

Quarterly Earnings Call Notes – Q1 2023

Alabama Business Intelligence Center

Note: Quarterly Review encompasses a review of quarterly filings and earnings calls. These earnings call notes are in reference to company results for Q4 2022 (October to December 2022). These calls were recorded during Q1 2023 (January to March 2023). Additional Notes encompasses news alerts for additional companies monitored.

Table of Contents

Quarterly Review:	3
3M Company (NYSE:MMM)	3
Airbus SE (ENXTPA:AIR)	4
BioCryst (NASDAQGS:BCRX)	5
Boeing Co. (NYSE:BA)	5
Carpenter Technology Corp. (NYSE:CRS)	6
Chemtrade Logistics Income Fund (TSX: CHE.UN)	6
Constellium N.V. (NYSE:CSTM)	8
Enviva Inc. (NYSE:EVA)	9
Evonik (XTRA:EVK)	9
General Electric Company (NYSE:GE)	10
Honda (TSE:7267)	11
Hyundai Motor Company (KOSE:A005380)	12
International Paper Co. (NYSE:IP)	12
JBS S.A. (BOVESPA:JBSS3)	13
Kratos Defense & Security Solution, Inc. (NASDAQGS:KTOS)	14
Louisiana-Pacific Corporation (NYSE:LPX)	15
Mercedes-Benz (XTRA:MBG)	16
Mitsubishi Materials Company (TSE:5711)	17
NFI Group Inc. (TSX:NFI)	17
Nucor Corp. (NYSE:NUE)	18
Olin Corporation (NYSE:OLN)	18
Outokumpu Oyj (HLSE:OUT1V)	19
Packaging Corporation of America (NYSE:PKG)	20

PPG Industries, Inc. (NYSE:PPG)	21
Quest Diagnostics (NYSE:DGX)	22
Sanmina-SCI Corp. (NASDAQGS:SANM)	22
Sonoco Products Company (NYSE:SON)	23
The Scotts Miracle-Gro Company (NYSE:SMG)	23
Toyota (TSE:7203)	24
Tyson Foods Inc. (NYSE:TSN)	25
United States Steel Corp. (NYSE:X)	25
WestRock Co. (NYSE:WRK)	26
Westwater Resources Inc. (NYSE:WWR)	27
Additional Notes:	28
Austal Limited (ASX:ASB)	28
Benchmark Electronics Inc. (NYSE:BHE)	28
Fidelity National Information Services, Inc. (NYSE: FIS)	28
KATEK SE (DB: KTEK)	28
Polaris Industries (NYSE:PII)	28
Aerojet Rocketdyne Holdings, Inc. (NYSE:AJRD)	28

Quarterly Review:

3M Company (NYSE:MMM)

Outlook: Negative

AL Outlook: Negative

Recommended Action: A challenging economic environment and lower demand led to the announcement of 2,500 manufacturing layoffs at the end of January across the company. Additionally, we need to be watchful of the companies plan to phase out PFAS manufacturing by 2025 and potential implications. Finally, plants are competing for production efficiencies in light of the challenges detailed above. On a positive note, we should actively work to attract 3M's business as they invest in the following areas: automotive electrification (padding and thermal coatings), industrial automation, biopharma processing, and home improvement markets.

Notes:

- **Negative sentiment; Challenging economic environment and lower than expected growth as demand weakens. Responding with decreasing manufacturing output and controlling costs:** "challenging economic environment with slowing growth, inflation and supply chain disruptions." & "We posted organic growth of 0.4% versus our expectation of 1% to 3%, along with adjusted margins of 19% and adjusted earnings of \$2.28 per share. The slower-than-expected growth was due to rapid declines in consumer-facing markets such as consumer electronics and retail, a dynamic that accelerated in December as consumers sharply cut discretionary spending and retailers adjusted inventory levels. We also saw a significant slowing in China due to COVID-related disruptions, along with moderating demand across industrial markets. As demand weakened, we took actions to adjust manufacturing output and control costs, which enabled us to deliver a \$250 million inventory improvement."
- **3M Business segments supported by AL production experienced growth YoY but expect a negative 2023; opportunity in automotive unit:** "Advanced materials grew organically low double digits, while both commercial solutions and transportation safety increased low single digits." & "Adjusted organic sales growth for Transportation and Electronics, excluding the impact of the exit of PFAS manufacturing is forecasted to be down mid-single digits to flat organically. Looking across end markets, automotive unit volume production is currently forecasted to be up nearly 4% year-on-year... We also expect automotive electrification trends to remain strong as we leverage our technologies and develop new innovative solutions for our automotive OEM customers."
- **Capex expectations in-line or lower than last year:** "Looking to 2023, we expect capital expenditures in the range of \$1.5 billion to \$1.8 billion, which includes approximately \$200 million of investment in water stewardship related to our exit of PFAS manufacturing."
- **Negative US consumer expectations; pull back spending on goods:** "consumers pulled back on discretionary spending and retailers aggressively took actions to reduce their inventories, particularly in the U.S."
- **Adding EV solutions utilizing capabilities in specialty films. Both the Guin and Decatur plants have expertise/capabilities in specialty films but unsure if any of these applications are EV/battery related:** "In Transportation and Electronics, we introduced new thermal barrier films to improve performance of electric car batteries, one element of our \$0.5 billion automotive electrification platform, which delivered 30% organic growth in 2022."
- **Announced exit of PFAS manufacturing and innovating toward discontinuing use of PFAS across portfolio by the end of 2025; this will look like the closure of those business lines and cost the equivalent of 1-2 years of 3M's prior capex spend:** "we'll exit all PFAS manufacturing by the end of 2025...work to discontinue use of PFAS in our products broadly across the company...we are not planning and won't sell the businesses and that we will plan to shut them down as we work through the transition as we get to the end of 2025...the exit cost of this will be in the range of \$1.3 billion to \$2.3 billion. And we took a fourth quarter charge of \$800 million, that's included in that range" & "[PFAS] has an impact only on factories that are multimodal" & "The exit of PFAS is a 4% of our total business."
- **Negative 2023 outlook leading to manufacturing layoffs and cost reductions:** "We expect market and macroeconomic challenges to persist in 2023. Based on this outlook, we expect organic growth of minus 3% to flat... We are taking additional actions, building on the actions taken in the second half of 2022 to reduce cost, structure and inventory. We have implemented strict control of hiring and discretionary spending. Today, we

announced that we will reduce approximately 2,500 global manufacturing roles, a necessary decision to further align with adjusted production volumes."

• **3M investing in innovation in automotive electrification (padding and thermal coatings), industrial automation, biopharma processing, and home improvement markets. See opportunities for their products in semiconductor manufacturing (e.g., pad conditioners and material science technology) and electronic applications for material science films in the VR/AR space (similar to what they saw in the consumer electronics display screen end market)**

Airbus SE (ENXTPA:AIR)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: Monitor supply chain developments, especially in Europe.

Notes:

• **Mobile, AL Production Capacity for A321 is Increasing as Planned:** "When it comes to ramping up the A321 capacity in the new files around the world, Mobile is moving forward as planned. I think its first delivery plan in 2024, '25. I don't have it top of my mind. And when it comes to Toulouse, the new A321 file in Toulouse will deliver its first aircraft, the very first by end of this year. So, we are moving forward as planned, and this will support the capacity of accelerating the ramp-up of the A320, A321 family next year very significantly."

