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ATI, Inc. (ATI)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to ATI's First Quarter 2026 Earnings Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference over to David Weston. Please go ahead.

David Weston
Vice President-Investor Relations, ATI, Inc.

Good morning and welcome to ATI's first quarter 2026 earnings call. Today's discussion is being webcast at ATImaterials.com. Joining me today are Kim Fields, President and CEO and Rob Foster, Senior 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. These are noted in the earnings release and in the accompanying presentation.

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

Kimberly Ann Fields

President, Chief Executive Officer & Director, ATI, Inc.

Good morning and thank you for joining us. We're off to a great start in 2026. We delivered strong first quarter performance by driving higher quality revenue, expanded margins, and improved cash flow. This quarter demonstrates that the ATI model is working. We're prioritizing the right volume, expanding margins, and converting demand into earnings and cash flows.

First quarter results exceeded the high-end of our guidance, supported by disciplined operational execution and richer mix. Demand across our core markets remains robust and we continue to grow alongside our customers. I'll highlight the quarter's results.

Revenue was $1.15 billion, in line with expectations, with 69% attributed to aerospace and defense. Adjusted EBITDA was $232 million, up 19% year-over-year and above the high end of our guidance. Adjusted EBITDA margin reached 20%, up more than 300 basis points year-over-year. Adjusted free cash flow was $75 million, a meaningful improvement from last year and a clear indicator of strong cash discipline. This performance reflects more than favorable market conditions. It signals a fundamentally stronger ATI.

What sets us apart today is the improved quality and resilience of our earnings. We are strategically allocating capacity towards our highest-value opportunities in aerospace, defense, and specialty energy. That shift is driving better mix, stronger pricing, and more consistent execution. Order activity continues to be strong, with our order backlog growing by 10% sequentially to an all-time high of $4.1 billion. Additionally, lead times are extending for our most differentiated products, superalloy nickels, premium quality titanium, isothermal forgings, and exotic alloys.

This is a key point. This is not short-cycle demand. It is tied to long-term contracts, production schedules, and well-funded programs, giving us strong visibility into future performance. This momentum accelerates throughout 2026. Operationally, our disciplined execution is delivering results. Across ATI, we are improving throughput, increasing yields and streamlining production flow, particularly in melting, forging, and downstream processing. That demand strength is most valuable when we convert it to deliveries, and that's where execution is making a difference.

Across operations, we are unlocking capacity through productivity. Weekly output at our primary melt facilities increased by more than 15% year-over-year. We achieved record shipment levels across multiple product lines in both segments and we continue to improve flow through forging, testing and finishing operations. These structural operational improvements are being driven by better equipment reliability, tightened product quality control, and targeted investments in the highest-return areas of the business.

Combining this execution with the strong market demand provides the foundation to raise our full-year adjusted EBITDA guidance by $35 million, bringing the midpoint to $1.35 billion. This represents 20% growth year-over-year. Our full-year outlook is now adjusted EBITDA of $1.010 billion to $1.060 billion. Adjusted EPS of $4.20 to $4.48. Adjusted free cash flow of $465 million to $525 million. Our outlook reflects continued strength across our core markets, focused execution, and confidence in our ability to convert demand into earnings and cash flow.

Importantly, a significant portion of this growth is already embedded in our $4.1 billion order backlog and long-term contracts, providing strong visibility into the second half outlook. Like others in the industry, we're closely monitoring the geopolitical developments in the Middle East. The primary areas we're watching are: demand impacted by fuel price, MRO activity levels, and aircraft retirements. We see no material impact on demand or order activity. There have been no changes to our order books or requests for delivery deferrals.

In fact, last week, I personally had several calls from customers eagerly emphasizing they'll take any capacity that opens up. With our record backlog and the ability to redeploy assets to support multiple differentiated markets, our portfolio is designed for this kind of dynamic environment.

Turning to defense. Revenues grew 9% year-over-year and are on track for mid-teens growth in full-year 2026. Our materials support a broad range of platforms across air, land, sea and missile systems with accelerating demand across key programs. I am pleased to share that we have renewed a five-year agreement supporting the naval nuclear program.

This agreement is projected to generate $1 billion in revenue over the contract term at attractive aero-like margins, and more than doubled annual revenue over the prior contract. Q1 marks the third consecutive quarter our Advanced Alloys & Solutions segment has achieved margins in the high teens, well ahead of plan. It reflects the success of our strategy to focus on differentiated products, driving stronger value capture and sustained margin expansion. The most notable evolution in recent months is the acceleration of missile-related demand.

Q1 revenue in missiles and missile systems more than doubled year-over-year, as customers are scaling production and replenishing inventories. We have seen a meaningful increase in customer inquiries and order activities tied to the production ramps, even in advance of program funding.

Our materials, titanium, nickel and hafnium are vital to missile platforms like Tomahawk, PAC-3 and THAAD. These materials are used for structural applications and propulsion systems where high temperature performance, strength, and durability are required. This is a small percentage of our business today but provides an opportunity for accelerated growth and strong visibility ahead.

