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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

David Weston *ATI Inc - Vice President of Investor Relations*

Kimberly Fields *ATI Inc - President and Chief Executive Officer*

Donald Newman *ATI Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Richard Safran *Seaport Research Partners - Analyst*

Myles Walton *Wolfe Research - Analyst*

Phil Gibbs *KeyBanc Capital Markets - Analyst*

Gautam Khanna *TD Cowen - Analyst*

Andre Madrid *BTIG - Analyst*

Seth Seifman *JPMorgan - Analyst*

PRESENTATION

Operator

Hello, and welcome, everyone, to the ATI Third Quarter 2025 Results Conference Call. My name is Becky, and I'll be your operator today. (Operator Instructions)

I will now hand over to your host, David Weston to begin. Please go ahead.

David Weston - *ATI Inc - Vice President of Investor Relations*

Thank you. Good morning, and welcome to ATI's Third Quarter 2025 Earnings Call. Today's discussion is being webcast online at atimaterials.com. Participating in today's call to share key points from our third quarter results are Kim Fields, President and CEO; 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, capabilities and outlook and 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, those are noted in the earnings release and in the accompanying presentation.

Now I'll turn the call over to Kim.

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Good morning, everyone, and thank you for joining us. Q3 was another strong quarter for ATI, delivering results ahead of our projections, advancing our long-term strategy and strengthening our leadership in aerospace and defense. Our teams continue to perform at a high level, meeting growing customer needs and driving sustained value.

Let's start with a quick overview of our Q3 results. Revenue was up 7% year-over-year, once again exceeding $1.1 billion. Adjusted EPS was $0.85, $0.10 above the high end of our projected range. Adjusted EBITDA totaled $225 million. Excluding approximately $10 million related to the sale of oil and gas rights, $215 million of adjusted EBITDA exceeded the high end of our guidance by $5 million.

Adjusted EBITDA margin exceeded 20%, our highest since the pandemic and almost double 2019's margin. Bulk segments delivered excellent profitability. Our High Performance Materials & Components segment margins were above 24%, and Advanced Alloys & Solutions segment above 17%, driven by strong pricing, mix and increasing aerospace and defense content. Cash generated from operations year-to-date reached $299 million, a $273 million improvement from last year. We also returned $150 million to shareholders this quarter through share repurchases with $120 million remaining under our current authorization.

Given this performance and our outlook for Q4, we are raising our full year guidance across the board. Adjusted EBITDA for 2025 now forecast between $848 million and $858 million, a $28 million increase at the midpoint. Adjusted free cash flow now forecast between $330 million and $370 million, a $40 million increase at the midpoint. Don will share more details on this in a moment.

With one quarter left in 2025, I want to highlight three key themes driving ATI's continued momentum and future outlook. First, we have strong demand in our core markets with aerospace and defense leading the way. Total A&D revenue rose 21% year-over-year in the third quarter, fueled by record defense performance and sustained demand in jet engines. This quarter, A&D reached an all-time high of 70% of total revenue, marking an important milestone in our strategy. Long-term agreements and differentiated materials are supporting consistent growth through 2026 and beyond.

I'll detail what I see in these markets. Our largest market, jet engines, now 39% of total revenue, grew 19% year-over-year in Q3, with MRO representing about 50% of total engine sales. Next-generation programs such as LEAP and GTF continued to accelerate with strong production and aftermarket demand. You probably heard OEMs make those forecasts in their recent earnings calls. This sustained momentum supports long-term growth for ATI's proprietary alloys and forged turbine discs.

Our order book extends into the mid-2027, underscoring tight supply and the strength of our customer partnerships. As a priority supplier, we've gained additional share in content where others have faced execution challenges while maintaining pricing that reflects the value of our capabilities. Looking ahead, we expect Q4 jet engine revenue growth in the high single to low double digits. For the full year, jet engine growth is expected to exceed 20%. With multi-decade customer agreements and increasing platform demand, ATI is well positioned for continued share gains and profitable growth through this aerospace cycle.

Airframe sales grew 9% year-over-year and 3% year-to-date this quarter, supported by the ongoing ramp in Boeing and Airbus production and timing of customer orders. Boeing's production rate increase of 42 per month on the 737 and Airbus' A320 target of 75 per month by 2027 signal healthy sustained demand. We expect Q4 airframe revenues to finish modestly above 2024 levels as airframers adjust their inventory to production needs.