• **Experienced Poor Supply Chain Recovery, will take 2 years to produce what was planned for 1:** "Our supply chain, facing these other severe circumstances, did not recover at the pace we had anticipated. As you know, in Q4, we delivered 226 commercial aircraft taking our full year 2022 deliveries to 661 aircraft. While this represents an 8% increase compared to 2021, this is about half the increase we had initially planned. As you will see when I come to our guidance, this means that it will take us 2 years to achieve what we had planned to do in one."

• **Expect Backloaded Commercial Aircraft Delivery in 2023:** "This year, we expect our commercial aircraft delivery profile to be backloaded again. In light of ongoing geopolitical and macroeconomic turbulences, risks of further disruptions remain. Before we look at our commercial environment, let me mention that the 3-year provision period under the terms of the deferred prosecution agreement with a French so-called Parquet National Financier, the UK SFO in the U.S. Department of Justice."

• **Commercial Air Traffic came back stronger than Expected:** "In 2022, commercial air traffic continued to recover with domestic and regional markets leading the way. International traffic has progressively been closing the gap, strengthening our confidence in the widebody segments outlook. Air travel demand came back even faster than we expected during summer, and the trend was confirmed by the strong activity around the end of the year, where global traffic was already trending close to previous levels. The recent reopening of China is proving to be a strong positive driver for air traffic as it progressively recovers. All regions should now converge towards normalized levels."

• **Defense & Space Segment Struggled due to loss of Russian Soyuz launches:** "One of the direct consequences is the loss of access to the Russian Soyuz launches" ... "All in all, in 2022, Europe has lost most of its capacity to access space. This also directly impacted our Space business. In addition, across our Defense & Space division, the rising inflation impacted our long-term contracts, in particular, the A400M program, and we are not immune to disruptions in the supply chain."

• **Aiming for Monthly Production of 65 Aircraft by 2024:** "We are now progressing toward a monthly production rate of 65 aircraft by the end of 2024, and 75 in 2026. We continue to progress on the ground work to secure rate 75 and all our sites are now A321 capable."

• **Expect Supply Chain Issues to Ease Going Forward:** "But that's the fact, and we have built the plan for 2023 based on the facts and today's situation and all the headwinds we see in the supply chain, and we believe this situation should ease progressively moving forward, but we have designed our ramp-up for 2023 based on the today's situation of supply, and therefore, we believe in that trajectory, that's a trajectory that is facing the brutal fact of the very bad environment within."

• **Ramp up in A321 Production Dominates Supply Chain Agenda:** "When it comes to the widebody ramp up,

actually, when you look at our numbers, the products where we have the steepest ramp-up are the 220 and the widebody. But of course, in volumes, the A321 probably is the 1 that dominates the supply chain agenda. As we say, once bitten twice shy, we are very prudent on the widebody ramp up, and we spent a lot of time with our supply chain assessing the capabilities, there are a number of critical items, small to large engines will be something we will be monitoring very closely. "

BioCryst (NASDAQGS:BCRX)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- ORLADEYO drug sales Doubled in 2022**
- Expect strong demand into 2023, projecting global sales of \$320M**
- Expect peak global sales of \$1B, and IP for ORLADEYO extends out to 2039.**
- Expect operating expenses to be flat YoY:** "So we expect to be at peak sales for many, many years. While our revenues continue to grow, we expect our operating expenses to be flat year-over-year as we have made and will continue to make thoughtful capital allocation decisions on our pipeline investment."
- U.S. payer reauthorization dynamics for rare diseases will soften Q1 revenue growth for ORLADEYO:** "We have noted before that typical U.S. payer reauthorization dynamics for rare disease products like ORLADEYO will soften Q1 revenue growth as many patients shift temporarily to free product."
- \$271M in revenue for 2022, \$250M of which came from ORLADEYO:** "Total revenue for the year came in at \$271 million, over \$250 million of which came from ORLADEYO in just its second year since launch, more than doubling net revenue from the prior year. Revenue for the fourth quarter was \$79.5 million, of which \$70.7 million came from net sales of ORLADEYO, with the remainder coming from sales of RAPIVAB, including the fulfillment of the last of our contract."
- Expect 2023 OpEx to be flat at \$375M. R&D expenses projected to decrease in 2023:** "We previously stated that 2023 R&D investment would be in line with prior year. We're now forecasting that R&D expenses will decrease year-over-year following the discontinuation of the 9930 and 9250 program and the delay in the 10013 clinical program that Helen described. This will be offset by additional commercial investments that we're making both here in the U.S. and as we continue our international expansion."

Boeing Co. (NYSE:BA)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- Cash Flow Recovering:** Generated positive full year cash flow for the first time since 2018, \$3billion, driven by "continued strong demand"
- Growing Business in China:** 737MAX is returning service to China; for perspective, of the 387 deliveries for the 737MAX in 2022, 138 were for customers in China
- Successful Space Launch:** Boeing's Space Launch System on ARTEMIS I launched successfully in November
- Positive Market Outlook for 2023:** Foresee a positive outlook for '23 through '26 as airlines in the West return to pre-pandemic levels and Chinese market expands
- Meeting Production Targets Despite Supply Chain:** Generating production of roughly 31 aircraft per month,

despite supply chain issues. Exceeded delivery targets on 737MAX in 2022 by 12 units, 387 for a target of 375

•**Takeaway:** Demand is not an issue, but still exceeding targets despite dealing with less-than-ideal supply chain situation

•**Planned CapEx for 2023:** Planning to reinvest about \$1.5 billion in CapEx in 2023

•**Air Travel to Pre-Pandemic Levels:** Global pass-through traffic at about 75% of pre-pandemic levels, 90% if Chinese market is excluded; demand is strong.

Carpenter Technology Corp. (NYSE:CRS)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

•**Demand is Solid:** See solid demand conditions in each of their end-use markets. Backlog up 9% from last quarter and up 107% year-over-year. 8 consecutive quarters of backlog growth

•**Increasing Prices:** "We announced another price increase on our transactional business in November and continue to raise prices through our regular contract negotiations."

•**Meeting Targets:** Meeting of Q4 results driven by growth in demand in aerospace, defense, and medical end-use markets and increases in efficiency

•**Defense Market is Trending Down Temporarily:** "The defense submarket is down sequentially and year-over-year. primarily driven by the uncertain government budget horizon and extended lead times. We see this as a short-term issue as there is continued interest in our advanced alloys for next-generation platforms. "

•**Energy Market Strong:** "In the energy end-use market, sales were up 23% sequentially and up 41% compared to last year. In the oil and gas submarket, demand continues to outpace supply, driving growth in capital investment. In addition, we are seeing growing demand for our advanced premium alloy solutions for drilling and completions activities in harsh environments."

•**Air Travel Recovering:** Global aerospace traffic continues recovering, pushing supply chain to increase production for new planes [In line with Boeing's call]

•**Strong Demand Environment:** "Now to recap our second quarter of fiscal year 2023 (Q4). We are operating in a strong demand environment with positive near-term and long-term outlooks in each of our end-use markets. Notably, the aerospace submarkets continue to accelerate their recovery. As a result, our backlog continues to grow, and we expect it to remain strong for the foreseeable future."

