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ATI, Inc. (ATI)

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to the ATI Second Quarter 2026 Results Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions] I will now hand the conference over to Rob Rengel, Vice President of Investor Relations. Please go ahead.

Rob Rengel
Vice President-Investor Relations, ATI, Inc.

Good morning and welcome to ATI's second quarter 2026 earnings call. I'm excited to step into this role and I want to begin by recognizing Dave Weston and the significant contributions he made to ATI before his retirement. Today's discussion is being webcast at atimaterials.com.

Joining me are Kim Fields, Board Chair, 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.

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. After our prepared remarks, we'll open the line for questions.

Now I'll turn the call over to Kim.

Kimberly Ann Fields

Board Chair, President & Chief Executive Officer, ATI, Inc.

Thanks, Rob, and welcome to the team. And good morning, everyone. Thank you for joining us.

Turning to slide 3. ATI delivered another strong quarter, demonstrating the increasing earnings power of our business. Second quarter adjusted EBITDA was $284 million, $29 million above the high end of our prior guidance. Excluding a $10 million asset sale gain, underlying performance still exceeded the high end of our guidance by $19 million. Adjusted EBITDA increased 37% year-over-year, making this ATI's strongest quarterly EBITDA performance since 2007.

Second quarter adjusted EBITDA margins expanded 440 basis points year over year to 22.6%, reflecting stronger commercial terms, favorable mix, disciplined execution and operational improvements through elevATIon. Revenue this quarter increased 11% year-over-year to $1.3 billion and annualized run rate of more than $5 billion. That expanding revenue was supported by another record backlog of $4.4 billion, up 18% from a year ago and 7% sequentially. Importantly, that backlog increasingly reflects long-term agreements, sole-source positions and strategic programs that provide meaningful multi-year visibility into future shipments and earnings.

Adjusted free cash flow in the quarter was $69 million, bringing first-half free cash flow to $143 million, an improvement of $193 million versus the first half of last year. Cash generation will accelerate meaningfully in the second half, putting us on track to generate positive free cash flow in every quarter of 2026.

Our second quarter performance was led by our AA&S segment and it's one of the most important stories from the quarter. Over the last several years, we've transformed AA&S. What was once viewed as a more cyclical lower-margin business has become a second durable earnings engine for ATI. We've improved the portfolio, strengthened our commercial discipline and focused our investments for ATI's differentiated capabilities create the greatest value. The result is a fundamentally different business.

Excluding the asset sale gain, AA&S generated an underlying EBITDA margin of approximately 22% compared with 14% a year ago. That's not simply the result of stronger markets. It's the result of better mix, better pricing and better execution.

We built the transformation on three key priorities. First, we've optimized the portfolio, shifting AA&S toward higher-value aerospace, defense and specialty energy applications, while at the same time exiting lower-value products. Today, aerospace and defense accounts for approximately 44% of AA&S revenue, more than double their share five years ago.

Second, we've leveraged ATI's unique technical capabilities in high-purity hafnium and zirconium. ATI is one of three qualified producers in the Western world capable of manufacturing these materials to the purity standards required for aerospace and nuclear and energy applications. With China limiting exports to these markets, our capabilities have become even more valuable.

And third, we've translated that scarcity into stronger commercial performance. Improved pricing for high-purity hafnium and zirconium benefits our defense and specialty energy businesses, and also flows through to our jet engine alloy material, where hafnium and zirconium are critical alloy additions. Combined with better product mix and disciplined commercial execution, that has materially increased the earnings power of AA&S.

Now let me be equally clear about HPMC. Nothing about this quarter changes our long-term strategy. HPMC remains ATI's largest long-term growth platform and the foundation of our aerospace strategy. For HPMC, performance in the quarter was within our expectations. Although qualification timing at both our new facility in Mexico and our new titanium electron-beam furnace or EB2 shifted some shipments into future periods.

The important point is our confidence in HPMC's growth trajectory remains intact. Commercial terms and operational productivity are improving, and we're systemically increasing the productive output of the manufacturing system through elevATIon and targeted investments. Those improvements support sequentially stronger performance through the second half and position HPMC for additional growth into 2027.

Taken together, these results show a stronger, more balanced ATI. We are not benefiting from just one favorable market or one strong quarter. We now have two businesses capable of generating durable earnings growth, supported by differentiated products, stronger commercial performance, operational excellence and a record backlog that provides meaningful multi-year visibility into the future.

