those strengths, and we anticipate, at least with some of the bills that have been discussed, that increased spending will continue to bring some growth and some demand there.

Also in AA&S, we have the tank, the armor for the tank programs. Even – there's still a very strong FMS sales for the Abrams and other tank programs that we provide material into. But we also have relationships with the Europeans, who are going to be reinvesting in their defense. And so you've got Rheinmetall and BAE and General Dynamics UK. So we've got lots of opportunities there on the titanium plate side as well.

On the HPMC side, as we've been talking about, is the jet engines and the things that are going on with the F-35 and the F-18. We're already seeing inquiries for material for the F-47 that's just been announced. Many of the forgers and producers have started to reach out to partner with us, to work with us, to get materials on to that platform.

So kind of across both groups and all three branches of the military, we see demand coming from different parts, either US or foreign.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Well, in 2024, you had double-digit growth in defense in both your segments. Now, I mean, that's pretty good. I mean, that's better than most defense businesses are performing. What should we be expecting there going forward?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

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I think we've been talking about kind of mid- to upper-single-digits as we go forward for defense. We do see strong growth. The programs that we participate in are established and mature programs, and they're getting funding and getting support. So we anticipate to see continued growth there, both on those current programs, as well as things like hypersonics and drones. We make material for that, one of the materials, C103, that we make for the commercial space industry, which, again, is another really growing area for us as well.

So we're expecting strong growth, obviously off smaller numbers than our aerospace and defense business, but we expect to continue to see strong growth there.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

And how important is aftermarket there? I would expect on the engine side, that would also be a very important piece of this.

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

On the engine side, for sure. On some of the others, it's more for the original builds. But we're seeing – and I can't talk about all the new developments, but we're doing a lot of new materials development where we're looking at materials and maybe not just one material, but a system of materials that increase protection for the occupants, increase the strength-to-weight ratios, to get better fuel efficiency. We're working on some materials for some hypersonics applications. We've opened up our new classified additive facility down in Florida that's doing some interesting things.

So there is a lot of opportunities for continued growth, for original build, more than MRO. But the engines for sure, there's a lot of MRO for engines.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

And so I want to switch over to your airframe work. Now, traditionally, you've done a lot of work with Boeing, but I know you've got new agreements with Airbus. Can you talk about, first, the kinds of products that you're focused on, on the airframe side? And then, maybe help us understand a little bit about what you're going to be doing with Airbus.

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Sure, sure. So, yeah, I see – so just going back for a minute, 2019, we were only a Boeing supplier. We didn't have any business with Airbus. In fact, most of the time back then, we were a Boeing and GE supplier. Through the last five years, we've really diversified that on both airframe and the jet engine side, and we talked a little bit about that. And really, 2019 was the first contract we had with Airbus, very small percentage. We were just getting started with them. COVID hit. We weren't really supplying anything. And then, Russia invaded Ukraine, and they called and said, look, how do we rapidly ramp? And we really want to get your material. And so we went through kind of a very concentrated qualification process. In the last contract, it was mainly plate that we were providing to them. It went into cut pieces for parts on the airframe, landing gear, other things like that.

This contract, as I mentioned, brings us into parity with where we've been with Boeing. It's not just plate, it's also long products that go into forging, as I said, for landing gear and other things, but also, [indiscernible] (00:18:23) which is a brand-new product that we've just offered, and they contract for about half of that facility now. So we

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have kind of a wide range of materials that we're going to supply to them, and again, we're really excited about that relationship.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

Yeah. So one of the things – maybe you can help me understand a little more. When Russia invaded Ukraine, you basically very quickly had to shut down in terms of all titanium products coming out of Russia into US companies, although the European companies continued to source, in one way or another, some from Russia go to Airbus to Safran. I mean, is that – does some of the share that you've gained represent sort of the eventual shift out of that Russian supply of titanium products?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

In general, yes, I'd say, a big portion of it is people shifting away from VSMPO and what they were buying there, but not completely. We're continuing to see even just recently as a couple of weeks ago where some of our competitors maybe aren't performing to the level that they need to be, and customers calling and saying, hey, we have you at 80% share, we want to take you to 100%, because we can't get the materials we need in the timeframe we need.