Our execution is also being recognized by our defense customers. In high performance titanium plate and sheet for ground armor, we were honored to be named General Dynamics Land Systems 2025 Supplier of the Year. Selected from over 2,500 suppliers, this award recognizes our execution on key programs including the XM30 prototype. This distinction reflects not only the quality and performance of our materials, but also our team speed, adaptability, and coordination. We appreciate the recognition and congratulate the ATI Specialty Rolled Products team for their outstanding work.

Turning to aerospace, fundamentals remain strong. Commercial aerospace continues to be supported by increasing build rates and significant aircraft backlogs. We are encouraged by progress at both Boeing and Airbus and are well-positioned across these platforms.

Airframe performance reflects timing and supply chain phasing. Customer schedules, backlog and production plans support a second half ramp. We remain confident in our full-year outlook, with revenue growth in the mid-to-high single digits. Within aerospace, jet engine is our largest and most important growth market.

Jet engine sales grew 12% year-over-year, supported by both OEM production and aftermarket demand. The full-year outlook for revenue growth remains in the mid-teens. This is driven by high fleet utilization, increasing shop visits, and continued growth in engine platforms like LEAP and GTF.

Our materials are vital in the most demanding parts of these engines, where performance and reliability are essential. We supply six of the seven most advanced jet engine nickel alloys. This remains a capacity-constrained market where our differentiated capabilities allow us to capture both share and value.

Finally, in specialty energy, strong momentum continues. Revenue grew 22% year-over-year, driven by nuclear and land-based gas turbine markets. We recently extended our long-standing partnership with Cameco through a new five-year agreement, reinforcing ATI's role as a trusted supplier within the global nuclear supply chain. This $250 million agreement includes meaningful improvements in product mix and pricing.

More broadly, our advanced materials portfolio, including highly engineered specialty alloys like zirconium and hafnium, supports specialized applications across energy, defense, and space. Performance requirements in these markets are ever-increasing and leverage the unique capabilities of ATI. Bringing it all together, our strategy is delivering measurable results. We delivered a strong first quarter with higher earnings, expanded margins, and significantly improved cash flow.

Our customers are ramping, our backlog is growing, and our portfolio is aligned with the most attractive, highest value markets, especially in A&D and specialty energy. With strong core market demand and record backlog, we are confident in our increased full-year outlook. $5 billion of revenue at 20% plus margins is in clear sight, with an increasing share converting into earnings and free cash flow. That performance enables us to reinvest in the business, create value, and return capital to shareholders. We are focused on execution and raising the bar for performance.

I'll now turn the call over to Rob.

James Robert Foster

Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

Thanks, Kim. The first quarter delivered strong results, exceeding our plan despite typical scheduled seasonal maintenance. Looking ahead, we see robust demand across our aerospace and defense markets. Momentum is building through the year, supported by favorable trends in price, mix and volume in our highest performing markets. Our strong positive free cash flow generation in Q1 puts us in great position to generate positive cash flow in every quarter of 2026. Q1 revenue was $1.15 billion, driven by 6% growth in aerospace and defense.

Within that market segment, jet engine sales increased 12%, airframe revenue declined by 9%, and defense-related revenue grew by 9% compared to the prior year. Specialty energy revenue increased by 22% year-over-year. Q1 adjusted EBITDA was $232 million, up 19% over 2025. This was $11 million above the midpoint and $6 million above the high-end of guidance. Q1 consolidated EBITDA margin percentage was 20.1% as we realized a richer mix from 80/20 initiatives and other portfolio rationalization actions.

Adjusted free cash flow is $75 million, compared to a use of $143 million in Q1 last year. This is a $218 million improvement year-over-year. Managed working capital as a percentage of sales at the end of Q1 was 34.8%, which is 110 basis point improvement over Q1 2025. Capital expenditures were $55 million, including $21 million funded directly by customers. All key growth projects remain on schedule and on budget. Margins in both segments came in above our outlook this quarter. HPMC reported 24.9%, a 250 basis point increase over 2025. AA&S was 18.1%, a 320 basis point increase over 2025.

Both segments were powered by improvements in price and mix across our aerospace and defense and specialty energy markets. This proves the structural work to expand our margins is working. As Kim mentioned, we're increasing our full-year guidance across all key financial metrics.

For the second quarter of 2026, we are positioned for adjusted EBITDA of $245 million to $255 million, which equates to an EPS range of $0.98 to $1.04. At the midpoint, this represents a 20% increase in adjusted EBITDA over Q2 2025. This 8% sequential increase at the midpoint and guidance is driven by the strength of price and mix, particularly within A&D.

For the full year, we are raising our adjusted EBITDA guidance to a range of $1.010 billion to $1.060 billion. The midpoint of $1.35 billion is a 20% increase over full-year 2025 as we continue to execute strong operational performance and capture increased demand for our products in aerospace, defense and specialty energy. These earnings translate to a full-year adjusted EPS range of $4.20 to $4.48.