ATI's expanded titanium capacity and advanced processing capabilities are driving share gains and improved pricing across OEM platforms, enhancing our mix of higher-value structural components and supporting continued margin expansion. Next year, we anticipate high single-digit growth in airframe revenues, driven by steady production ramps, increased ATI content and favorable pricing under new long-term contracts that start at the beginning of 2026.

Beyond 2026, as build rates rise, ATI's airframe business is poised to grow faster than overall industry volumes, reflecting our differentiated titanium portfolio and deep customer alignment. Defense markets remain exceptionally strong. Revenue increased 51% year-over-year and 36% sequentially, reflecting broad-based strength across naval nuclear, rotary cracked missile and armored vehicle programs. Our diversified product base benefits from both U.S. and allied spending growth, we continue to qualify our new programs entering early production. ATI's Defense business has now delivered three consecutive years of double-digit growth, outpacing defense spending.

Highlights this quarter include being named Supplier of the Year by General Dynamics U.K., underscoring customer trust and ATI's performance and reliable delivery. Missile and propulsion programs are expanding rapidly. ATI's advanced materials are increasingly specified in FAD and PAC 3 systems, where production is accelerating to meet recapitalization demand. We're also supporting emerging initiatives like Golden Dome, positioning ATI for above-market growth into the next decade.

Emergent Naval Nuclear also contributed meaningfully to Q3 performance, showcasing the resilience and scale of our defense portfolio. With expanding qualifications, multiyear visibility and growing international participation, defense is set for continued record performance as modernization and replenishment programs ramp worldwide. Bottom line, A&D remains the foundation of ATI's growth.

My second key theme, operational excellence and disciplined execution are the backbone of our performance. This quarter, the team delivered strong productivity gains. Across ATI, we're delivering what we call the triple threat: higher uptime, improved first pass yield and expanding manufacturing capabilities. We have examples across the company. In our nickel remelt operations, output increased by double digits.

In the isothermal flow path, heat treat cycle time improved 3 times. Accelerated throughput is lower in cost and frame capacity for our crucial jet engine products. At our Specialty Materials business, we also expanded powder atomization capacity by over 25%, improving yield and quality. We expect to see the benefits of this improvement in our first half 2026 shipments. Our specialty enrolled product business achieved a new record for monthly coil shipments, another demonstration of increased throughput and efficiency.

Specialty Alloys and Components unlocked more than 20% additional capacity in the zirconium sponge process. This was accomplished through standard work and maintenance optimization requiring minimal capital investment.

As a reminder, ATI is the leading producer of high-purity zirconium at scale in the Western world. This material is important to national defense, energy and aerospace. It's a small but highly profitable part of our business today with significant growth potential ahead. Collectively, these initiatives have expanded available capacity by roughly 10% with the greatest impact in our differentiated mode of products and contribute to our margin gains. These are not just operational wins, they enhance reliability, increase asset utilization and drive long-term earnings growth.

By securing additional customer qualifications on new equipment and products, we're building the foundation for ATI's next chapter of performance and profitability. My third theme this quarter, our strategy and investments continue to drive long-term value. Our strategy is working, with 70% of revenue now coming from aerospace and defense, ATI is firmly focused on our most differentiated, high-value materials and markets. Our nickel investment expands differentiated capacity at the top of the value chain. You'll recall, we're the sole-source producer for five of the seven most advanced super alloys in the jet engine. Before we decide to invest, each project undergoes a disciplined review process, requiring projected internal rates of return above 30% and clear alignment with long-term customer contracts.

In many cases, our customers are funding alongside us, reinforcing shared confidence in the demand outlook and guaranteeing needed capacity in place for the future. We'll continue deploying capital with focus and discipline, prioritizing differentiated products, high-return investments and strategic partnerships that sustain ATI's leadership and create long-term value.

I've been recently asked by a few investors whether investing in nickel melt capacity will negatively impact our pricing. The short answer is no. Our focus is on our most differentiated products. This is about expanding the competitive mode while supporting the engine ramp and our customers' ambitious growth targets.

In summary, strong aerospace and defense demand, a relentless focus on operational excellence and a strategy that's creating long-term value resulted in Q3 being ATI's strongest quarter of the year. We're well positioned to extend our momentum to finish 2025 strong.