Turning to slide 4. Based on our first half performance and improved visibility into the balance of the year, today, we are meaningfully raising our full year outlook across every key financial metric. As a result, our updated outlook now includes an adjusted EBITDA midpoint of $1,160 million, representing 35% year-over-year growth; an adjusted EPS midpoint of $5.04, an increase of 56% year-over-year; and an adjusted free cash flow midpoint of $575 million, an increase of 51% year-over-year. Importantly, these increases reflect a sustainable step change in AA&S performance and our ongoing confidence in the HPMC ramp.

Turning to slide 5. ATI's operating model is helping convert strong demand, improved commercial terms and targeted investments into higher earnings, margins and cash flow. elevATIon is the foundation of that operating system. Let me give you some insight into how we operate. First, we increase the productivity of the assets we own. Second, we make targeted investments where ATI has differentiated technology, committed customer demand and the highest returns. And third, we embed our operating system to make those improvements repeatable across the enterprise. That combination is increasing ATI's earning power, strengthening cash generation, and creating long-term shareholder value.

Most importantly, we're seeing measurable results through elevATIon. We've increased year-over-year throughput by 30% in ultrasonic inspection, 15% in isothermal forgings, and 15% in primary nickel melts. Those aren't isolated improvements. When combined with our targeted capacity investments, we'll realize higher productive output from our manufacturing network. Every major investment we're making supports existing customer demand and expands ATI's differentiated capabilities.

Moving to slide 6. Let me remind you about our capacity investments. Our new Chihuahua, Mexico facility supports next-generation aerospace engine testing and inspection. And our EB2 furnace expands premium-quality titanium capability and capacity. Our nickel re-melt expansion remains on schedule with our new VIM furnace coming online by the end of 2027. Together, these investments are targeted to increase nickel capacity by approximately 15% to 20% by early 2028, compared with year-end 2025.

Across these combined nickel investments, we will deliver approximately $350 million of incremental annual revenue by 2028. The important point is that these investments, combined with elevATIon, progressively increase the productive output of the manufacturing system.

Turning to slide 7. Across all of our end markets, we're seeing the same underlying dynamics. Customers have increasing need for qualified capacity, differentiated technology and certainty of supply. Those are areas where ATI has built durable, competitive advantages through proprietary materials, unique manufacturing capabilities, and decades-long customer qualifications. That competitive position supports stronger commercial terms, long-term agreements, and attractive growth opportunities across our portfolio.

Jet engines remains ATI's largest and most important growth market. Revenue increased 13% year-over-year and 8% sequentially, reflecting ongoing strength across both OEM production and aftermarket. The industry is transitioning toward next-generation engine platforms, and ATI is exceptionally well positioned to benefit. Our content on these engines is more than double that of legacy platforms, reflecting our differentiated materials in the hottest, most demanding section of the engine.

Industry forecast project next-generation engines will grow from about 35% today to over 50% of the installed fleet by 2030. Currently, we support every major next-generation commercial engine platform and produce six of the seven most advanced nickel-based superalloys, including five where we are the sole source supplier. That differentiation translate into stronger pricing, richer product mix and long-term growth opportunities. Market conditions are developing largely as we anticipated. We continue to see high-teens jet engine revenue growth for the full year.

In airframes, supply chain inventories have largely normalized, and customer order patterns are now aligning with announced OEM build rates. Our planned production for the balance of the year is supported by firm customer orders. Landing gear alloys remain our strongest airframe product category, while plate demand is improving. As a result, we continue to see mid- to high-single digit full year airframe revenue growth weighted towards the second half.

Defense delivered another outstanding quarter as one of our fastest-growing markets. Revenue increased 36% year-over-year, reaching an all-time high as demand accelerated across naval, nuclear, missile and missile defense applications. Our recently announced naval nuclear renewal extends through 2030 with improved pricing and product mix. It more than doubles annual revenue compared to the prior contract. We're also seeing strength build across titanium, nickel and niobium products, supporting strategic missile platforms, including Tomahawk, THAAD and PAC-3. We've already begun receiving orders in support of the Tomahawk program. As a result, we've increased our expectation for full year defense growth to the high teens, reflecting growing momentum across the portfolio.

Specialty energy declined in the quarter as we prioritized production toward defense orders with more immediate delivery requirements. That mix will rebalance in the second half, supported by nuclear shipments and durable industrial gas turbine demand. We continue to see mid-teens specialty energy revenue growth for the full year.