Turning to adjusted free cash flow, we are raising the midpoint of our range by $35 million, setting the range between $465 million and $525 million. The $495 million midpoint is $115 million higher than 2025, a 30% increase year-over-year. This is driven by our projected $35 million increase in earnings. We look forward to continuing gains in cash flow efficiency throughout the year. Our CapEx range remains consistent with our prior guidance. Gross CapEx investments of $280 million to $300 million will be partially offset with customer-funded CapEx of $55 million to $65 million.

As we previously stated, returning capital to shareholders is a priority for ATI. In the first quarter, we repurchased $75 million in shares. We see share repurchases as the most efficient and effective way to return capital to shareholders. We increased our share authorization by $500 million in Q1, with the total remaining authorization now at $545 million. With strong and increasing free cash flow, share repurchases remain a priority.

Now turning to end markets. We see strong demand in our major end markets, and confidence in our outlook remains unchanged. In jet engines, our largest end market, we see growth rates in the mid-teens for the full-year 2026 as we leverage price and mix to our advantage. In airframe products, we see mid to upper single-digit growth. With most of the growth occurring in the second half of the year as OEM production rate increase, customer inventory balances normalize. In defense products, we see growth rates in the mid-teens.

Our A&D sales mix will continue to be a significant portion of our sales volumes. Aerospace and defense sales are in line to represent more than 70% of sales for full-year 2026. Moving to specialty energy, we continue to evolve this business into a model of sustainable and profitable growth. We're leveraging long-term contracts with accretive A&D like margins and are targeting mid-teens growth for the full-year 2026.

As we have previously mentioned, we strategically prioritize aerospace, defense and specialty energy using 80/20 and allocating differentiated production capacity to capture further growth within these high value markets.

Sales for our industrial, medical and electronics are trending down by low to mid-single digits for the full-year 2026. Looking forward to adjusted EBITDA margins, we see continued margin expansion in 2026, with full-year consolidated margins in the range of 20% plus. We exceeded our margin outlook in Q1 due to favorable mix and price and Q2 margins are tracking to be similar, expanding above 20% in the second half of 2026. In the second half, sales, profits and margins will be lifted by price increases and mix under LTAs.

At a segment level, full-year margins for HPMC will be in the range of mid-20s and AA&S in the upper teens. Full-year consolidated incremental margins will average 40%, with second half margins outpacing first half margins due to LTA pricing and mix. As stated, HPMC incremental margins are typically higher than AA&S, reflecting sales mix and end market pricing dynamics. Both are general guidelines that fluctuate by product and market and customer serving as primary indicators of ATI's future growth.

To summarize, we are off to a strong start and remain confident in our outlook. We are focused on delivering consistent performance. We are well-positioned to execute and deliver, meeting and exceeding the expectations of our customers and shareholders.

Kim, I will turn the call back over to you.

Kimberly Ann Fields

President, Chief Executive Officer & Director, ATI, Inc.

Thanks, Rob. We are off to a great start. We are executing well and building momentum in 2026, supported by strong demand, differentiated products and consistent execution. Let's open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of David Strauss with Wells Fargo. Your line is open. Please go ahead.

David Strauss

Analyst, Wells Fargo Securities LLC

Q

Thanks. Good morning.

Kimberly Ann Fields

President, Chief Executive Officer & Director, ATI, Inc.

A

Good morning.

James Robert Foster

Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

Good morning.

David Strauss

Analyst, Wells Fargo Securities LLC

Q

Good morning. Wanted to ask about the aero aftermarket piece of your business, Kim. Maybe size that for us how it performed in the first quarter and if you're seeing any sort of impacts out of what's going on with the Middle East and higher fuel or how you're thinking about that business from here.

Kimberly Ann Fields

President, Chief Executive Officer & Director, ATI, Inc.

A

Sure, sure. So, aftermarket continues to be very strong across the aerospace, especially in jet engine where we're continuing to see both MRO shop visits, upgrade packages driving demand. And as I look at our lead times, we did talk a bit about our backlog and our lead times, those are moving out substantially based on that demand that's coming in.

Like others in the industry, we're continuing to monitor what's happening there in the Middle East, but we're not seeing any impact to our business. No changes in demand or the deferrals or any disruption to the order book.

In fact, just over the last week, the conversations I've been having with customers, the first thing they say is, if there is any openings that come, that they want them and they will contract and commit to them. So, demand's very strong across the board. As you saw, that backlog went up to $4.1 billion, our highest level ever and it really reflects that sustained demand.

As we look forward, things that I'm looking at and thinking about are changes to possibly retirements due to fuel-driven demand. But frankly, as we go forward, those type of retirements are going to be in those legacy, less fuel-efficient engines and the shift will accelerate towards the next-generation platforms like LEAP and GTF, where our content's roughly 2x, where we are on the legacy engines. And so, that will continue, I think, to sustain that MRO demand as we go forward. So, stepping back and just looking at it all, demand's strong, the backlog is growing and we're not seeing any near-term impacts from the conflict.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks. And quick follow-up, Rob. I guess, the guidance increase, specifically on the adjusted EBITDA side, what is the source of that? It sounds like you kept the margin forecast for the segments about the same place. I guess, what is the source of the uplift in the EBITDA guidance?