•**Earnings Increasing to Pre-Pandemic Levels:** "we are not only poised to return to pre-pandemic earning levels in the near term [by Q3 of 2023], but also have a path to significantly increase earnings over the coming years. "

Chemtrade Logistics Income Fund (TSX: CHE.UN)

Outlook: Slightly Negative

AL Outlook: Neutral

Recommended Action: Growth opportunities lie in higher margin electrochemical business, which competes with the Olin facility in McIntosh, AL and ultrapure acid (part of the Sulfur and Water Chemicals business segment), which will locate near semiconductor hubs. Monitor and recruit electrochemical business expansion and first North American location to Alabama if the state can compete with the hydroelectric power prices of current Canadian facilities.

Notes:

- **2022 record year:** "Chemtrade generated \$430.9 million of EBITDA in '22, the highest level of EBITDA in our company's history by almost \$100 million. Strong chlor-alkali market was certainly a contributor... We saw strength across most of our key product lines in '22, including regen acid, merchant assets, sodium nitrite and water solution products in addition to chlor-alkali."
- **Strong pricing in Sulfur and Water Chemicals segment:** "Higher selling prices of merchant acid, water chemicals, sodium nitrite, and Regen acid"
- **Strong pricing and demand in the Electrochemicals segment:** "higher selling prices for each of Chemtrade's 3 chlor-alkali products: caustic soda, chlorine and hydrochloric acid or HCL -- these products have benefited from a number of factors, including global supply dislocations and elevated energy costs for our overseas competitors. Elevated energy prices overseas have also contributed to increased demand for natural gas exports from North America, which has in turn, boosted HCL demand from fracking. Chlorine pricing has continued to benefit from tighter industrial supply in North America."
- **High energy costs and disruption in Europe create an opportunity for electrochemicals (i.e., caustic soda, chlorine, and hydrogen):** "We foresee that many of the factors that supported the strong performance will carry into this year and beyond. Most notably, with the ongoing crisis in Ukraine, Europe has shifted its energy supply away from Russia to other higher cost sources. This shift has driven up energy prices in Europe along with other regions of the world. Conversely, Chemtrade benefits from access to British Columbia and Manitoba's low-cost renewable hydroelectricity sources... This cost advantage will likely remain in place for at least the next several years, and we expect that benefit will continue to support increased demand for North American Electrochemicals... Approximately 75% of the variable cost to manufacture sodium chlorate is attributed to input cost of energy."
- **Expect to spend significantly more on growth capex in 2023 (\$110-\$140M vs. 21.6M prior year):** "with the majority of this growth capital going towards our 2 ultrapure acid capacity expansion projects."
 - **Announced expansion project for ultrapure acid capacity to meet semiconductor market demand at Cairo, OH facility and a new joint venture, KPCT Advanced Chemicals, to build a new facility in Casa Grande, AZ:** "Ultrapure continues to be the most significant growth opportunity for Chemtrade over the coming years. There are approximately 10 new semiconductor fabrication plants that have been announced and are currently under construction in the U.S. We expect the U.S. market for ultrapure acid to grow by 2x to 3x in the next 5 years. as the U.S. seeks to become self-reliant for chip manufacturing...the industry is going to need more capacity most likely in the Arizona region, actually in Texas as well as Ohio."
 - **Small projects to expand capacity for higher growth PACI and ACH (water chemicals / coagulants) were completed successfully, with incremental volumes being sold beginning in January 2023:** "We anticipate demand for our water chemicals will continue to grow steadily over time, particularly for PAC and ACH which are growing at roughly 5% annually. To capture this growing demand for PAC and ACH we made some small investments in additional capacity last year."
- **Lower EBITDA guidance in 2023 (\$360-\$400M vs. \$430.9 prior year):** "the 2023 guidance that we have laid out highlights that we expect another successful year across the business. Much of that strength we saw across our product portfolio in '22 has carried into the beginning of '23. And while we anticipate softening in certain areas as the year progresses, we expect continued strength or incremental improvements in others."
- **Chemtrade has yet to see any materials signs of economic softening in 2023, but believes that it is better-positioned than many chemical manufacturers, should an economic downturn occur:** "most of SWC's [Sulfur and Water Chemicals] other key products are relatively defensive and should continue to perform well regardless of the economic backdrop."

Constellium N.V. (NYSE:CSTM)

Outlook: Positive

AL Outlook: Negative

Recommended Action: Look into Muscle Shoals engineer shortage. Situation was frequently mentioned throughout the earnings call.

Notes:

•**Experienced Shortage of Experienced Engineers and Operators in Muscle Shoals, AL:** "Packaging shipments were down in the quarter due to inventory adjustments across the channel at most can makers and operating challenges at our plants in Muscle Shoals, which, as we discussed last quarter, were in large part due to a shortage of experienced engineers and operators. While we are seeing signs of weakness across certain industrial markets, our industrial business overall performed well."

•**Also Experienced Higher Maintenance Costs at Muscle Shoals:** "Packaging shipments decreased 12% in the quarter versus last year due to short-term inventory adjustments from our can sheet customers in both North America and Europe and production challenges at Muscle Shoals. Price and mix were a tailwind of EUR 33 million, primarily on improved contract pricing, including inflation-related pass-throughs. Costs were a headwind of EUR 42 million as a result of higher operating costs due to inflation across PARP and higher maintenance costs at Muscle Shoals related to the shortage of experienced engineers and operators that Jean-Marc mentioned previously."

•**Aerospace Shipments up 50% from Last Year:** "Aerospace shipments were up 50% versus last year as the recovery in aerospace markets continues. Shipments in TID were down 18% versus last year, reflecting a slowdown in certain industrial markets, partially offset by strong demand in defense and semiconductors."

•**Dealing with Inflationary Environment:** "Throughout 2022, we were faced with broad-based and significant inflationary pressures, and we currently expect this to continue throughout 2023. As you know, we operate a pass-through business model, but we are not materially exposed to changes in the price of aluminum, our largest cost input. That said, metal and alloy supply remain tight today given smelter shutdowns and supply disruptions. We were able to resource our needs in 2022, and we currently expect to do so again in 2023, but at incremental costs. Labor and other nonmetal costs will also be higher again this year, particularly European Energy. I will go into more detail on energy in just a moment. Given these cost pressures, we are working across a number of fronts to mitigate their impact on our results."

•**See Positive Outlook for Automotive and Aerospace Markets, Still Below Pre-COVID:** "Turning now to automotive. OEM sales and production numbers globally are still at a low base compared to pre-covid levels with uncertainty continuing as a result of the semiconductor shortage and other supply chain challenges. However, we remain very positive on this market and increased demand in both PARP and AS&I gives us reason for optimism. Automotive inventories are low. Consumer demand remains high, vehicle electrification and sustainability trends will continue to increase the demand for lightweighting and low CO2 recycled content. Let's turn now to aerospace. The recovery in aerospace continued in the quarter with shipments up 50% versus last year for the third quarter in a row, though still well below pre-Covid levels. Major OEMs have announced build rate increases in the short term and the desire for further increases in the medium term, we remain confident that the long-term fundamentals driving aerospace demand remain intact, including growing passenger traffic and greater demand for new, more fuel-efficient aircraft."