So, to your point, VSMPO didn't go away completely. I think they're coming in through brokers and other sources still. But for the most part, that share we've been able to pick up and put into long-term contracts. So that allows us some stability as we go forward, and maybe VSMPO – we'll see what happens with Russia.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

Yeah. But it doesn't appear VSMPO is coming back any time soon. But...

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

No, not recently, based on the current tweets. But – yeah, like I said, I think over time at some point that we've always planned, as we put in capacity, that at some point that they might be back in. But, again, the positions, the qualifications that we're getting, and the capacity we're putting in is positioning us along with those long-term agreements so that we've got some stability as we go forward.

The titanium capacity, we've got our new EB melter that's up and in qualification right now, just started. These assets were planned back in 2019 before COVID, before Ukraine, we were anticipating based on the build rates and what we were seeing already from the industry, that there was going to need for increased capacity. So we're feeling pretty confident that, especially given the build rates that we heard here today from Boeing and from Airbus, that there's going to be continued need for all the assets that are getting put in.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

So we look to your – kind of modeling your airframe business, which is really an OE business. Should we consider that to move pretty much in line with where production heads at Airbus and Boeing? Is that a reasonable proxy?

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Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

Yeah. I think in the long term, that's a reasonable way to think about it. That's how we use the build rates as we think about what is our capacity, what are our commitments, where do we want to be positioned as far as transactional versus contractual, and we build our capital plans off of that.

In the short term, and short term for us is kind of two years, we have really, really transparent dialogues with the airframe, as well as with the engine guys around what are their plans, what are they seeing from their demand signals. And it's an interesting position to be in, because I'm able to talk to the Boeings of the world, as well as the GEs of the world, and get two different perspectives to triangulate exactly what's happening and what's going to be driving demand. And so that's what we're using to set our guidance and to share the targets that we share with the investors.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

And can you describe what your mix is between widebody and narrowbody in terms of their relative importance for you?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

Sure, yeah. When we think about from a widebody to a single aisle, a widebody has about five times more titanium in it or content, sorry, not just titanium but titanium and nickel content, versus a single aisle, and it's both the engine and the airframe. Obviously, those airframes are just a lot larger, so they use a lot more titanium. The engines are a lot larger as well. And so they're the ones that are using a lot of the powder alloys and a lot of those proprietary alloys to power and get the temperature and thrust that they're looking for.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

Well, is it also related to the composite structures on the 787 and A350?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

Exactly. I mean, yeah, we've been supporting since the introduction of the 787 with Boeing, and that relationship has only grown. And I think as that continues and the use of composites, titanium's need will continue to grow as well.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

Now, one of the things you've really stressed is the importance of long-term agreements, and I think you commented some stretch to 2040. So question is, how does that work? 2040 is a long way away. There's all kinds of things that can happen in the market and inflation, changes in materials. So how do you think about these very long-term contracts?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

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Sure, yeah. Well, two ways. One, they have to be flexible, right, because you've got to contemplate a lot of different scenarios. And two, you've got to have a really close relationship with your customers so that when you run into scenarios that haven't been contemplated, you're able to open that up and renegotiate it.

And so a couple of things. One, our contracts – all our contracts have surcharges to pass through material fluctuations. They have a whole host of different inflation indexes that are built in so that we try to pass through and cover any kind of costs. But a lot of times, especially, over the last five years, when circumstances change so dramatically or demand needs, either up or down, change so dramatically, it provides us an opportunity to reopen that contract and renegotiate pricing terms and other things that are more appropriate for that situation.

So one, we've talked a lot about is some of our titanium contracts. Titanium used to be from fixed material. That's changed since COVID. And so we've been putting in titanium surcharges and pass-throughs into all of our contracts, and we just finalized the last one last week. So now all of those have those.