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

Yeah. We're really confident in where the guide is at. We're seeing the strength, primarily within the defense and jet engine business. So, I didn't change the guide for the full year, right? We're still in the mid-teens for jet engine and defense, low to mid-teens. But I'd say, my bias is towards the upper end of that guide. So, it's really the defense business and the jet engine business and the contracts that we're securing give us the confidence.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Okay. So, HPMC.

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

Not just HPMC. We've got contracts for our defense business in both of our segments that we're securing the contracts and the full-year guide, like I said, I have confidence in that higher end, the low to mid-teens. The bias is towards the higher end of that defense business for both HPMC and AA&S.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Got it. Okay. Thanks very much.

Operator: Your next question comes from the line of Richard Safran with Seaport Research Partners. Your line is now open. Please go ahead.

Richard Safran
Analyst, Seaport Research Partners

Q

Thank you. Good morning, everybody. I was very interested in your comment in the slides and opening remarks about pricing and HP margins. I want to know if you could expand on that. And maybe talk a bit more about pricing and why in the midst of an OE ramp where the model is typically to see a step-down in price, you're actually going in the opposite direction.

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

A

Yeah. So, Rich – so when we shared over our path that we don't really see a differentiation between OE versus MRO. That our parts – we make a disk, and we're not always – have clear visibility to which use it's going to. And so, really what you are seeing is that price and that mix is a material driver in the first quarter here. And we see that continuing to accelerate as we go through the year. And really where that's coming from is, this is a constrained market. We're doing the most differentiated materials.

Our backlogs are moving out for those differentiated materials on the engine side to a year-plus. Now, in some cases, titanium PQ is almost to two years. So, we're seeing that tightness in these contracts as we're reviewing them. They're getting embedded. We're getting price. It's reflecting the value of what we supply. It's not just short term based on scarcity, but it's long term and contractual and it's getting built in. And it's coming through all kinds of sources.

There's step-ups, there's escalators. There's price resets, given where markets have moved. And alongside that, we've talked a lot about increased content on these platforms and expanded scope. We're still getting calls today, where there are others in the supply chain that may not be able to meet the full demand and are struggling to meet that level that our customers are looking for. And we're picking up share gains as well. And again, in those situations, we're able to capture a large portion of the value that we're creating to continue that ramp and helping them meet their commitments. And so, as I look through, it's a structural shift.

It is in HPMC, but it's also on the AA&S side. And I just wanted to add, that is a structural shift and it's been deliberate around our portfolio management. You see it in some of our other end markets and some of the reductions and not growing in those non-core markets, because we're really focusing, especially in our exotic alloys, on those differentiated markets where we can capture the value that we're really providing, particularly in aerospace, especially in defense and specialty energy. So, a lot of great works by the team and you'll see that continue to accelerate, and it'll be even more pronounced in the second half.

Richard Safran
Analyst, Seaport Research Partners

Q

Okay. Thanks for that. Now, second, no secret the Department of War's been pressing industry for additional capacity. At the same time, we're seeing a rate ramp in aerospace, which you've been talking about. I want to know if you'd be willing to discuss planned or anticipated capacity additions and then maybe comment on when they might come on line. Thanks.

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

A

Sure. So, defense has been very strong in the first quarter. And I know we've guided to low to mid-teens. But as Rob just shared, our bias is to the upside on that. And so, to your point, we're seeing very strong demand across our whole portfolio. And as we look at the capacity to meet that, especially in missiles, that's been an area that's really upticked from inquiries or replacements even in advance of that funding by the Department of War.

But as we look at capacity, we've announced previously our titanium investment, our nickel investment is in progress. Both of those two are both on track and on schedule to come on line. Nickel remelt will be this year. And then, the primary VIM melting will be on line next year. In titanium, we're in already in qualifications for premium quality engine. So, both of those are on track. And we're in good position. I think as we think about some of the missile, some of the nuclear naval applications, we've got capacity in place to support that ramp as we go forward.

Now, that said, as we go and think about some of our other exotic alloys or our isothermal forging, which has consistently been over two years' worth of backlog, that's an area that will continue to have conversations with our customers and make sure that we're aligned with them. We're not at a stage to announce any new significant projects today, but we are talking with those customers. We have very strong, close relationships with regard to capacity planning, how they're seeing that landscape change. And I do believe, though, as you look forward, defense is going to be an important growth market for us for 2026 and beyond.

Richard Safran
Analyst, Seaport Research Partners Q

Thank you.

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

Thank you.

Operator: Your next question comes from the line of Scott Deuschle with Deutsche Bank. Your line is now open. Please go ahead.

Scott Deuschle
Analyst, Deutsche Bank Securities, Inc. Q

Hey, good morning. Rob, did AA&S see any benefit from this new Cameco contract in the first quarter, and if not, when should we start to see that benefit flow through the P&L?