•**Increasing Growth in CapEx for Next Few Years:** "As Peter mentioned before, our total CapEx this year should be around EUR 350 million and includes roughly EUR 150 million for these attractive growth investments. Our performance over the last several years across varying business conditions, coupled with our strong financial position today, give us confidence to continue investing."

•**Delivered Record EBITDA and Record Key Cash Flow in 2022 of EUR 673 million**

Enviva Inc. (NYSE:EVA)

Outlook: Positive

AL Outlook: Positive

Recommended Action: Monitor for future facility expansions / project announcements.

Notes:

- **The Epes, AL facility is under construction and expected to be in service the first half of 2024. It will be the "largest industrial wood pellet production plant in the world" with 1.1 million metric tons of production capacity per year. Despite a delay, management is still confident in the projects projected performance:** "Epes [AL] and Bond [MS] plants are contracted and liquidity on hand is sufficient to fund construction." & "Delay probably about 6 months. We went through a value engineering effort that took a little bit of time."
 - 3/30 PR announced the Epes, AL site was issued a construction permit by ADEM March 21st
- **Additional plants could be announced in AL:** "We expect to make a decision on the site for our fourth Pascagoula Cluster plant around the end of this year. Now with the new plant design and the path forward to partner with an EPC firm we plan to construct 4 new greenfield plants over the next 4 years, including EPES. We have the flexibility to upsize that, but are focused on our plan of 4 plants in 4 years for this next phase of growth."
- **Success with new customers and higher contract pricing:** "Having signed 800,000 metric tons per year of new long-term incremental volumes in December and another 600,000 metric tons per year with a new set of customers in just the last few weeks, all at higher pricing than we have seen historically."
- **New plants will hopefully be delivered with a more certain timeline:** "we intend to enter into a construction agreement with 1 or more EPC firms to complete engineering, procurement and construction of our future plan on a fixed cost and guaranteed scheduled basis."
- **Equity investment from Inclusive Capital Partners LP, Riverstone Holdings LLC, and BTG Pactual help with balance sheet flexibility going into further new plant capex while minimizing leverage (keeping below 4x - conservative for industry):** "announced the \$250 million equity investment in the company by our major investors and Board members."
- **Expect favorable regulatory tailwinds and biomass demand:** " We are confident that the legislation will conclude favorably for sustainable woody biomass and we should experience tailwinds from Red III [the European Union's Renewable Energy Directive 3], which is likely to be finalized during the second quarter of this year."
 - 3/30 PR announced that REDIII will continue to recognize woody biomass as a renewable energy source

Evonik (XTRA:EVK)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: 2022 saw expansion investments in Mobile. Watch for opportunities in the EV space (as indicated by investment in Japan facility) and for opportunities in healthcare in Birmingham.

Notes:

- **2022 was a challenging year for Evonik with inflationary pressures and supply chain disruptions. The first half started out strong followed by weaker volumes in the second half. Expecting weaker global economic growth this year impacting the first quarter with sequential improvement in later quarters.**
- **Evonik expanding with new lipid production site in Lafayette, IN; biosurfactant factory in Slovakia; and alumina plant in Yokkaichi, Japan.**
 - Evonik produced lipids used in the Pfizer/BioNTech COVID-19 vaccine. It will now invest \$220M in partnership with the U.S. government to expand its lipid production capabilities with a new facility for mRNA-based therapies. The Lafayette "Tippecanoe" site was chosen because "it is one of the world's largest sites for active pharmaceutical ingredients (APIs) and Evonik's second-largest site in the U.S., with

around 650 employees. Evonik is a leading producer of APIs, focusing on large-scale manufacturing of highly potent drug substances and APIs based on complex chemistry which require multi-step synthesis."

- The new facility in Yokkaichi Japan will be "the first alumina plant in Asia, focusing on the production of specialty solutions for battery technologies using e-cars." The investment is projected to be a mid-double-digit million euro amount and will be partly funded by the Japanese government. Construction starts this year to become operational in 2025. High purity alumina is used in lithium-ion batteries to coat the separator between the anode and cathode, which improves its thermal capacity.

- **Focusing R&D on their "Innovation Growth Fields," which include Advanced Food Ingredients, Additive Manufacturing, Sustainable Nutrition, Cosmetic Solutions, Membranes, and Healthcare Solutions, and the following three growth divisions: Specialty Additives (e.g., silicones and amine platforms), Nutrition & Care (e.g., mRNA, biosurfactant, and active cosmetics), and Smart Materials (e.g., membranes and specialty peroxide solutions).**

- **Exiting the Performance Materials business.**

- In response to a question regarding lower methionine pricing and whether Evonik is committed to the business going forward, the CEO responded, "we are still the market leader, and we are here the cost leader and to extend and expand this position, we have **decided to invest in the backward integration of our methionine plant in Mobile.**" Evonik announced the building of a new methyl mercaptan plant at its site in Mobile, AL in order to safeguard methyl mercaptan supply, which is currently source from third-parties. It is used to produce Evonik's MetAMINO® (an animal nutrition product).

General Electric Company (NYSE:GE)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Completed spin-off of GE Healthcare; planning to spin off GE Vernova (power and renewables business; details to come in March)**
- **Retired an additional \$11B of debt, bringing total debt reduction to over \$100B since 2018**
- **Positive 2022 performance led by Aerospace:** "We finished the year strong, delivering revenue growth, margin expansion and better cash generation. GE Aerospace led the way as we executed on an unprecedented ramp." & "Orders were up 7%, with 22% growth in Aerospace and 13% growth in Power. Total services orders were up 12%, supporting profitable growth in 2023. Revenue was up 6%, largely driven, again, by aerospace, up 23%. More broadly, higher-margin services were up double digits, while total equipment revenue decreased 4%."
- **4Q Revenue up 11% YoY:** "Revenue at Aerospace, Power and Healthcare was up double digits, driven by market demand, price realization and improving delivery."
- **Decentralizing the Commercial Engines business:** "we're increasingly running our product lines as their own P&Ls, in line with how our customers work with us. More cross-functional collaboration in real time closer to the customer helps make us better."
- **Robust LEAP engine demand:** "Equipment orders were robust, now with almost 10,000 LEAP engines in backlog. Commercial services and equipment revenue grew about 30%, and Military revenue was up about 20%, and services internal shop visits were up 25% and external part sales were up more than 20%. In equipment, commercial units were up nearly 30% with LEAP units up almost to 50%."
- **Experience supply chain issues; focused on Lean initiatives:** "While material availability continues to be a challenge, our output across engines and services, we're using our Lean tools to help accelerate sequential improvement, a key for us this year."
- **Positive outlook for 2023 led by Aerospace:** "Underpinning this outlook is a higher services concentration in our portfolio as well as our confidence in the strength of GE Aerospace as the worldwide commercial aviation industry, airlines and airframers alike, continues its post-pandemic recovery. We also anticipate Military revenue growth, thus

yielding significant profit growth for GE Aerospace in '23."

• **Aerospace margins expected to be flat but top line revenue growth strong...continued opportunity for LEAP:** "We continue to have, I think, a lot of optimism about the LEAP program and the opportunity to improve margins both with new units and in the aftermarket as we go forward. Program is still very much a young one." Watching Aerospace demand/macro picture: "in Aerospace, we're watching not only departures, bookings and everything that can precede that. The only thing that we have seen, and this isn't a proprietary view...is obviously, freight has softened here as the short-cycle economy has done the same."