In closing, we're building the ATI of the next decade, a stronger company with durable demand, better execution, expanding margins and greater cash generation.

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

James Robert Foster

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

Thanks, Kim. I'll start with the second quarter performance, explain the different profiles of HPMC and AA&S and close with the supporting details for our updated guidance.

As shown on slide 8, we delivered strong overall results. Adjusted EBITDA and EPS exceeded the high end of our guidance while we expanded our consolidated margins and generated strong cash flow. These results demonstrate the strength of ATI's differentiated portfolio and the earnings power of our business model.

Second quarter revenue was $1.3 billion, up 11% year-over-year, driven by 13% growth in aerospace and defense. Within that market segment, jet engine sales increased by 13%, reflecting increasing strength in high-temperature nickel alloys and favorable pricing. Airframe revenue declined slightly, consistent with our expectations, with growth accelerating in the second half of the year. Defense-related revenue grew by 36% compared with the prior year, driven by robust demand and meaningful price gains, supported by new long-term contracts. Specialty energy revenue declined 6%, reflecting our decision to prioritize available production capacity toward higher-value naval nuclear demand during the quarter.

Second quarter adjusted EBITDA was $284 million, up 37% year-over-year. This was $34 million above the midpoint and $29 million or 11% above the high-end of our guidance. Excluding $10 million asset sale gain in AA&S, underlying operating performance still exceeded the high end of our guidance by nearly $28 million, reflecting stronger pricing and mix.

Second quarter consolidated adjusted EBITDA margin was 22.6%, up 440 basis points year-over-year. First half free cash flow improved significantly to $143 million, compared with a use of $50 million in the first half of 2025. Managed working capital as a percentage of sales at the end of Q2 was 34%. We see further opportunities to improve inventory performance. For example, we are implementing a customer consignment strategy for forging input material to improve working capital efficiency. Capital expenditures were $69 million, including $23 million funded directly by customers. All key growth projects remain on schedule and on budget.

Now on slide 9, I'll review segment performance. HPMC sales increased 5% year-over-year to $637 million, primarily driven by growth in nickel products for jet engines. Segment margins expanded 40 basis points from the same period last year to 24.1%. Demand remained strong, while the timing of customer qualifications related to our new facility in Mexico and the EB2 titanium furnace shifted certain deliveries into future periods. These are timing effects and were partially offset in Q2 by higher volume and pricing on rotating jet engine nickel alloys. We see the deferred demand converting in the second half.

In AA&S, sales increased 17% year-over-year to $624 million. Growth reflected multiple drivers, including pricing, mix and defense performance. Segment margin expanded 930 basis points to an all-time high 23.7%, reflecting stronger pricing, execution and a more favorable mix. As Kim mentioned, AA&S is a fundamentally different business today. Through portfolio optimization, including 80/20, we have shifted the segment toward higher-value applications. We've been building an integrated, interconnected business as our unique alloys are used across both HPMC and AA&S.

Looking ahead, we see AA&S EBITDA margins consistently above 20%. This improvement in AA&S means both segments will now contribute to durable, profitable growth. We are raising our full year outlook across every key financial measure. Our confidence is supported by contracted pricing, committed customer schedules, a higher structural earnings base in our AA&S segment, and HPMC shipments that moved from Q2 to the second half.

In AA&S, our renewed nuclear agreements, accelerated defense deliveries and shipments, and improved hafnium and zirconium pricing provide support for sustained performance through the balance of the year. In HPMC, completed contract renewals are providing improved pricing and mix for jet engine materials. While customer qualification timing affected the second quarter, the associated demand remains a strong element in our second half production plan. Momentum will build in the third quarter, carrying into the fourth quarter and next year. Our improved outlook reflects not only supportive end markets, but a stronger and more balanced API.

As shown on slide number 10, in the third quarter of 2026 we anticipate adjusted EBITDA of $305 million to $315 million, translating to adjusted EPS of $1.31 to $1.37. At the midpoint, adjusted EBITDA would increase 38% compared with the third quarter of 2025 and 9% sequentially. We anticipate sequential profit improvement driven by AA&S pricing and mix strength, particularly in aerospace and defense. HPMC performance will strengthen as deliveries build through the second half with momentum starting in the third quarter and building into the fourth quarter. We see consolidated adjusted EBITDA margins expanding in the third quarter compared to the second quarter of 2026.