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc. A

Yeah. Thanks, Scott. There wasn't much benefit accrued into the Q1. That's really going to be a prospective benefit. And as Kim mentioned, that's going to be some of those exotics, zirconium and hafnium and we're really making structural changes in that business. And what you're going to see is, I'll call it more arrow-like margins starting to come through. So, that's going to go into the AA&S segment and benefit that segment here for the foreseeable future.

Scott Deuschle
Analyst, Deutsche Bank Securities, Inc. Q

Okay. And then, are you seeing from purchase orders today that support the second half ramp and airframe sales or those purchase orders expected to come a little bit closer to the second half?

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

Now, as you think about our airframe story, as I shared, we're looking at it as a story of really two halves. The first half of the year, which, as I shared at the last call, is going to be flattish as that inventory normalization continues to align more closely with production orders and we are expecting to see that acceleration and ramp in the second half.

Based on – these are all contract-driven, and our orders are typically placed around 12 to 18 months. And so, most of those orders and certainly all of the forecasts have been shared with us and we are aligned to those. And even in the last week, I've had conversations and reconfirmed. And as many, I won't speak for our customers, but they've come out and reaffirm that they're sticking to those targets and build rates. And so, we have strong visibility based on these relationships and contracts to those backlogs and shipments, so we feel confident where we are today.

It is not short cycle buying. Most of these long-term agreements allow us that visibility and alignment and we've been talking – in some cases since last September around what they were going to be looking for as we went into the year and we have frequent updates with them. So most, again, we're 9 to 12 months ahead of the production schedule. So, most of those forecasts are all in and most of those orders are already booked in our books. And our contracts, just to remind everyone have – most of them have minimum quantities and frozen order windows where changes can be made. And we're rapidly approaching where the rest of the year, the back half of the year will be frozen.

Scott Deuschle
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Andre Madrid with BTIG. Your line is now open. Please go ahead.

Andre Madrid
Analyst, BTIG LLC

Q

Yes. Thanks for taking my question. Good morning, everyone.

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

Good morning.

Andre Madrid
Analyst, BTIG LLC

Q

Looking, you made a comment, backlog is the highest have ever been over $4 billion right now. I mean, could you give us a split as to how that looks across all the different end markets you plan?

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

A

Yeah. So yes, the backlog is at the highest level ever, just almost a year's worth of business. And as I've shared in the past, it really needs to be taken in conjunction with our lead times, which as I just mentioned earlier. They are moving out substantially based on demand coming in, and so, we're at a year plus and from forgings and PQ billet. Titanium PQ, it's close to two years. So, you need to look at both of those together. We are seeing those extend. As I look at the distribution, I would say about three quarters of that is in our HPMC segment given the strong demand in jet engine.

Andre Madrid
Analyst, BTIG LLC

Q

Got it, got it. That makes sense. And then, looking at jet engines, pretty impressive rose to about 41% of total company sales in the quarter. I guess, should we expect this to grow any higher as a percent of sales and kind of in a similar range to with the rebound of airframe in the second half? I mean, how should we expect, I guess, the percent of titanium sales to ship going forward?

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

A

Yeah. So, jet engine, as you said, it's about 40% of our market today. This is where – or some of our most differentiated capabilities are both for nickel alloys as well as our isothermal forgings. As we look at jet engine, I mean, that could – jet engine and aerospace, let's just say aerospace in total that could go up another point or two. A&D is around 69%, 70%. Those are going to continue to grow and that's going to be intentional.

We're prioritizing, as I said, that valuable capacity to those highest value opportunities where we're able to get long-term contracts and margins are the strongest. So, as I look at that – A&D mix is going to continue to go higher, which will help us continue to drive higher margins as long as – along with stronger value creation. So, I would expect that we're going to be above 70% and it could trend up. Jet engine may be up a couple points as well.

As far as titanium sales, I think is as I said, with the airframe sales, the first half is going to be somewhat flat and it'll start accelerating through the second half. So, we will start to see some of that titanium SQ that typically goes into the airframe start to increase. But what I would anticipate you'd see more substantial increases for airframe in 2027 and certainly, as the wide body start to gain in their ramp and build rates. The one area that we are seeing quite a bit of demand, though for titanium is in defense.

It does go into structural applications that are used for high temperature and performance. And so, that we are seeing now and it's starting to come into our just our mix. And so, you may see that uptick here through the year as well. So, there's a couple key markets drawing on that. But, I would say, you'd probably see much stronger titanium sales growth in 2027.

Andre Madrid
Analyst, BTIG LLC

Q

Got it. Got it, Kim. That's incredible color. Thank you so much. I'll leave it there.

Operator: Your next question comes from the line of Myles Walton with Wolfe Research. Your line is now open. Please go ahead.

Myles Walton
Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Kim, last quarter you talked about the missiles as a percent of your defense exposure. Can you remind us where that is now, given what seems to be a constant doubling of revenue? And then, are you party to the seven-year frameworks? Are they trying to lock in your supply for a longer than normal duration?