And with that, I'll turn it over to Don.

Donald Newman - *ATI Inc - Chief Financial Officer*

Thanks, Kim. I'll provide some additional detail on our financial performance and discuss our outlook for the fourth quarter and full year. In Q3, we once again delivered results ahead of expectations. Adjusted EBITDA was $225 million, including a $10 million gain from oil and gas right sales. Excluding that, EBITDA of $215 million represents a 19% year-over-year and 6% sequential improvement with margins at 20% or 19.1% excluding asset sales.

Strong price, mix and volume performance, particularly in defense and jet engines, drove this outperformance, resulting in nearly $10 million of operational upside versus our prior guidance range midpoint. Year-to-date, our sales are up 7% and adjusted EBITDA is up 19% over the prior year, excluding asset sales. This reflects improved mix, cost discipline and incremental margins, which remain near 50%, demonstrating the leverage of our business model.

Segment performance was strong. HPMC EBITDA margins expanded to 24.2%, up 50 basis points sequentially and 190 basis points year-over-year. A&S margins improved to 17.3%, a 290 basis point increase sequentially and a 250-point increase year-over-year. This reflects gains from ongoing transformation and efficiency efforts.

Cash generation also remained strong. Through the third quarter, we have generated nearly $300 million in operating cash flow, supported by working capital improvements and strong earnings. We continue to monetize noncore assets including the oil and gas rights sale and a small noncore machining divestiture, all while keeping capital investments focus and disciplined. Gross capital expenditures year-to-date totaled $188 million. Managed working capital as a percentage of sales remains around 36% with opportunity to improve.

We expect a strong finish to the year. The seasonal working capital release and projected strong Q4 performance position us for robust fourth quarter cash generation. Now let's look at our guidance for the fourth quarter and full year. Building on Kim's comments, we are raising full year guidance to reflect stronger performance and visibility through year-end. Adjusted EBITDA, $848 million to $858 million, up $28 million at the midpoint. Adjusted EPS, $3.15 to $3.21. Free cash flow, $330 million to $370 million.

CapEx, $260 million to $280 million. That's unchanged from prior guidance. Q4 adjusted EBITDA is projected at $221 million to $231 million, a sequential 5% increase, excluding oil and gas gains. The midpoint of $226 million is driven by continued growth in jet engine forgings, improved price and mix and sustained strength in defense programs.

Turning to margins. Based upon our continued strong performance, I expect consolidated margins in Q4 will exceed 19%, and full year margins will be in the range of 18.5%. At the segment level, HPMC Q4 margins should continue to increase, exceeding Q3 margins of 24.2%. A&S Q4 margins are expected to be between 16% and 16.5%, consistent with sales mix expectations. We expect another strong quarter of cash generation supported by collections and improved working capital efficiency.

We are on track for $330 million to $370 million in adjusted free cash flow this year. This is a $40 million increase to the midpoint of the range. Gross capital expenditures will stay within the planned range of $260 million to $280 million, partially funded by proceeds from sale of noncore assets. Cash generated from sales of noncore assets and businesses totaled approximately $30 million year-to-date and $76 million in 2024. Our focus remains on high return, customer-supported investments that enhance mix, margin and long-term competitiveness.

Each quarter this year, we have increased EBITDA, margins and cash generation. Q4 will build on that performance, creating momentum that we will carry into 2026. With that, I will turn the call back over to Kim.

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Thanks, Don. As we shared on September 11, Don has elected to retire from his role as CFO following our fourth quarter call. We'll have more to say about Don and his outstanding career next quarter, but I want to take a moment now to thank him for his leadership and many contributions that help put ATI in the strong position we're in today. The search for Don's successor is well underway. We're considering both internal and external candidates to identify the best possible leader. I'll share progress on the search in the months ahead for a seamless transition. Our disciplined financial strategy will continue.

Before we turn to Q&A, I want to reflect on what makes ATI a compelling aerospace and defense story. When we began this transformation several years ago, ATI served a wide range of products and customers with limited concentration in our most differentiated materials. Fast forward to today and the transformation is clear. ATI is an aerospace and defense leader with more than 70% of our revenue coming from these high-value markets.

In 2019, our margins were roughly half the 20% we delivered this quarter, and our growth rates were more susceptible to price and input cost swings. Today, we are structurally stronger, anchored and differentiated materials, long-term customer relationships and sustainable pricing power. We've made tremendous progress, but we're not finished.