Turning to slide 11. Our higher full year outlook reflects the second quarter outperformance in AA&S and a better second half baseline. The increase versus our prior outlook is primarily supported by stronger AA&S pricing, mix and defense performance. Our full year HPMC outlook continues to reflect sequential improvement in performance as we previously anticipated. Specifically, we have committed contracts in place. This is not speculative. In addition, we will capture the second quarter timing effects during the second half.

We are raising our full year adjusted EBITDA guidance to the range of $1.135 billion to $1.185 billion. The midpoint of the range represents 35% increase over prior year. This outlook translates to full year adjusted EPS range of $4.90 to $5.18. We see margin expansion in 2026 with full year consolidated adjusted EBITDA margins now projected in the low-20% range. We now expect full year consolidated incremental margins in the range of 50%. This is improvement over the 40% we previously communicated, driven by additional strength in our AA&S segment.

We anticipate second half performance to build sequentially. In the third quarter, the primary drivers are continued pricing and mix strength in aerospace and defense for both segments. We see the fourth quarter as our strongest quarter of 2026 for sales and profit. Our midpoint guidance implies approximately $335 million of EBITDA in Q4. That translates to roughly $1.350 billion annualized exit rate. While we are not providing 2027 guidance today, the commercial and operational drivers supporting that performance extend into next year.

At a segment level, we see full year EBITDA margin for HPMC in the mid-20% range, consistent with our outlook from previous quarters. AA&S full year EBITDA margin will be in the low-20% range, an improvement over the upper teens level we communicated last quarter. The uplift is supported by stronger pricing and mix shifting towards aerospace and defense, as we've discussed. Note that the performance of our segments is increasingly driven by similar market dynamics.

Turning to adjusted free cash flow, we are raising the midpoint of our range by $80 million, setting the range between $550 million and $600 million. The $575 million midpoint is $195 million higher than the 2025 free cash flow, a 51% increase year-over-year. This implies adjusted free cash flow generation of $430 million in the second half, driven by higher earnings, inventory conversion associated with scheduled shipments and customer-funded capital.

Our capital deployment strategy is unchanged. Our gross CapEx range remains consistent with prior guidance at $280 million to $300 million. This includes the greenfield expansion facility in Mexico, which Kim mentioned. Customer-funded CapEx of $55 million to $65 million will be a partial offset. Share repurchases remains a priority for deploying incremental free cash flow. We view them as the most efficient way to return capital to shareholders.

As of today, after our $50 million repurchase in Q2, we have $495 million remaining under our current repurchase authorization. Overall, we delivered a strong first half and expect even better second half. Our increased outlook is supported by contracted pricing, a record backlog, committed customer schedules and planned shipment timing.

Kim, back to you.

Kimberly Ann Fields

Board Chair, President & Chief Executive Officer, ATI, Inc.

Thanks, Rob. As we look ahead, our priorities remain clear, continue improving execution through elevATIon, bring differentiated capacity online and allocate capital where returns are highest. We are confident in our ability to convert strong demand into sustained growth, higher earnings and cash flow.

Now let's open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. Please limit yourself to one question. [Operator Instructions] Your first question comes from the line of Richard Safran from Seaport Research Partners. Your line is open. Please go ahead.

Richard Safran

Analyst, Seaport Research Partners

Q

Good morning, everybody. I have one question and one quick follow-up. On the guidance raise, if I did the math right, is it – at the midpoint, you took EBITDA up by $125 million, but you took up your free cash flow guide by $80 million. So I just want to know if you could go over what drove that and how we should be thinking about cash and cash conversion going forward. Thanks.

Kimberly Ann Fields

Board Chair, President & Chief Executive Officer, ATI, Inc.

A

Thanks, Rich. Appreciate the question. So, yeah, I'll start. I'll share a little bit on the guide and then I'll hand it over to Rob. He can talk a little bit about the free cash flow and the outlook. I'll say our guide and our raise is really based on the strong performance we've had this quarter. And it's based on things that are already in place. So this is the contracted pricing improvements that we're seeing flow through, recently committed long-term agreements and customer orders that are already committed.

And so, we have high confidence that this is based on all of those things I just mentioned, committed orders and a stronger business, and the structural improvement that I shared in the prepared remarks around AA&S. You add in there some of the timing changes for HPMC, and that's what drives our confidence as far as our outlook.