Honda (TSE:7267)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: Monitor Semiconductor Supply Chain and SUV/Truck Demand

Notes:

• **Difficult Business Environment, Semiconductor Supply Shortages Play Key Role:** "In the third quarter, production and unit sales of automobiles decreased from the same period of the previous year due to the impact of the COVID-19 pandemic in China and semiconductor supply shortages. In addition, manufacturing costs continued to rise due to soaring raw material prices and inflation."

• **Sales in USA and China Lower than Previous Year:** "Unit sales in Japan were higher, while sales in the U.S. and China were lower than in the same period of the previous year"

• **Plans to Launch Light Commercial EV in 2024, Joint Venture with LG:** "In addition, we announced plan to launch a new light commercial EV in spring 2024, utilizing the features of the [N-BOX]. In the U.S., we announced establishment of a joint venture with LG Energy Solutions to produce EV batteries and the signing of a basic agreement with GS Yuasa to collaborate on high capacity, high output lithium-ion batteries."

• **Motorcycle Sales Increased, Launching Electric Motorcycles:** "We have upwardly revised our previous sales forecast for FY '23, reflecting the current strong sales trend. As a forerunner of the global launch of electric motorcycles, Honda announced the EM1 e in Europe in November; and 3 community EV models in China in January."

• **Automobile and Power Product Decline due to China and North America:** "To begin with Honda Group's unit sales for 9 months of the fiscal year 2023, in Motorcycle operations, unit sales grew year-on-year, particularly in Asia and came to 14,285,000 units. Automobile sales came to 2.74 million units, mainly due to decline in China and North America. In Power Products operations, our unit sales came to 4,121,000 units, mainly due to decline in North America."

• **Profit for Year Increased:** "Despite decrease in automobile production and unit sales due to semiconductor shortages and pandemic in China plus higher manufacturing costs due to surging raw material prices and inflation... Profit for the year amounted to JPY 583.1 billion, up JPY 1 billion from the same period last year. unit sales and income statement are as shown."

• **USA and North America Heavily Impacted by Semiconductor Shortage:** "Given the markets in U.S., North America, is a big factor. And well, relatively speaking, North America when it comes to the price range of the vehicles -- will be -- the vehicles will come with a lot of equipment, which requires semiconductors and therefore, we -- North America is more impacted by the shortage. But in Japan and Asia, and including the measures that we're taking, we are increasing our unit sales."

• **Chinese Production Impacted by Zero COVID Policy:** "the plant had to be suspended as well as the coastal areas... we were short of some 120,000 units. Of course, there is also the semiconductor impact included here."

• **Searching for Alternative Inputs:** "So development of alternative components and parts and then for alternative parts. Concerning semiconductor, we -- one thing we have been relying on analog semiconductors to keep the costs reasonable. But even if those are more interchangeable, we would go for -- even for higher cost and then build -- we

want to build as many cars as possible. So, we want to develop alternative parts while using relying on that type of parts. And then we will try to coordinate with suppliers as well. That's what we have been doing."

Hyundai Motor Company (KOSE:A005380)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Saw an increase in global demand of 4.9% from Q4 2021 to Q4 2022:** Saw and increase in global sales of 8.1% in global wholesale sales and 4.3% in retail sales over the same period. China was the only market that declined over the period for Hyundai. In line with other Auto manufacturers that struggled in China this past year.
- **Attribute growth in sales to easing supply issues towards the end of 2022**
- **EV sales grew by 41.8% YoY in Q4 2022:** EV sales now make up about 5.7% of total sales. Company believes growth in sales driven by easing chip shortages and improvements in production. Long term demand remains a concern.
- **Target EV Sales increase of 58% YoY for 2023:** This expectation is shaded downwards due to fears of a potential recession or economic slowdown.
- **Hyundai Tucson, which is manufactured in AL, contributed to sales growth in Hyundai's SUV segment:** SUV segment grew from 49.6% to 51.2% of Hyundai's sales portfolio. The Tucson was singled out for praise amongst the ICE SUVs.
- **Hyundai Santa Fe, which is manufactured in AL, expected to help boost sales growth in 2023 with new model launch.**
- **All divisions within Hyundai saw increases in revenue in 2022 compared to 2021:** Automotive grew by 20.8% due to an improvement in the product mix driven by SUVs and EVs, Finance grew by 19.4% due to asset lease disposal, and all other divisions grew by a combined 31.2% due to increased sales.

International Paper Co. (NYSE:IP)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: Watch for return in demand for industrial packaging; IP communicating continued investment in box plants, which could present an opportunity for expansion in investment in AL, but capacity constraints only noted in the Northeast.

Notes:

- **Management sentiment improved this quarter:** International Paper grew revenue and earnings driven by solid commercial and operational execution, while facing significant inflation and lower demand in the second half of the year.
- **"We're also confident in the profitable growth opportunities across our Industrial Packaging business and have made strategic investments to support this growth. We will continue to invest to grow earnings and cash generation by building additional capabilities and capacity in our U.S. box system during the next few years."**
- **Lower demand as expected...but not worse:** "Demand for our products played out as we expected. In Industrial Packaging, our U.S. box shipments were down about 6% year-over-year on a daily basis, similar to what we experienced in the latter part of the third quarter, after consumer priorities shifted towards nondiscretionary goods and services. In addition, our customers and the broader retail channel continue to work through elevated inventories

of their products which constrained packaging demand in the quarter."

- **Demand to remain low through Q1:** "we expect some customer inventory destocking to impact demand through the first quarter."
- **New corrugated box plant in PA to alleviate capacity shortage in the Northeast relative to other regions:** "the successful start-up of our new corrugated box plant in Eastern Pennsylvania, which has an expected return on investment of 20%." "The way to think about the example of the Pennsylvania box plant coming on and then with obviously a softer demand environment. I'll take you back to the last maybe 3 quarterly calls where I commented on our running to meet demand required structural over time in a lot of our plants. And so, in that particular part of the country, we are -- we don't have enough capacity even with our employees working a fair amount of overtime. So this plant is going to help us not only gain business, we've had to turn away in some places, but stabilize the entire region of plants around it by getting onto a more sustainable operating schedule for our employees."
- **Watch for bolt-on M&A:** "You can expect M&A to focus primarily on bolt-on opportunities in our packaging businesses in North America and Europe."
- **Investing in their U.S. box system (last IP expansion in AL in 2018 at the Prattville and Selma locations):** "For 2023, we are targeting capital spending of between \$1 billion and \$1.2 billion with increased investments in our U.S. box system to build additional capabilities and support profitable growth with our customers. We will also focus on high-cost cost reduction projects across our system."
- **Destocking possibly moderating:** "A large portion [of destocking] was taken care of in the fourth quarter. It feels like maybe there's some remnants, but that it's getting close to the end...It looks like we're down 5% year-over-year, but stabilizing from fourth to first [quarter]."
- **Optimize downtime and production using marginal cost evaluation for energy prices, wood fiber costs, OCC costs, and transportation costs:** "you saw more of our production shift to the lower-cost energy mills, but not in a material way"
- **Containerboard system expected to grow in the long-term and IP has flexibility in capacity:** "we don't see [permanent adjustments of capacity] on the horizon....We're quite capable of running at 105% of nameplate rating and 85% of nameplate rating. And we do believe long term, fiber-based packaging market is growing."