So, again, yes, 2040 seems like a long time or 2045, in this case, seems like a long time. But it's what's necessary for us to have the confidence from the customer that when they tell us we're going to be their sole supplier, not just for their current fleet of engines, but their next fleet and next designs, that they know that they've got our commitment and we're going to work together transparently around not just what capacity do you need, but what are these new melting technologies? What do we need to do from inspection? How do we continue to help you with life?

In one case, we just developed the next-generation powder alloy with one of them that they're using and they're putting into their current engine programs that give much better life, that work much – at a much higher temperature, much lower cost for them. So it becomes kind of a flexible foundation that, yes, we renegotiate and we capture and make sure we pass through any costs. But it also becomes the fabric of all of the other relationships and transactions that we do on top of that.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Well, is it possible – and you've talked about things that are, in some cases, sole-sourced, and then, other ones where you have sort of very large market share. I mean, it seems like you have some pretty unique capabilities here. If you look across the product set, sort of in the aerospace and defense side, where are the places where – that are competitive, and where it's less so that you can really get into these sole-source positions?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Yeah. I'd say, many of our products – so we talked about the hot section where the – five of the seven, we're the sole supplier. One of them is the OEM supplies themselves, and the other one is one that we're qualified on, and it's supplied by a competitor today.

On the iso-forging side, there's only two suppliers in that process at all. And so we kind of share and we compete for that business. So as you think about the hot section, you think about rotating parts, there's very few players that can produce at scale consistently the quality needed to meet the demands of those applications. Outside of that, you get into some more, I'd say, more commodity-type products, maybe a [ph] 718 (00:28:24) or things that are maybe on the old – the last generation.

You talked about the CFM. So CFM56, some of those materials that have been around for a while. Not so much on rotating parts, though. So I tell you, rotating parts, everything from where we source the raw materials to how

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it's melted to how it's maintained has very limited competition, mainly because of the stringent requirements. When you start getting into more of the static parts, you can maybe see – or the airframes...

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

Yeah, can you characterize? So what fraction of your business would fall into the pretty non-competitive that you pretty much control that market?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

Probably, close to 40%, yeah, just to put a number on it. Sorry. Probably, 40% because a lot of it is jet engine. So two-thirds of our A&D is jet engine. So that's 20% of our business right there. And then, there are some other things outside of aerospace and defense that is non-competitive. The commercial nuclear, the products we make there, again, there's only one other player in the US that's participating in that space. Hafnium for C103, we're the only provider of that in the US today, which goes into space and missiles and other things. So 40% to 45% is probably a good number.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC
Q

So when you think about that, going forward, it gives you a very strong pricing power, but if you're – looking forward and you look at how you think about capital investments, some of these take some time to get in place. So how do you plan for that and really understand what the capacity needs are going to be five years from now, 10 years from now? Because I imagine that's pretty important, given the capital costs of some of these new facilities you're describing.

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)
A

Yeah. So, typically, we do like a five-year capital plan. We are talking with them, all our customers around, well, what do you see as your demand? What are you seeing as your signals, MRO versus OE? And then, we start to line it up. We tend – for our capital, it takes about two to two-and-a-half, maybe three years at the most, from start to finish, from approval to having it installed and it's up and qualifying. So five years is about the right timeframe.

Longer term, I'm looking at, okay, where is the industry going? Where do we need – how are we investing in new technologies like the smelting technology, or new alloys like the vanadium that we're developing? So, in a lot of cases, we're using our resources, and our capital is focused on investing in those core products and those markets where our strength and differentiation are valued, and where there's additional investment or, in some cases, customers would like us to invest early before they need it, just in case, right?

That's where customer capital comes in, and there's been a big appetite with our customer base kind of across the markets to saying, hey, somebody used the phrase, it went from just-in-time production to just-in-case production. So people are really wanting to make sure their supply chains are robust and are firm. And I heard Kelly talk a little bit about the steps they're taking to make sure that they're ready for their step rate changes.