The path forward centers on three levers: First, strategic pricing and mix optimization. Demand continues to outpace supply in key markets like jet engines, defense and specialty energy. We're optimizing our product mix at our most valuable assets to capture higher value opportunities. Our long-term agreements and strategic pricing actions capture the value we deliver, securing the price, terms and pass-throughs that reflect our differentiated materials and the reliability our customers depend on. These long-term partnerships also underpin future investments and joint technology development, ensuring we expand capabilities in alignment with customers' needs.

Our second lever is operational excellence and productivity. Across ATI, yield and throughput improvements are expanding capacity without adding capital. Product and process innovation drive efficiency and reliability, supporting record margins and cash generation across both segments.

Our third lever is focus and simplification. We apply an 80-20 mindset, investing where ATI creates the most value and exiting where we don't. We're redeploying capital to high-value, high-growth areas. ATI is more agile, more profitable and better positioned to deliver long-term value. These levers are driving continued margin expansion, strong cash generation and higher returns on capital. Customers recognize ATI's reliable track record, long-term contracts and technical expertise, reinforce the surety supply our partners count on.

ATI's foundation is strong. We're profitably growing, expanding margins and generating robust cash flow, trends we expect to continue well into the next decade. We're ahead of schedule on our 2027 growth and margin targets and our business model provides clear visibility through 2030 and beyond. Even as customers build schedules fluctuates, ATI continues to gain share across A&D, optimize its asset base and deliver consistent growth and increasing returns. Our differentiated materials, technical expertise and integrated capabilities create a durable competitive moat, one that aligns closely with our A&D partners.

We've accomplished a lot, and we're just getting started. With that, let's open the line for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Richard Safran from Seaport Research Partners. Your line is now open, please go ahead.

Richard Safran - *Seaport Research Partners - Analyst*

Thanks, good morning. Congrats to you on the retirement, and thanks for all the help over the years, appreciate it. Okay. So Kim, I heard your opening remarks, but I'm not exactly sure I understand what's changed since 2Q to drive the revised outlook and the guidance increase. So maybe you could discuss what's changed in your outlook and going to the moving pieces that drove this guidance increase we see today? Thanks.

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Sure. Thanks, Rich. So let me start with the guidance is reflecting that stronger-than-expected A&D performance, particularly in defense, we had a tremendous quarter. And we see the A&D growth and momentum in third quarter continuing through the rest of this year, and frankly, into 2026 -- we delivered $225 million adjusted EBITDA, and excluding the oil and gas rights, that's $215 million. HPMC was over 24% in margin, A&S was over 17%.

And the operational productivity that I talked about is really starting to flow through, and we're seeing that in those margin numbers. Free cash flow continues to be a standout at $299 million year-to-date, up $273 million from last year. So as we look at the momentum that we built in the third quarter, we see that, we anticipate that strength going into Q4 across A&D and frankly, continuing into 2026. So overall, strength in markets and strength in our position and the returns that we're getting on the investments from an operational mix and pricing.

Richard Safran - *Seaport Research Partners - Analyst*

Okay, this next one is a somewhat related two part question about nickel and titanium. You have a lot of single source nickel alloys, I'm talking about things like Rene 65. On the OE side, you're facing rate 52 at Boeing, rate 75 at Airbus. There's aftermarket demand. So first part, what are you doing to manage this melt capacity you discussed in your opening remarks?

Second part, Kim, I think you recently said ATI is now the number one source of flat-rolled titanium products to Airbus. What actually does that mean? And how does that translate eventually to the P&L, if you would?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Sure, sure. So you're right. We continue to see record demand for premium nickel alloys, especially those used in next-generation engine products like LEAP and GTF, as well as defense, which, as I just mentioned, we had a fantastic quarter. So we're seeing demand across all of those market segments. And meeting that demand this year has really been focused around that productivity and reliability, higher melt yields, more downstream processing, the increased testing capacity in our forged products business.

Those actions are delivering these strong results that you're seeing and how we supported that more than 20% jet engine growth this year as well as the margins at HPMC over 24%. So we're going to continue to focus on expanding process efficiency and customer co-funded projects. And as I mentioned in my remarks, these investments will exceed 30% IRR, our internal rate of return targets and ensure that supply assurance without adding unnecessary melt capacity.