JBS S.A. (BOVESPA:JBSS3)

Outlook: Negative

AL Outlook: Negative

Recommended Action: Monitor supply and demand trends in chicken business resulting in negative cyclicity. Similar to Tysons, this is a tough cyclical swing for chicken.

Notes:

- **Credit Suisse analysts label JBS's 4Q earnings weak based on their reported decline in US sales. Sales at JBS's Seara unit and at JBS Brazil both increased in the period, but not enough to outweigh the declines in the US.**
- **Capex investment in U.S. prepared foods plants and GA facilities:** "JBS total CapEx for the year was \$2.2 billion, with \$1.2 billion in expansion CapEx made in Seara and some U.S.-prepared food plants and \$977 million in maintenance CapEx." & "we've made significant progress on our Athens expansion in Georgia to support key customers' growth. Similarly, our investment in operational excellence through automation in our new protein conversion plant remain on track." -- new plant also in GA
- **Overproduction (supply) combined with decreased demand resulted in lower prices and lower profits:** "This approach was particularly dramatic for the big bird segment as production pounds increased 12% from Q4 of 2021, more than any other segment. This growth in chicken production was in response to positive supply and demand fundamentals throughout most of 2022 and expectations for a tightened competing protein landscape in Q4. However, both broiler and beef production outpaced USDA expectations, driving total protein availability much higher than anticipated in Q4. Combined with smaller demand growth, this additional availability contributed to

increase in cold storage levels and apply pressure to commodity markets, resulting in severe weak seasonal pricing during the [indiscernible] of the quarter. With which market pricing persisting throughout November and December, the growth of industry excess slow recently. As a result, the most recent USDA outlook expect production to grow only 1.1% in 2023, a slow downward revision from previous quarters. Given the current rate of production, USDA estimates and suggest a decline in the second half of the year. Chicken may also benefit from other dynamics throughout the global protein complex."

• **Avian influenza still a concern:** "The prevalence of the high path AI [avian influenza] in U.S. continue to be of great concern. The current outbreak, which beginning February of 2022, is the largest we have ever seen. To date, we've seen 754 outbreaks in commercial and backyard flocks in 47 states with over 51 million birds being depopulated. In contrast to 2015, where we had outbreaks in only 15 states and just over 50 million birds killed or depopulated. As in 2015, the greatest impact in this current break are being seen in commercial egg layers and in the turkey industry."

Kratos Defense & Security Solution, Inc. (NASDAQGS:KTOS)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

• **Q4 2022 Revenues at \$249.3M, up 17.8% from Q4 2021, despite supply chain issues. Expect supply chain issues to continue into Q1 2023:** "Throughout 2022 and in the first quarter of 2023, Kratos has experienced continued impacts from supply chain disruptions, including cost increases for materials, supplies, transportation and utilities, and fulfillment delays causing increased costs and inefficiencies related to manufacturing, including in our indirect manufacturing rates."

• **FY 2022 Revenues at \$898.3M, up 10.7% from FY 2021. Largely driven by acquisitions.**

• **Successful Ballistic Missile Launch for rocket systems segment:** "successfully integrated and launched 4 ballistic missile targets with our government partner, which included the successful intercept test of a medium range ballistic missile target by a standard missile 3 Block IIA fired from the JS Maya, marking the first time that a Japanese Maya-class destroyer has fired an SM-3 Block IIA."

• **Applying to win new programs for Flight Proven Agile Engineering segment:** "we are applying to win large new program opportunities like Mayhem and MACH TB. Kratos has previously successfully developed and flown several hypersonic systems and our internally funded hypersonic investments and unique and proprietary systems and vehicles, including Kratos Zeus and Erinyes, we believe will be disruptive game changers for our customers and our country and are beginning to pay dividends for Kratos' stakeholders including with these recent program awards."

• **Received \$30M in funding for new Microwave Electronics segment project:** "Kratos recently received the initial \$30 million in funding on a new potential \$250 million C5ISR production program in the microwave electronics area. This program is classified. Kratos' microwave electronics business had a record backlog at year-end including a focus on missile, air defense and radar systems and we expect this business to be Kratos' one of our fastest growing for 2023.

Kratos' C5ISR business is also expected to be one of our fastest growing in 2023. with expected growth coming from several missile, air defense, radar and other programs, including GBSD Sentinel with our prime strategic partner Northrop Grumman. Other Kratos C5ISR business programs include HIMARS, TITAN, PATRIOT, THAAD, IBCS, IFPC and SHORAD."

• **Kratos selected as Engine Design Team for Project Symphony:** "Kratos has recently been selected as the Engine Design Team for Boom-led Collaboration on a new supersonic propulsion system called Symphony, a sustainable and cost-efficient engine for Boom's planned overture supersonic airliner, with Symphony being a bespoke design, leveraging proven technologies and materials to achieve optimal supersonic performance and efficiency."

- **Kratos' Space and Satellite Communications Segment set to generate high margins:** "Kratos' Space and Satellite Communications Business, our company's largest is also forecasting significant future organic growth and is expected to generate some of Kratos' highest margins, including as related to Kratos' first to market software based OpenSpace virtualized TT&C C2 and satellite ground systems, which continue to gain market acceptance in both the national security and the commercial market areas."
- **Target Drone segment performing well:** "Kratos' target drone business is performing well, with major Kratos sole sourced programs including the Air Force's AFSAT program, featuring the Kratos' BQM-167 Target and the United States Navy SSAT program featuring Kratos' 177 target drone. We're on both programs. We have recently received additional large production awards. Additionally, and very importantly, the recent United States Navy SSAT 177 program award, includes target drones or missions for both Australia and Canada, 2 new Kratos BQM-177 target drone customers. We are currently in pursuit of certain new domestic target drone opportunities, that if we are successful, could provide the next growth step function for the business. And we have recently seen a number of potential new international target drone opportunities, that we believe are a result of current global conflicts and threats, including in the Ukraine, and the related ongoing global recapitalization of strategic weapon systems."

Louisiana-Pacific Corporation (NYSE:LPX)

Outlook: Slightly Negative

AL Outlook: Slightly Negative

Recommended Action: There is an OSB facility in Thomasville, AL. Watch for more downtime at this plant as the company lowers supply to match decreased demand.