And then, to your point around cash flow, typically we start the first half off – we started from $143 million this year. It typically accelerates as we go through the year. And we anticipate that continuing as we go forward. But, Rob, do you want to add any more color on that?

James Robert Foster

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

A

Yeah. Rich, when I think about the cash flow, if you think about the increase in the EBITDA, really, we're talking about higher shipments in the second half. And essentially, the reason why that's not all going to convert is really two things. One, it's the timing of conversion through accounts receivable. So we'll expect some of that higher volume with those late Q4 shipments to be in receivables. And the second piece is, we do plan on a little bit more inventory as we prepare for the early part of 2027.

So I think it's important to call out that when you look at our full year cash flow and the guide of the midpoint of $575 million, that represents an increase of over 51% from the full year 2025. And when I think about the free cash flow conversion, that assumes a high-80%. And as we've stated several times, our goal is to drive well over 90% free cash flow conversion. So, I think we're trending in the right direction. And as I think about going forward into 2027, I'm not going to give updated guidance here today on 2027, but the free cash flow conversion at 90% or greater is where we're thinking about the target.

Richard Safran
Analyst, Seaport Research Partners

Q

Okay. And then just a quick follow-up on AA&S, and at the risk of pressing you on something. So given your remarks about transforming the business, your comments about 20% EBITDA margins, would you be willing to talk a bit more about the EBITDA margin potential at AA&S? How we should be thinking about it if growth and mix continues to improve? Would you be willing to give out a bit more specific on that?

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

A

Sure. Yeah. As you said, fantastic performance in the quarter by AA&S segment. And it's a transformation that we've been working on for several years, you've heard me talking about it. As we look out, we anticipate, we can see AA&S in the mid-20% range going forward. And really, this is based on structural changes that we've been making in this segment for, as I said, the last few years. One, it started with the transformation in our flat rolled business exiting the standard stainless, and focusing our resources on that highest-value products through 80/20. And here, most recently, we strengthened our commercial model and restructured long-term agreements, improved pricing and mix. And now, we're benefiting from the acceleration around defense and nuclear demand as we look forward. I mentioned in my prepared remarks that A&D is more than double where we were five years ago at 44%. And maybe even more impressive, if I look year-over-year at the AA&S segment, A&D is up 34% year-over-year.

And so as you said, really focused on structural change, both from a market mix, pricing and contractual agreements. I think the last thing just to mention here that we're also benefiting from is that our business, SA&C, on the West Coast is one of three qualified western producers of high-purity hafnium and zirconium. And that provides another durable competitive advantage, especially given, as I mentioned in my remarks, supply chain continue to tighten and trade continues to change and creates more demand, which allows us to capture that value. So, as we think about it and look at AA&S today, we're talking about a business that's fundamentally different from an earnings profile than it was a year ago. And that gives me the confidence to say that we're going to be in that mid-20% range going forward.

Operator: Thank you for your question. Your next question comes from the line of Seth Seifman from JPMorgan. Your line is open. Please go ahead.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Thanks very much and good morning. Wanted to ask about the outlook in HPMC in the second half. You talked about catching up on some of the revenue. And to the extent that you also see margin expansion, I think the first half margin is kind of in the range, mid-20s type of range that you've talked about, but had also been thinking about some LTA rollovers and sort of mix improvement driving second half margin expansion there, and if that's still part of the outlook.

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

A

Yeah. So as I think about it and we look at HPMC, we've been talking about through this year we had a step-up coming in the back half of the year, so here in third quarter. And it is based on a couple of things. Some I talked about, one is the work we're doing through elevATIon and the improvements around productivity and taking cost out of our operation. But more importantly, as you mentioned, we've got contractual renewals that are kicking in and step up in pricing. And we are still expecting to see that. In addition, as you said, we had some timing changes with our two new facilities that we are in qualifications, one in Mexico and then the EB premium-quality titanium.

So those are also moving out. As I look at the quarter, we had probably around $30 million to $40 million of revenue that moved from the first half into the second half where the margins were maybe 40% to 50% shifting into the future periods. And that will accelerate as those facilities continue to ramp and come online. But we do continue to see sequential improvements through the balance of the year based on those new contract pricing. And these are the same drivers that underpin our confidence in that stronger half outlook and the improvement in our HPMC outlook as well.