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

A

Yes. So, missiles is one of those markets that we're seeing really meaningful uptick in demand and inquiries. It is a small portion of our revenue as you reference. But the rate of acceleration is really what's notable there. We've seen that increase inquiries, order activity. As I mentioned, folks are placing orders because of the lead times that we've got.

They're placing orders in advance of that total funding that's come through just based on the replenishment needs for our military and missiles and ammunitions. So, the programs that we're on that really require the performance materials that we have are PAC-3, THAAD, Tomahawk, all substantially been advertised. They're up 3x, 6x, 10x as they're trying to build the supply chain. And we're really working with those folks in the supply chain to increase our – and then, align our capacity to those needs and it's really across a couple of key areas.

I talked about titanium, our premium quality titanium, our exotic alloys like zirconium, hafnium, niobium. And that's continuing to drive this uptick. And yes, it grew triple digits. I expect that will continue to grow with that rate to become a meaningful part of the portfolio, both from a grow and margin perspective. Just to remind you that right now, we've got -- we've kind of laid out there low to mid-teens growth for the year. But I would say my bias is to the upside given just the recent activity here in the last month to six weeks.

Myles Walton
Analyst, Wolfe Research LLC

Q

Okay. And Rob, can you just remind us of your tariff outlook for 2026 after all the changes with IEEPA and Section 232, where we are positive, negative?

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

A

Yeah. Just to jump in there. So, yeah. For tariffs, we've kept – right now we're status quo. We've got pass-throughs for all of our contracts. So, any tariffs that we're still experiencing we're passing those through. Clearly, given the administration we're still trying to work through what may be a refund policy. Although I'll be honest, there has not been a lot of progress in that regard. So, we're continuing as those come in. We've got alignment with our customers and we're able to and where we are recovering any tariffs that we're seeing.

Myles Walton
Analyst, Wolfe Research LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Gautam Khanna with TD Cowen. Your line is now open. Please go ahead.

Gautam Khanna
Analyst, TD Cowen

Q

Hey, thanks. Good morning, guys.

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

Good morning.

Gautam Khanna
Analyst, TD Cowen

Q

I was wondering if you could opine on where we are on that debottlenecking initiative that you announced about three quarters ago. And if you could characterize kind of what percentage of your nickel alloy capacity is being utilized at this point and how that might change over the next 6 to 18 months. I'm just curious how close to 100% utilization you're at. Thanks.

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

A

Sure. So, I think the debottlenecking you're talking about is in our primary nickel melting. There is some other work that's going on downstream, but I think that's what you're referring to on the nickel side. And so, that's progressing very well. I shared in my prepared remarks that we've seen a 15% uptick in output. And maybe more importantly, we've seen a significantly improved product quality control parameters. So, not only are we getting more output, but we're also making a higher percentage of material that doesn't need to be reworked or have any additional steps taken to make it ready for delivery.

And so, we are well ahead, I will say, walking through the plants. They are doing a phenomenal job. And quite frankly, this was in advance and in preparation for the capital investment that I shared around our remelt assets that are going to be coming on line here towards the end of the year on the fourth quarter. And it will be just in time. Like I said, we are rapidly working on how we increase productivity through our remelt operations across our system, to take advantage of that increased primary melt. But there's still some work to do.

And so, as I look, you said, how we think about that over the next 6 to 18 months. I do think we are already seeing upticks. You're seeing that both in output and mix and pricing as well, because we really are focusing that in our highest-valued products. But as I'm looking forward, you'll see the first uptick in the beginning of next year, where we really unleash, call it, 5% or so more volume through the operations. And then, we've got the primary melt that's coming in at the end of next year, which I've talked about is kind of that 8% to 10% uptick that will continue to allow us to take advantage of all the improvements and all of the investments that we're making.

So, from an overall, I say we are being selective and deliberate in how we're directing our capacities. We're going after the hardest-to-make most differentiated products. I talked a lot about those six of seven alloys that in five of those cases, we're the only ones making those today. And so, we are prioritizing that. You're seeing it in the margin uplift, but we're continuing to drive those bottlenecks and finding meaningful capacity through the work that the team is doing. And frankly, the learning curve improvement of our employees as we continue to move up that base and people get more experienced and learn our operations.

Gautam Khanna
Analyst, TD Cowen

Q

Thanks. And, Rob, I just wanted to get your opinion on incrementals by segment. I remember Don used to talk about 40% and 30%, respectively, HPMC/AA&S. Is that what you think we should be penciling in over the next year-and-a-half, two years, whatever?

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

Yeah. So, I will break it down. But first, I'll start with the consolidated look. For the full-year 2026, modeling in something close to that kind of 40% consolidated incremental for the full year is how I'm thinking about it. And if you double-click and unpack that by segment, I think what you'll see is margins on the incremental basis kind of drifting higher from the HPMC segment and maybe a bit lower from the AA&S segment for the overall composite of about 40%.