Notes:

- **Converted Houlton, Maine facility from OSB to siding and starting the conversion and expansion of the Sagola, MI facility.**
- **Housing starts and OSB pricing negatively impact OSB segment:** "Q4 saw 26% fewer single-family starts than in Q4 of 2021 and single-family starts were down 11% for the full year. LP's OSB segment is closely correlated with new residential construction. As a result, after a remarkable year of cash generation, commodity OSB prices fell to near cash cost in Q4 and as demand slowed to reduce housing starts. We responded with disciplined management of capacity and exceptional execution by our sales team, which allowed the OSB segment to earn \$13 million in EBITDA which is above our algorithmic guidance given how far prices fell."
- **Siding segment stand out in terms of profitability and less correlated to housing starts:** "LP Siding segment, on the other hand, is more specialized, has no connection to commodity prices and has significantly more diverse channels and end users with only about 40% of signing volume going to new residential construction, and we think SmartSide is the best siding product available."
- **Managing decreased demand with a strong cash/liquidity position. Acute impact in OSB rather than siding segment:** "we also have more than enough liquidity to withstand the temporary reduction in cash flow that reduced customer demand would imply...all indications are that inventory is now slowing naturally. In OSB, just as we took market downtime at the end of the quarter, we are constantly assessing customer demand, mill inventories and OSB prices to balance supply and demand."
- **Anticipating flat to negative revenue growth in siding and ~20% decrease in revenue for OSB**
- **Capex spend of \$350-450 million with ~\$125 million of that coming in Q1.**
- **OSB downtime will be determined by mill cost and transportation:** "I would say -- I would describe it this way in gen and Q4 was pretty general across our entire system. With downtime that is somewhat easier to do during the holiday season. And so, we -- it was a widespread distribution of downtime late in Q4 to try to match demand. And then as we come into the Q1 and everybody comes back from the holidays, it is more targeted around mill cost and including the transportation and so in Q1, the downtime will be a little bit more concentrated, but we'll be taking as needed in order to match demand."
- **See opportunities for growth in the Northeast and Pacific Northwest:** "so geographically, in the center of the

country, north to south, so Texas up to Minnesota, and we've got good market share there. But if you once you go east of Texas and the South of the Atlantic Sea Board, a lot of opportunity there for both new construction and repair remodel...And then I would say that there's been pockets of the Pacific Northwest, there are some good markets for us there historically."

Mercedes-Benz (XTRA:MBG)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

•**Battery Electric Vehicle Sales grew by 70%**

•**Affected by Semiconductor Supply Chain Issues:** "The last 2 or 3 years have been defined by supply constraints, mainly on the semiconductor side. And it's fair to say that 2022 was another one of those years. But we took a lot of steps to go into deeper sourcing, creating long-term contracts directly with the chip suppliers, not just on the semiconductor side, but also preparing ourselves for deeper sourcing for battery materials. And as we move into 2023, we will see that those efforts are starting to bear fruit."

•**Launched First EQ SUV out of Alabama:** "We launched the first EQ SUV out of our operations in Alabama, and we presented to the world, the smaller sibling of that vehicle, the EQE SUV that has now started production and will go into the market in the first half of this year."

•**Set up Process for Transitioning Traditional Plants to Manufacture EVs:** "If you're an established manufacturer, you have to rebuild your production footprint and your operations to match this new world. And we have now created a target picture for every one of our plants around the world both on the vehicle assembly side as well as on the powertrain side, how this transition is going to look like and laid the foundation for that."

•**Experienced Issues with High Materials Costs:** "And then let's have a look on the industrial side where we obviously we had to face, significant step-up in raw material costs on steel at very elevated level. Yes, it came down in the meantime, but until it comes through the contracts, it takes a little while as well as increases in aluminum and obviously, in lithium as a share of e-vehicles goes up."

•**Inflation Costs and Supply Chain Costs were an Issue in 2022:** "The inflation cost as well as supply chain costs for inflation, take for example, the inflation compensation bonus in Germany as well as production interruption cost in further EBIT to the bill. And the stop and go and the logistic costs in 2022 was a heavy burden. And you can see, in particular, in the Q4, we did some deliberate payments with regard to suppliers as well as we had to accrue for the employee-related inflation bonus in Germany. That explains why the Q4 ended with 13.4%, which is still, I think, at a very healthy level."

•**Demand is good in the US, not so much for Europe and China; China Potentially Recovering:** "Here [Europe], we see the incoming orders being more sluggish... "What's the situation in the U.S.? Here, we see a good level of demand. What do we see in China? Well, the Q4 COVID spillover from Q4 into the beginning of 2023. The Q1 has an impact on consumer sentiment post the Chinese New Year. We see some momentum coming back, but I would say this is still a bit early times to judge from here."

•**Announced Unveiling of MBOS, the Mercedes-Benz Operating System:** "Many of you know that next week, on the 22nd of February, we will have a strategy update where we will lift the veil on the Mercedes-Benz operating system and show you more details of what's going on there. But 2022 has really been a year of laying the foundation for that also in the area of automated driving, actually launching into the market the first product ever with Level 3 automated driving capability. So, stay tuned for more news on the software side next week." MBOS a joint project involving NVIDIA and Google.

Mitsubishi Materials Company (TSE:5711)

Outlook: Negative

AL Outlook: Negative

Recommended Action: Monitor Polycrystalline silicon restructuring process.

Notes:

- Ordinary Profit Decreased YoY:** company cites decline in dividend income from Los Pelambres mine in Chile and Equity Losses of UBE Mitsubishi Cement Corporation (MUCC), caused by soaring coal prices
- MUCC Expected to return to profitability in 2023:** Through price increases and an implementation of cost reduction measures.
- Profit Attributable to Owners of Parent Decreased YoY:** company posted "extraordinary loss related to the transfer of the polycrystalline silicon business in [the previous quarter]." [**Polycrystalline Silicon is the specialization of Mitsubishi Materials' Alabama Plant**]
- Company Reported Extraordinary Loss of JPY35.8 billion from Polycrystalline Silicon Business Restructuring.**
- Net Profit Expected to Increase:** Due to a decrease in income taxes and other tax expenses
- Business Conditions:** EV-related demand remained stable, but recovery in automobile market as a whole remains slow. Aircraft and Medical markets remained strong, especially in North America. **Semiconductor market becoming increasingly uncertain; expect semiconductor market conditions to only become more difficult this year.**
- Announced "Medium-Term Management Strategy 2030":** This plan is set to begin in FY2023 with further information coming later in February. For now, the plan is to enhance corporate value by "planning capital allocation from a longer-term perspective" and "expanding the scope, geographic coverage, and scale of our businesses."

NFI Group Inc. (TSX:NFI)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- Still experienced supply disruptions in 2022, in line to exceed pre-pandemic revenues by 2025:** \$3.2B revenue in 2019, \$4B projected revenue by 2025
- Demand for their electric buses increasing:** 51% of all orders over next five years are electric, compared to 18% over previous five years
- Despite demand shift to EV buses, NFI remains committed to producing for all propulsion types:** "we are propulsion agnostic, also offering legacy diesel, CNG, and diesel hybrid-electric options."
- Supply chain disruptions were generally mild with the exception of critical electronic components:** "While we saw improvement during the second quarter of 2022, critical electrical components remained a significant challenge, with some additional challenges arising in the third and fourth quarters of 2022 from wire harnesses, electrical hybrid drive systems and inverters for electric buses."
- In \$67M cost cutting effort, company closed facilities and experienced layoffs:** "This [cost cutting] required that we reduce over 2,000 positions across our organization and closed 25 facilities."
- Had over 5,700 orders in 2022, highest number since 2017**
- Growth in CapEx Coming in 2023, 2024, and 2025:** \$35-40M in 2023, \$50-60M in 2024, ~\$50M in 2025. Up from \$30M in 2022.

•**Revenue at ~\$2B for 2022, down from \$3.2B in 2019:** Expect revenue to grow due to new contracts reflecting price level increases.