But at the same time, as you said, this demand that we're seeing this year is going to continue to grow. The other OEMs have said on their earnings calls, they're expecting this to continue to build and accelerate through the decade. And so we're also looking at selectively expanding our mill capacity to support that long-term growth, particularly in these high priority -- I'm sorry, proprietary alloys. Those hot [sectionalities], I talked about two quarters ago, those 5 of 7, not the standard nickel alloys. So we're doing very purpose-built type of capital expansion.

And these projects are being developed in partnership with our customers. They're backed by long-term agreements. They have co-funding to ensure the new capacity and capabilities align with the future needs of this market. And as I mentioned, all these products are well in excess of the 30% target.

So it's important to remember those proprietary alloys, in many cases, we are sole sourced on those 5 of 7 in the hot section with very, very long qualification times and difficult learning curves and under LTAs for decades. So we're managing it in the short term, both from a productivity standpoint to continue to improve our output from our current asset base. And then in the long term, selectively investing purpose-built assets for those hot section alloys where we have those sole-source and long-term agreements.

On the second question, you asked me around Airbus. Yes, that's, like I said, is a great success story. I'll just remind everybody before COVID, we weren't shipping anything to Airbus at that time. We had just signed our first contract with them. We hadn't even started shipping.

We went into COVID, Ukraine was invaded and quickly, they need to engage and get us up to speed became an imperative. And today, as I mentioned, when I say we're the number one flat rolled supplier in the industry -- or I'm sorry, in the product portfolio that we're selling them that means we're the majority supplier today. The share-based contracts allow us to expand that share in content as they continue to ramp and grow, there's mechanisms for pass-through for metal, inflation, tariffs. And we effectively, starting next year, doubling our Airbus revenue and expanding those margins. So the benefit, as you asked to the P&L comes through that stronger mix, consistent volume, expanded content and share and the higher margins from the premium titanium plate and sheet.

Yes. I just want to mention here, there's been -- go ahead, sorry.

Richard Safran - *Seaport Research Partners - Analyst*

Just on your MELD comment, are you effective -- if I understood you right, are you effectively saying you're managing to the high-margin products, is that what that means?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Yes, in both the short and the long term, yes. We are optimizing the mix. So you see that in some of our aero like and other categories and growth. So we are managing to the highest value mix in the short term and optimizing the throughput and output. And then in the long term, putting purpose-built assets in partnering with our customers for that.

Richard Safran - *Seaport Research Partners - Analyst*

Perfect, thank you.

Operator

Thank you. Our next question comes from Myles Walton from Wolfe Research. Your line is now open. Please go ahead.

Myles Walton - *Wolfe Research - Analyst*

I was hoping to dig a little deeper into the engine mix that you have going on with MRO being 50% of total engine sales. How much of that do you have a sense as in production MRO work or in production engines being MRO versus out of production engines being MRO?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Well, for us, as I look at our mix, we have a higher content on the next-gen engines that are out, the LEAP, the GTF. So what we're seeing is continued MRO and continued heavier shop visits where as I've mentioned, those forge dips that we make are typically the number one place that they're going to start looking if they're coming in for either for just a typical upgrade as they're continuing to increase life and efficiency as well as the normal scheduled maintenance visit. So I would -- for us, it's mainly the next-gen engines that we have the higher content. That's where those powder alloys and those proprietary alloys that I just talked about really are predominant. And that's what drives that increased efficiency and life in those engines.

Myles Walton - *Wolfe Research - Analyst*

Okay. And a lot of the engine OEMs are talking about mid-teens type growth into next year. Is that something that would be in line with the level of growth you'd expect in your engine end market?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Yes, I'd say that's in line with how we're thinking about it. We do see, as you said, they are sharing, and we see that continued growth in demand, not just in the short term but through the whole decade and because of our LTA or long-term agreements and our relationships, customers -- we have very transparent communications, we're aligned. These alloys in their hot section being a sole source or proprietary supplier, really affords us the opportunity to partner closely. And to your point, we do see the growth as they're saying next year, but also through the decade and then we're looking at investments to ensure that we're continuing to support that.

Myles Walton - *Wolfe Research - Analyst*

Perfect, thanks you.

Operator

Our next question comes from Phil Gibbs from KeyBanc. Your line is now open. Please go ahead.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Hey, good morning.