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

A

And just one clarification, that 40% to 50%, that's kind of an incremental margin cadence that we're discussing there.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Yes. Yes. Yes, of course. Okay. I'll stick to one for now and I'll get back in queue.

Operator: Thank you for your question. Your next question comes from the line of David Strauss from Wells. Your line is open.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Thanks. 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. Rob, you touched on kind of the implied Q4 EBITDA as an exit rate into next year. I guess, is there anything unusual in that number? Any reason as to why we wouldn't kind of or you guys wouldn't kind of grow off of that level as we head into 2027? And kind of within that, are you thinking, as we look at 2027, 50%

incrementals for the overall business, with what you're talking about for AA&S now, is that a sustainable kind of run rate to use for incrementals from here? Thanks.

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

A

Yeah. Thanks, David. Well, when I look at Q4 and you think about what that implies for – the exit rate for the full year, it implies $1.350 billion of EBITDA. And while I'm not going to give 2027 guidance today, I think I can say that it kind of directionally makes sense. And when you look at those incrementals, we have increased our incrementals from 40% to 50%. So I think it's fair to think about this business from all the structural changes that we've made to be a business that can deliver margins in that 40% to 50% incremental range. But again, we're not going to put a fine point on the 2027 today, but we do expect to give some additional guidance here coming forward.

David Strauss
Analyst, Wells Fargo Securities LLC

Q

Okay. And a quick follow-up. Kim, you talked about kind of mid-20s EBITDA margin for AA&S. What are you assuming kind of on a go-forward basis the mix of A&D is within total AA&S sales? I think you're at 44% now. What do you assume going forward? Thanks.

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

A

Yeah. So as I look forward, we're assuming that mix of A&D continues to stay at that level and may – it'll continue to rise as we renegotiate contracts. I do believe that the tightness in the hafnium and zirconium markets that go into both defense and specialty energy are going to continue to become tight, especially given some of the trade restrictions we're seeing out of China. So I could see that percentage continue to increase as we look across the segment. And that'll help support that mid-20s percent from a structural standpoint.

Operator: Thank you for your question. Your next question comes from the line of Myles Walton from Wolfe. Your line is open. Please go ahead.

Myles Walton
Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Could you touch on the still mid- to high-single-digit outlook for airframe that you talked about? Obviously, first half of the year, down. And you're implying you need to get to something closer to mid-teens to get to the back half of the year. Is that predicated on the facilities coming online or any risk to that?

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

A

Good morning. I think you were asking about airframe and our guide and outlook there. From our perspective, as I look at the airframe market, the inventories have largely normalized now and that's consistent with what we've been expecting and what we've been seeing in our customer order patterns. And so, as we look into the second half, as we shared in the last quarter, we anticipate acceleration as we go through this year, and that does seem to be what is lining up. It's important to remember, our orders don't directly align one for one with that aircraft build rate, but we're encouraged to hear about the step rate changes in build rates, and both airframers are doing well.

Our material is getting order well ahead of that assembly. And so, that confidence for that mid- to high-single-digits range is really based on a couple of things. One is our fully committed order book is in place and we've got order books now extending into 2027. We are seeing from both airframers emergent demand in addition to that starting to come in as we go into the fourth quarter here. And we're seeing some pull around widebody as they're starting to prepare for those programs as well.

So, from where I sit, the inventory normalization is largely behind us. The business is increasing, as we expected and we shared with you early in the year. And that underlying production demand is now aligned with their order rates.

Operator: Thank you for your question. Your next question comes from the line of Scott Deuschle from Deutsche Bank. We are just opening your line. Your line is open. Please go ahead.

Scott Deuschle
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning. Kim, can you share an update on the lead times you're now seeing across the different product lines the business has, and then also share what drove the sequential backlog growth in the quarter?

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

A

Sure. Sure. So, as we think about lead times, I think it's best to look at both backlog and lead time together because they tell the same story and they work together. On the backlog side, I shared in the remarks we finished the quarter at another record, $4.4 billion. That's up 18% year-over-year and 7% sequentially. About 70% of that backlog, we expect to convert into revenue over the next 12 months. So we have good visibility into the business.

As you look at lead times, that's where we see those lead times starting to extend for our most differentiated proprietary products. Right now, we're at about 12 months on nickel alloys. We've moved out to 20 months on the premium-quality titanium as that tightness continues to expand. And we've been running above 24 months on isothermal forging here for a little while. So, taking together, those are both a really good indicator that demand continues to exceed the available capacity to support these programs and these differentiated materials.