And that's an improvement from where we've been historically. If you think about where we would historically guide, it was in the mid-30s to maybe the upper end of 40%. I think we're now pretty confident in that 40% year-over-year incremental margin on a consolidated basis.

Gautam Khanna
Analyst, TD Cowen

Q

Got you. And any view on 2027 with that framework?

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

Yeah. I won't talk about 2027, other than from a model standpoint. We have the guidance out there from 2027, and I'm very familiar with that guidance. I was part of the team working with Don and Kim that prepared that. And overall, my confidence is really high in our ability to get into that guide range. And if you look at the second half run rate here, which we're thinking about, you'll see if you connect the dots that, that puts you well within the range. And the point I want to make is we're not going to stop growing. So, I think, what I would say is I have a bias towards the upper end of that 2027 guide for EBITDA dollars and the consolidated margin percentage.

Gautam Khanna
Analyst, TD Cowen

Q

Thank you, guys.

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

But we'll go through – yeah, we'll go through our normal process and you can expect an update sometime in the Q4 timeframe.

Gautam Khanna
Analyst, TD Cowen

Q

Great.

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

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Hey. Thanks very much and good morning. I wonder if you could talk a little bit about the supply side angle of things that are going on in the Middle East when we think about upward pressure on anything in your cost base, whether that's energy cost or any particular inputs or the availability of any inputs, anything you're monitoring, and any way, maybe in particular, to think about the way that you can pass through higher energy costs.

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

A

Yeah. So, as we – coming COVID, supply chain monitoring, I think has become one of the strengths that we have. I'm sure every company does as well. So, we are monitoring a couple things. We have not seen any upticks. So, there's been no impact to date. But I will say one key input is helium that goes into our processes, so that I know several of the suppliers have started to export that from the US. And so, we're monitoring that closely. It's a small portion of our costs. So, it's not critical. And we do have alternatives that are readily available. So, that's one area that we're paying attention to mainly from a – just Middle Eastern supply and transport aspect.

From an energy cost standpoint, we are seeing other impacts outside of just what's happening with the Middle East, but data centers and other things that are providing and putting more pressure on some of the electrical pricing and other things. And so, we've got multiple mechanisms to deal with that one. We do pass-through all of those inflationary costs through in our contracts. And so, we've got protections and mechanisms to do that.

We managed our natural gas hedges that we have become more conservative with as we look out 12 to 18 months and in some cases even longer than that, that again, allow us not just -- not to control it, but to allow us to stay aligned with those mechanisms from an inflation indexing standpoint so that we're able to stay flat and align to what those costs are.

And then, there's some other innovative ideas and things that we're pursuing, projects we're pursuing around energy and energy generation that long-term may come into play as we think about how we want to manage those costs. But today, no impact from the Middle East and what's happening there from a cost standpoint. And we'll monitor a couple of those things. But so far, it's been very, very stable. And then, energy cost is something that even before what's happened over in the Middle East has been on our agenda and something that we've been working on.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Great, great. That's super helpful. And then, just maybe thinking a little bit about the cadence, obviously a lot of demand. And so, high confidence in the revenue outlook for this year. The A&D growth rate, and in particular, also the jet engine growth rate, I guess, should be accelerating from here. Should we look for some of that acceleration in Q2 or is that something that's going to be more back half weighted?

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

A

Yes. You will see that acceleration. It's going to be sequentially stepping up as we go through the year. So, you'll start to see it in Q2. It's coming through, as you said, in both demand, in enhanced mix, and expanded content as well as price. And so, you'll see that coming through. We are being very deliberate around how we allocate our resources, our capacity. And so, you'll probably see those impacts more heavily weighted towards our margin and EBITDA line, more so than the revenue line as we go through the year and we continue to pivot our mix and portfolio to support those high value markets.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Great. Great. Very helpful. Thanks.

Operator: Your next question comes from the line of Pete Skibitski with Alembic Global. Your line is now open. Please go ahead.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Hey. Good morning. Hey, Kim. Going back to the start of the Q&A, you were talking to Dave about the impact of higher jet fuel prices on potentially driving the retirement of legacy aircraft. I just wanted to get the sense if we think about commercial aftermarket for jet engines, is your revenue at this point on the newer jet engines aftermarket? Is that the same or above the aftermarket revenue for legacy jet engines or are we not there yet? Just want to get a sense of where we are sort of in the cycle for you.

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

A

Yeah. I would say, it's heavily weighted towards the next gen. We've got twice the content. As I've shared in the past, a lot of these next-gen engines are still in the lifecycle of an engine in the early cycle. So, there's upgrade packages, durability packages. And we're seeing that demand on top of the OEM, build rates and just the first round of shop visits that LEAP and others are starting to hit. And so, those are all coming together.