And so that's where customer capital comes in as well, and if they'd like to do something that's earlier than what we anticipate it's needed, then we'd partner to do that as well.

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Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

When you go outside of aerospace and defense, you've got about 35% of your revenues in other areas, which is going to be energy, medical. Can you talk about what the most important parts of that group of businesses is?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Sure, yeah. So, of that 35%, 15% would be in what we call aero-like, primarily because it utilizes equipment and strengths that we already have, and we've invested for aerospace and defense, really challenging environments like space and the human body and nuclear reactors.

So, as I think about those markets, the one area that we're focused on is energy. I think there's a tremendous, obviously, amount of growth from data centers and needs here in the US. We have contracts with OEMs for land-based gas turbines, and we're continuing to support that, and I think there's a huge amount of growth right here in the near term for that.

But I think in the medium term, as we've talked about with these executive orders, nuclear, commercial nuclear, and M&Rs are going to take a much higher position, the zirconium and hafnium that we produce out in AA&S in the segment, there is going to be – [ph] participates and is (00:33:44) going to be an important part of that.

And then longer term is going to be some of these really unique alloys around fusion. We've got two fusion companies that are building reactors right now. One of them, I think, is in Virginia that's going to go in. And so that's what these vanadium and other alloys are going to be used for as a consumable, if you can believe it, in these reactors. So, again, could be huge upside in the long term.

So energy is one that I think has – like I said, is a near-, medium-, and longer-term opportunity for us to continue to grow. It's a small part of our portfolio today. It's 5% or 6%. But I do think that'll continue to grow, and it uses all the same strengths and capabilities that we have that we need to use for aerospace and defense.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

I mean, on the industrial gas turbine side, I mean, are you engaged now in discussions with some of the big players like a Vernova or a Siemens?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Yeah, yeah. And we've got relationships and contracts with them. There is one that we're talking to that is even looking at moving to a powder alloy so that they can get more efficiency and run their turbines hotter. So there is opportunity for development, for proprietary alloys, very similarly to what we have in the jet engine space.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

So first quarter, you had a really strong first quarter. Can you give us a little more insight in how you see this year unfolding, Q2 and the rest of the year?

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Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Sure, yeah. The first quarter started out really strong. We were $20 million above our midpoint from an EBITDA standpoint. We were able to finalize our labor agreement with USW for six years for AA&S, which is fantastic foundation for our aerospace customers from that business.

So, as we look forward, second quarter, we are on track and are doing well throughout the quarter. And so I'm anticipating continued good performance. We'll evaluate the rest of the year and what we want to do [ph] as far as (00:36:00) full-year guidance as we get to the middle of the year after the second quarter.

Trade and tariff policy continues to move around. We are seeing some rebounding of some of those other markets we haven't talked about. So things are starting to normalize a little bit. But I won't go out on a limb to say that we're kind of already there and it's stable across the board yet.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

I mean, how much is the tariff impact for you?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

From a cost standpoint, very little. Yeah. I mean, I think we said $50 million, and we're really well-protected with pass-throughs, and we're working with our customers. I mean, there's a lot of collaboration around duty drawback and other things that we can do to collect that and protect our customers as well.

But on the demand side, we're not seeing any impact from an aerospace or defense side whatsoever. In fact, I think, like I said, what's happening in Europe and the rearming in Europe is going to actually be a benefit to us. It's some of those smaller industrial markets that are more transactional, and they've actually rebounded and are firming up.

So I do think that – our business is focused on OEMs and focused on people that are using our material and building things. And so, ultimately, at the end of the day, people continue to need this material to build their products, to serve their customers. And so we aren't seeing any long-term impacts or any changes. Just want to get through the second quarter, continue to perform well, and like I said, then we'll reevaluate. But, yeah, we had a great first quarter.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

And I know you've got targets out there for 2027. Can you describe those and how you see them today?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Yeah. So we're well on track to meet those targets as we go forward. I think it's a margin of kind of 19% to 21%, $1 billion of EBITDA. We've already hit the 65% aerospace and defense. So things are continuing to go well from that standpoint. We're well on track to that. Like I said, as we get into the back half of the year, as we get to the end of the year, we'll reevaluate when is the right time to update and if we need to make any changes to that guidance.