Operator: Thank you for your question. Your next question comes from the line of Andre Madrid from U.S. Bancorp. Your line is open. Please go ahead.

Andre Madrid
Analyst, BTIG LLC

Q

Yeah. Thanks. Good morning. I wanted to see if you could break down the margin impact specifically in the quarter related to the recently signed naval nuclear agreement.

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

A

Yeah. I'll let Rob take that one and share a little bit more color on it.

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

A

Yeah. So the naval nuclear contract is essentially a contract and a relationship that we've had for many decades. And essentially, the new contract just recently began here, effective in the second quarter, is essentially a billion-dollar revenue contract over five years. And that is essentially kind of double what the previous five-year contract was. And so, a majority of that increase is price mix with some smaller, I'll call it, two-thirds price mix, one-third volume in that contract. And essentially, we saw some of that volume and price recognized in our AA&S segment financials a bit earlier than we were anticipating. So while it wasn't a full quarter of shipments under the new contract, it was – a majority of the second quarter was shipping under that new contract. So those are some the dimensions.

Rob Rengel
Vice President-Investor Relations, ATI, Inc.
A

Operator, we're ready for our final question.

Operator: Thank you. Your last question comes from the line of Seth Seifman from JPMorgan. Your line is now open.

Seth M. Seifman
Analyst, JPMorgan Securities LLC
Q

Great. Thanks very much for the follow-up. I like the slide that you added with the various capacity additions and kind of how they come online. It feels like as we progress through the quarters, we hear more about incremental demand, whether that's in the defense area, we've got the missile frameworks this year and now people talking about lots of low-cost cruise missiles and CCAs. IGT market remains pretty hot. How are you thinking about or how are you evaluating? I assume there are demands for incremental capacity increases beyond what you have on slide 6. How are you kind of approaching those decisions now?

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

Yeah. That list – as you said, there's demand coming from all of our core markets, and it just continues to ramp, as you mentioned. Missiles is another great one. That revenue is up 4x in the quarter. And so, yeah, we're seeing continued demand.

One of the things that we shared was more details around elevATIon, our operating system. And so, the way we approach this is elevATIon is really about making sure that we get as much out of the assets that we already own before we invest in new capacity. And so, that is a continuous improvement activity that the teams continue to work on, improving throughput, increasing yields, shortening those cycle times to create that additional capacity and expand margin and generate cash.

So once we've captured those and as we start to look out – and again, our long-term contracts, I've shared this in the past, provide a lot of visibility and sharing with our customers, especially around those hot section alloys where we are producing six of seven, and five of them we're the sole source supplier. We have a lot of discussions around that long-term demand and outlook. And we take that then into account as we start to prioritize where do we make investments, what is the timing. And of course, all of these projects have to meet our 30% return thresholds internally.

You mentioned our newest facility in Mexico. That is really an important part of our downstream growth strategy. So we've talked a lot about the upstream, with melt capacities in titanium and in nickel. But downstream, we've talked about, from a bottleneck standpoint, is where the industry continues to have tightness as increasing requirements around quality and testing come into play. And so, that facility is going to be a key part of strengthening our ability to support the increased production rates and enhance our position in those programs for the next-generation engine.

So there is, as you said, a lot of demand coming in. We are aligning and using elevATIon to help us maximize the asset portfolio we have today. And then, working closely with our customers to align on their future demands on those investments. A great example just to end with is the customer funding that we continue to receive as they support not just the new asset investments, but also those qualifications which can be very long and very involved to get to that qualified product.

So a lot of great new assets coming online this quarter and in the back half of the year. We see continued growth and confidence in the outlook not just for 2026, but as we go into 2027 and beyond. So you'll continue to hear from us as we share those results and the great work from the team.

Operator: We have reached the end of the Q&A session. I will now turn the call back to Kim Fields for closing remarks.

Kimberly Ann Fields

Board Chair, President & Chief Executive Officer, ATI, Inc.

Thank you, operator, and thank you, everyone, for joining today. ATI is significantly transformed from a company that it was five years ago. We're more differentiated, more concentrated in attractive markets, and capable of stronger margins and cash generation. We are building the ATI of the next decade and we are only beginning to capture that opportunity and the results you saw in Q2. We look forward to sharing more at our Investor Day later this year. Thank you for joining us and have a great day.

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