So, there is more revenue and demand that is more heavily weighed. And so, it is a very favorable trend for us as we accelerate into those next-gen engines. And those legacy engines, for those materials, what we find is our assets are very fungible. And so, they're very useful in other markets like Specialty Energy, which uses similar material, similar capabilities are required for those, which is to basically get an engine on the ground. And so, between Specialty Energy and some of these defense applications we were just talking about, we're able to pivot to those high value, very differentiated capabilities into those other markets as we – as they start to retire, some of those legacy planes.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Okay, great. I appreciate the color. Just one last one for me. On the defense growth this year, I'm trying to – obviously, missiles is growing really fast. It's still small. I'm trying to get a better sense for the core driver for you in military. And it seems like recently the shipyards are showing a lot of improvement in throughput. They're hiring more people. Supply chain is improving in shipyards. So, is it the exotics for you within defense, zirconium for the nuclear navy? Is that kind of driving – is that the biggest muscle mover for the military growth or are there other factors as well?

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

A

The nuclear, the naval nuclear is our largest contributor when you look at our overall defense sales. As you mentioned, it's very long cycle funded programs. They're looking to expand that capability. I shared that new naval nuclear contract that we just signed, which is about 2x the revenue over the next five years and we had in the past contract. And as you said, we're seeing strong growth in that area. And that is an area that we're continuing to invest in.

It is predominantly coming from those exotic alloys, zirconium, hafnium, some nickels as well. So, it does translate to a little bit into our HPMC business as well, but predominantly the AA&S and you're seeing that with the margin accretion that you've seen over the last three quarters.

Pete Skibitski
Analyst, Alembic Global Advisors LLC

Q

Okay. Great. Thanks so much.

Operator: Your final question comes from the line of Samuel McKinney with KeyBanc Capital Markets. Your line is now open. Please go ahead.

Samuel Mckinney
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning. Thanks for getting me in.

James Robert Foster
Chief Financial Officer & Senior Vice President-Finance, ATI, Inc.

A

Good morning.

Samuel Mckinney
Analyst, KeyBanc Capital Markets, Inc.

Q

Just given the rich margins that you guys get in defense arrow, can you just talk to us a little bit about how you're thinking about managing and prioritizing line time on some of these assets that can serve both the defense and commercial aero in the context of the OEM build ramp?

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

A

I'm sorry. It cut out a little bit. Could you repeat that question?

Samuel Mckinney
Analyst, KeyBanc Capital Markets, Inc.

Q

I said, given the rich margins that you get in defense aerospace, can you talk to us about how you're thinking about managing or prioritizing line time on some of these assets that can serve defense or commercial in the context of the OEM build ramp?

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

A

Yes. So, as we thought, as you said, we are prioritizing capacity and line time, as you call it. And what we find typically is jet engine is our highest margin business, although that's been rapidly shrinking. As we think about defense and specialty energy, we're seeing both of those start to accelerate very quickly, given the tightness of the market and the differentiated nature of the materials that we're using. So, obviously, some of these military programs are priorities.

And so, we're continuing to make sure that we're aligning our capacity and we can support those. But again with those long-term contracts having conversations around what are the forecasts, what are those needs, so that we're making sure that we're also prioritizing our jet engine customers. What you are seeing, though, and where you will see through the rest of the year and we've kind of talked about down low to mid-single digits is in our medical, electronics, our overall industrial applications. We are de-emphasizing those and moving the capacity to those other to higher markets -- higher margin markets.

Samuel Mckinney
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah, that'll make sense. And then, next one, you just -- you called for mid-teens revenue growth in specialty energy this year. But that's off the back of a 20-plus percent increase in the first quarter. So, can you just give us a little more color about both what's exciting for you in that market and the rationale for the softer comps that you're implying later this year?

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

A

Sure. With specialty energy, as you said, we delivered strong performance in the first quarter. And as you said, we are saying mid-teens for the full year. As you look at that growth, it's going to be somewhat lumpy as the orders come in and an intermittent kind of chunky fashion. But it's being driven by really two core areas, the first being the land-based gas turbines. Demand is continuing to be driven there based on data centers and energy security and that's really going to tap into our high-performance nickel alloys, whereas I just mentioned, we're very well-positioned with our capabilities and differentiation.

The second is the nuclear we just talked about that. We've got the Cameco agreement that I talked about in my prepared remarks. We're seeing a strong demand from that as well, both with life extensions and refueling cycles. And that's really focused around zirconium, nickel and hafnium. So, as we think about it, it's going to be somewhat lumpy. We do see growth as we go through the year and we had a great first quarter. But again, those orders come in a larger size, and they also deliver in larger chunks.

Samuel Mckinney
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks, Kim.

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

A

Sure.

Operator: We have reached the end of the question-and-answer session. I will now turn the call back to Kim Fields for closing remarks.

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

All right. Thanks, everyone, for your time and for your continued interest in ATI. Just to wrap up today, our message is clear. ATI is executing at a high-level in a strong demand market. We're expanding margins. We're generating meaningful free cash flow and we're continuing to strengthen our position in the most attractive aerospace and defense markets. Our teams are focused on delivering for our customers, capturing the opportunities in front of us, and driving long-term value for shareholders. We look forward to updating you next quarter. Thank you.

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