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Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Any things that you see as a risk to the upside or a downside on that?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Not very many, I'll be honest. Demand is really strong. It's a good market. It's a good time to be in aerospace and defense. I'd say, our operations are operating really well. The debottlenecking in productivity is improving. As you saw, I mentioned the margins for HPMC, just under 22.5%. We see margins going to 24% this year, and the target there is 30% in HPMC. So the equipment reliability, the productivity is going really well, and we're seeing a lot of benefits already from the investments that we've made.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

And then, in terms of cash deployment, I think on the Q1 call, you said that you're looking to accelerate share repurchases. Can you talk about how you're thinking about cash deployment in general beyond Q3 as well?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Yeah, sure. We kind of approach it on three ways. One is investment – organic investment for growth. And as we've been talking about here this morning, there's a lot of opportunities. And so we're being very selective, making sure those investments meet at least a 30% threshold. In some cases, there's the smelt investment I talked to you about. It will be paid back in one year. So it's a very, very quick payback on some of these investments.

Second is debt and retiring debt. We're targeting kind of between 1 times and 2 times leverage. We were at – I just think of 1.9 times, just under 2 times, at the end of the first quarter. So we're pretty much there. So I'm not really seeing that we're going to be doing a ton more work there. But there's a few things coming into maturity.

And then, the last is to return capital to shareholders, and we're prioritizing doing that through share repurchase. And as you mentioned, in the first quarter, we accelerated it. We took about half of our outstanding authorization. We're going to continue to evaluate that and taking a look at where the stock price is. Do we think it's fairly valued? How much upside do we see? And then, make a decision on do we want to continue to accelerate that as we go forward?

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

And when you look at investment CapEx, what are your priorities? What are you thinking about here? And I'd say that this year, but as you look at the next, say, three years or so, what would you be focused on?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Yeah. So we're kind of – we're finalizing a lot of our titanium. We've talked a lot about titanium. It's only about 20% of our business. But we've been making some discrete investments on the nickel side of our business. And so we are evaluating from a jet engine, all those proprietary alloys, both from a powder, as well as a cast and wrought process investments.

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I mentioned we have some new capacity coming on next year. We do see some additional opportunities there. And then, we've made a few discrete investments on our zirconium and hafnium production. We've increased that about 25% over the last couple of years. There could be some more opportunities, especially given with commercial nuclear, maybe taking off the defense in the Indo-Pacific. I think I saw – I know you challenged me. I think I saw another Virginia-class in there. We'll see if it comes to fruition or not. But if they do start to increase the build rate on either the subs or on the carriers, that could be a huge amount of material pull as well.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Q

Yeah, a lot of people would be happy if they can do that. So, anyway, let's wrap up. As you look at the next 12 months, where are you going to be focusing your time?

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

A

Really two things: execution on all this capital that we've put in place, getting it qualified, getting it up and running so we can support the ramp for aerospace, defense, energy. Second is investment, as we just talked about. Where do we continue to invest not just for capacity but also for capabilities. I mentioned that new melting process. It's going to change the way we melt nickel products today.

And so we're going to be continuing to drive that investment around technologies, drive that investment and partnering with customers on new materials and new processes so that as the OEMs continue to develop engines that run hotter, more efficiently, we've got the materials ready that will allow them to be able to deliver that.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Well, great. Well, Kim, thank you very much for joining us. It's been really good.

Kimberly Ann Fields
President, Chief Executive Officer & Director, ATI, Inc. (Texas)

All right. Well, I appreciate it. Sorry about the cough. I got a little bit of a cold coming back from Europe but I appreciate the time, and I appreciate everybody's time here. Thank you.

Douglas S. Harned
Analyst, Bernstein Institutional Services LLC

Thank you.

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