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Good morning.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

Good morning. So excluding the oil and gas rights, you were ahead of the midpoint by about $10 million in the quarter for your adjusted EBITDA. Should we think about that based on some of the comments you were providing earlier that maybe half of that is operational and half of that is due to the stronger or strong defund sales you had in the quarter?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Yes. I mean, I think that's fair. We've done work across all of our assets. Defense, like I said, that was really a bright spot, and the team did a fantastic job. We had -- defense continues to grow at double digit for us, and that pace across missiles, nuclear naval and rotary programs but we had some demand come in last quarter.

That is going to continue through the rest of this year and into next year that really allowed us to focus and you saw some of the numbers moved around a little bit as we prioritize those shipments to those customers. But we expect that double-digit growth in Defense to continue into 2026, missiles, like systems like VAD, PAP 3 are continuing to expand. And we were blending those mature programs we have with some of these new cutting-edge programs like the MB75 and the F47. So yes, it comes from both, the productivity, which we'll continue to keep focusing on so that we can keep meeting the demand that from an A&D standpoint does continue to come in very strong.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

So Kim, the defense sales levels overall, do you expect those to continue in the fourth quarter? Or was some pulled into the third quarter?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

No. I mean -- so we did have some significant shipments from the forging business in the third quarter, and we will see that moderate a bit as we go into the fourth quarter. But as I look forward, the strength and momentum of the demand coming from these defense programs are going to continue to build as we come through the fourth quarter and into 2026. Now that said, Jet engine overall, you will see that uptick in the fourth quarter. As like I said, we prioritized some of our assets and shipments in the third quarter for some immediate defense needs that will start to come back, and it will be up.

Phil Gibbs - *KeyBanc Capital Markets - Analyst*

And then lastly, on the net working capital side, that was a pretty strong improvement in terms of the free cash flow bridge. Where is that coming from predominantly? Is it mostly inventory? Or is it some inventory and payables? Just curious on that, thanks so much.

Donald Newman - *ATI Inc - Chief Financial Officer*

I'll tell you, I'll take that question. Part of the improvement that we saw in working capital really throughout the year, but especially in Q3 was tied to our management of accounts receivable. Now we are making progress certainly on the inventory side of the house, we've improved our efficiencies and our intensity there. But for accounts receivable, we put in place a securitization facility and that securitization facility, we did execute some of the AR factoring in the period. And so that benefited some of our working capital efficiencies in Q3.

But as you take a step back, though, and you look at the full year guidance when it comes to free cash flow, clearly, we're making progress, both operationally and the cash that's generated through operations, and we are making progress across the working capital, especially AR and inventory to improve that part of our cash generation. Thank you.

Operator

Thank you. Our next question comes from Gautam Khanna from TD Cowen. Your line is now open. Please go ahead.

Gautam Khanna - *TD Cowen - Analyst*

Hey, thanks, good morning and Congrats, Don. I know we had you for a little longer, but congrats. Guys, I had a couple of quick questions. You did mention in 2026, you expect airframe sales to be up, high single digit. And I wanted to ask if you had any other preliminary color you could provide on 2026 with respect to other end markets, like jet engine, maybe if you could just opine generically on incremental margins at HPMC. Any sort of parameters you'd give us as we start to pencil in '26.

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

I'd say, as you mentioned, I'll just -- I'll talk about the guidance. I'll let Don talk a little bit about the incremental margins, which we do see expanding. But for 2026, as you mentioned, we're expecting that airframe growth to be steady throughout the year, maybe start modestly and grow as we get to the back half of the year and accelerate as the planned increase rates start to take effect. From an engine standpoint, we do see, as I mentioned, continued growth and strength in that space. We're not giving specific guidance on every market.

We wanted to share some things around airframe because there was a lot of questions on that last quarter. But as we're finalizing our plans, we'll give official guidance in the first quarter and share all of those numbers. But that said, we are seeing and anticipate demand for jet engines to remain exceptionally strong through next year and into 2027 based on our order book and what we see already today.

Don, do you want to talk about margins at all?

Donald Newman - *ATI Inc - Chief Financial Officer*

I would love to. So to your point, yes, we've been seeing some really excellent performance around our incremental margins. Year-to-date, we're approaching 50%. And so we're really pleased with that. It's not a surprise to us.

We've talked in the past about what our expectations were over time when it comes to incrementals. The standing rule that we've shared with our standing guidance that we've shared with you guys is assume incrementals live in the 30% to 40% range. Think about 40% as aligned to HPMC expectations, 30% more aligned to the A&S part of the house, but we expected as our mix was improving as price was being captured as efficiencies were being delivered that our incrementals would improve. Now we've seen that in the first several quarters of this year. And the question -- the basic question is, okay, is this an indicator of a new incremental that we should be modeling to?

I would say at this point, we would continue to recommend the 30% to 40%. In the future, in the near future, I would expect management will share with investors and analysts if that margin needs to be increased to a higher level. But I can tell you from my standpoint, while I'm really happy with the performance we're seeing when I'm modeling the business, I still use that 30% to 40% range. And -- but I do expect that we will see the improvement that we have indicated as time unfolds here.

Operator

Thank you. Our next question comes from Andre Madrid from BTIG. Your line is now open. Please go ahead.

Andre Madrid - *BTIG - Analyst*

Hey everyone, good morning and Don, congratulations. Again, I'm glad we have you for one more, but it's been a pleasure. So you called out Naval Nuclear is one of the main drivers at defense, but maybe could you just give us a status update there on the zirc supply chain and how things are going there vis-a-vis China?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Yes. So obviously, the news continues to change depending on if we have a trade deal or not. But I'd say from the supply chain side on the zirc product, it's been very stable. We haven't seen any impacts or anything that is concerning from our standpoint. I will mention that -- I think I've mentioned this in the past, we've also built stockpiles, both the raw materials as well as finished products to make sure if there's any intermittent impacts that, as we can see through some of these trade negotiations that we're able to maintain that and manage that.

And so we're in a really good position from the supply chain side of things. When I look at the market, though, I'm expecting positive momentum as we go into the Q4. We used these last couple of quarters, frankly, to and upgrade some of our equipment with some customer-funded capital because, again, our customers are looking at some of our capabilities and seeing tightness with the demand that they've got coming both nuclear, defense as well as energy, gas turbine energy. So we did put some upgrades. So we do anticipate to see some of those benefits starting to come through and the demand fundamentals are solid.

So we're working on new qualifications and new material to get qualified for those applications as well.

Andre Madrid - *BTIG - Analyst*

Got it. Got it. And in terms of the stockpile, if you can share -- I mean how much -- how long of demand does that reflect those stockpiles? Like how? Is it like a year or two years?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

I would say we generally on finished products, we have almost two years, probably around two years of inventory. And on the raw material side, we have over a year of materials. You have to remember, these raw materials are not -- especially the raw materials for zirc, it's not a very high -- and it's only half. So let me quantify, it's only half of the raw materials that we put in to make our zirc product and it's not a very high dollar amount. And so we're able to hold large amounts of inventory in that raw materials.

And as I said, we haven't had this jump to pull into that or use any of that. We're actually -- we're maintaining and managing it. We haven't seen disruptions this year. There's been good flow, and it hasn't been threatened as of yet. But again, if there's any bubble or any momentary disruption, I think we're in a good position to maintain through that.

Andre Madrid - *BTIG - Analyst*

Got it. Got it. And if I could just squeeze one more in. I mean, you said MRO is roughly half of engine. What was that percentage previously, pre-COVID and whatnot?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Yes. Pre-COVID, I would say, typically, what our (inaudibel) 20%, 25%. And we've seen that accelerate rapidly and you know all of these things, Andre, as you look at shop visits and the airlines waiting on planes to get delivered to some of those older planes are staying in service longer.

I think the other aspect is the next-gen engines. They're continuing to drive lifing and efficiency, so they're doing upgrade packages. So all of those are coming to bear. And again, they all hit squarely into that hot section, those forge disks, that have so much wear that basically provides a threat for the engine and the plane to get off the ground. And so we are seeing, like I said, a substantial increase.

And I will talk for the OEMs. They're sharing it publicly, but they're sharing with us that they're seeing this to continue through the decade as we go forward and these engines get into their first and second shop visits.

Andre Madrid - *BTIG - Analyst*

Kim, that's super helpful color. I'll leave it there.

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Sure, thank you.

Operator

Thank you. Our next question comes from Seth Seifman from JPMorgan. Your line is now open. Please go ahead.

Seth Seifman - *JPMorgan - Analyst*

Thanks very much, good morning. Nice results and nice remarks. And Don, thanks for everything. So I guess just starting out, you mentioned in the HPMC business kind of a change in the structure of a contract, I think, something that goes -- that moves it more towards just recognizing your value add on work rather than all the materials. Is there -- do you anticipate more happening there? And kind of -- what kind of determines when that happens and when it doesn't?

Donald Newman - *ATI Inc - Chief Financial Officer*

Seth, it's Don. So let me take that one. You're right. In the quarter, we highlighted because we were wanting to explain the movement in our jet engine revenue sequentially. We highlighted that we had a contract, a particular contract that we had converted from a materials and conversion structure, which means we would buy the material and convert the material and sell the product to our customers.

We converted at the request of our customer, that contract to a conversion only. What that means is we don't buy the material, they provide the material. And the long and the short of that is you have less revenue that you recognize. It doesn't negatively impact your bottom line, and it can actually be a help to your margins. So that's the background there.

Is it a trend? Well, it's not unusual in our business to have conversion contracts. We don't see a trend that the material contracts will transition to conversion contracts. It was, I would say, generally an isolated situation where it shifted over. That particular contract had about a $10 million effect on revenue from Q2 to Q3.

That particular contract will be with us through the end of this year. So you'll see that same effect in Q4. But no, not a trend and no messaging around this particular change.

Seth Seifman - *JPMorgan - Analyst*

Excellent. Great. And then I think this probably follows up a little bit on Andre's question, but specialty energy in the slides, you talked about it being kind of a longer-term growth market. In recent years, there's been a little bit of growth, but not a lot and down this year. And so how do you think about the time frame for that? And is it sort of linked to -- should we think about it more linked to developments in nuclear energy or anything else?

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Yes. I would say we're going to start to see growth in that market segment next quarter, and that's going to continue to accelerate as we go into 2026. For us, and you're right to point that out, it's both. It's both gas turbine. And I'd say that is going to be in the immediate the next few quarters.

You'll see that will be what's behind that growth, and you'll see that continue to increase. We are in the process of developing some new materials there and getting qualified. And so there is significant demand there.

I'd say on the nuclear side, as you said, we are in a unique position. We're one of the only western suppliers of some of the zirconium in the Trax or tubing form that is really needed for the commercial nuclear facilities globally. And so that business, as I mentioned, we did some upgrades. We put some capacity freed up some bottlenecks there. And so we're going to see that continue to grow.

I know they're trying to fast track some of those nuclear facilities and bringing them back online. And we're seeing that demand come in now in orders for that today. So both of them, but I'd say the gas turbine really being driven by the data centers and the demand for energy.

And for both, this is a market that we don't spend a ton of time. We talk a lot about aerospace. But it really leverages our differentiated materials, our breadth of materials, zirconium, hafnium, as well as titanium and nickel products and those capabilities. I know we've mentioned it, I probably underemphasized the capabilities of our assets and the flexibility of those to be able to flex into some of these markets where there are very few, if any, in the Western world that have those capabilities in that product form. So we are seeing a lot of demand.

I'm very excited about the future energy for us. I do think it's a small part of our business today, but I do see that growing, and it's a very profitable part of our overall portfolio.

Seth Seifman - *JPMorgan - Analyst*

Excellent. Thanks very much.

Operator

Thank you. We currently have no further questions. So I'll hand back to Kim Fields for closing remarks.

Kimberly Fields - *ATI Inc - President and Chief Executive Officer*

Thanks. Well, thank you, everybody, for the call today. As I said, we had a fantastic quarter. I'm very pleased with the results that we've demonstrated in the third quarter and the momentum that we see going into the fourth quarter and frankly, into 2026. Next quarter, we'll share our official formalized guidance.

But just to close on, we're going to stay focused on where we're most differentiated, those advanced materials and forgings for aerospace and defense. The next phase is really around growing our content per platform, scaling those co-funded investments and improving operational leverage. We continue to see that mix grow. And A&D is going to continue to grow faster probably than our other markets as we go into next year and that momentum will continue from Q4 to 2026.

Over time, like I said, the bottom line is our transformation is working. We're seeing that in both our margins, our mix and our overall growth. Now it's really about compounding that performance for the rest of this year and into 2026.

Thank you guys for your time. I really appreciate it, and I'll talk with you later.

Operator

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