Nucor Corp. (NYSE:NUE)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- Large CapEx Expenditures:** \$2 billion in CapEx in 2022, also completed 5 acquisitions valued at approx. \$3.6 billion
- Increased Profits:** 2022 most profitable year in Nucor's history, and increased their annual dividend for the 50th straight year
- Invested in Sustainability:** Began investments into sustainability, purchased Electra, a Boulder-based startup that developed a process to produce carbon-free iron for steel making
- New Plant Opened:** Nucor's Brandenburg, KY plant began operations in late 2022
- Plans for Expansion:** Nucor plans to expand galvanization operations in Western US to serve construction markets in that region
- Foresee positive future for the industry as a whole,** "...should benefit Nucor as well as the American steel industry throughout this decade, including the Infrastructures Act, the CHIPS Act and IRA that are all starting to work their way into the steel sector."
- Seasonal Demand Fluctuations:** Q4 earnings were down relative to Q3, due to **seasonal demand fluctuations** and the resulting reductions in market prices
- Q4 CapEx of \$520 million, forecasted CapEx for 2023 of \$3 billion**
- Anticipate strong earnings in general for 2023:** "Overall, nonresidential construction spending continues to be robust, **federal support for infrastructure and energy projects** will begin to show impacts on demand in 2023. Other positive drivers of demand include **re-shoring of manufacturing, energy infrastructure demand, clean energy and storage projects, EV factories and semiconductor plants.**"

Olin Corporation (NYSE:OLN)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: No action needed. Chlor Alkali segment strongest with no noted risk or opportunity.

Notes:

- **Weakest market conditions since 2009; forecasting a recession:** "markets are not healthy...[expect lower free cash flow]in this recession year"
- **"The key features of early 2023 include continuing to idle our complete global epoxy resin business due to suspended demand in the largest consuming regions of China and Europe, rectifying a transient fat supply channel in commercial ammunition via lower Olin participation rate, kicking off the operation of the Blue Water Alliance with Mitsui to manage much more the world's liquidity in chlor alkali and recognizing another solid pricing lift in our merchant chlorine business."**
- **"complete our asset footprint adjustment decisions"** - appears to predominantly apply to the Epoxy segment and European and Asian markets
- **2023 challenges and opportunities around chlorine and bleach:** "Pricing in the vinyls chain remains weak and

continues to necessitate lower Olin operating rates (chlorine produced in AL is a vinyl input). On the positive side, our merchant chlorine ratchet continues to turn only one way. Chlorine pricing is expected to step up through 2023 as legacy contracts end. Bleach has been another success story and we expect both products to show substantial earnings growth again in 2023."

- **Noted end market weakness in titanium dioxide, urethane, and vinyl**
- **Pulp & Paper and agricultural demand resilient**
- **Olin inventories are relatively low**
- **Blue Water Alliance announced:** Independently operated joint venture between Mitsui (global trading company) and Olin formed by the merger of the two international businesses in caustic and EDC. Formed to provide the optimal and independent solution for procurement, sales, and logistics to serve suppliers and customers in the chlor-alkali industry and to accelerate industrial efforts for decarbonization. Initially, BWA will focus on trading ethylene dichloride (EDC), which is the raw material for polyvinyl chloride, and caustic soda, which is used in a wide variety of industries such as pulp and paper. BWA may expand the range of products it handles in the future to include chlor-alkali derivatives. Olin's portion of BWA profits will be consolidated and reported as part of the Chlor Alkali Products and Vinyls segment of Olin's business.

Outokumpu Oyj (HLSE:OUT1V)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **EUR 1.3 billion EBITDA:** "By far the best financial results of this company probably ever."
- **Operations Performed Well Last Year:** Despite European Energy Crisis, Outokumpu Oyj operations performed very well, with ferrochrome operations suffering due how energy-intensive that segment is.
- **Ferrochrome (Stainless Steel Input) Production Decreased:** "...ferrochrome, here, the high electricity prices have really given us no choice but really curtail production." ... "So, we are still at this point now looking at 50% to 60% capacity utilization."
- **Reached Target of No Net Debt**
- **Capital Allocation Coming to Stainless Steel Sector:** "We will allocate our capital into the core stainless business, stainless commodity side and the advanced materials."
- **Stainless Deliveries Expected to Increase in Q1:** "...our group stainless deliveries in the first quarter are expected to increase by 10% to 20% compared to the fourth quarter."
- **China Reopening could Increase Stainless Demand:** "when China reopens and if it reopens with the vengeance, it should also impact some of the demand for stainless in that Asian region"
- **Struggled with Destocking in the Americas:** "... BA Americas, obviously, here, the distributor destocking has been sort of almost more brutal, I would say, for the fourth quarter. You see a really low volume, 125 kilo tonnes. This is really impacted by the typical seasonality where Q4 is the weakest in the U.S. in particular, but at the same time, a real sort of soft underlying market because the destocking has impacted the fourth quarter, but we still see that it could impact into Q1, maybe even during full of Q1. So, the destocking cycle is still definitely ongoing when it comes to the U.S. in particular."

Packaging Corporation of America (NYSE:PKG)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: Watch for demand recovery and ramp up of Jackson facility.

Notes:

- **Significantly improved sentiment score relative to last quarter. Despite a weak 4Q due to lower volumes in Packaging, the company saw net sales grow 10.4% YoY from \$7.7B to \$8.5B and earnings grow 16.3% YoY from \$894M to \$1.04B.**
- **Lower demand for packaging led to higher downtime (231,000 tons in 4Q relative to the approximately 128,000 tons downtime in the prior quarter):** "Demand in the Packaging segment was below expectations for the quarter, causing us to run our containerboard system to these lower demand levels. Our employees did a very good job with their cost management and process optimization efforts at these lower production rates to offset the negative volume impact."
- **Jackson, Alabama mill phase 1 conversion from paper to containerboard complete as well as the addition of a 30 MW steam turbine:** "The scheduled maintenance outage and conversion work at our Jackson, Alabama mill was completed successfully during the fourth quarter, and we restarted the mill earlier this month after being down as a result of the lower demand. The #3 machine achieved its first phase design capacity and is producing a very high-quality virgin linerboard. However, based on current containerboard demand levels, we decided to move the second phase of the conversion work from this spring to next year in 2024."
- **Higher capital expenditures in 2022 expected to normalize in 2023 as several multi-year optimization projects completed in 2022 and due to Jackson Mill conversion phase completion and delay of phase 2 as well as likely lower investment due to lower packaging demand in 2023:** Capital Spending - \$605 million (2021), \$824 million (2022), and expected to be \$475 million (2023); "by the end of 2022...winding down several years of significant strategic capital investments that position us very well to meet the future needs of our many customers in a very cost-effective manner."
- **Expect containerboard demand to remain low, prices to decrease slightly, labor costs to increase, and input chemical prices to increase**
- **Inventories have been on a roller coast ride but think they're in a more comfortable range now:** "What we ended the year 2022 with, we're in a good comfortable range of where we need to be now going forward with what we're seeing in the marketplace demand"
- **No further clarity past Q1; expect further customer destocking at least until quarter end**
- **Full detail on Jackson Mill -- fully converted to containerboard (no more paper) with room for expanded capacity in phase 2 put on hold due to low demand; ultimately one of the most productive and cost effective machines:** "The machine for the last 1.5 years from when we converted it in 2021 and ran through 2022, we were producing probably 1,275 tons a day average in that range. And right now, currently, we're somewhere in that 1,300-ton a day range and just getting comfortable with all of the new equipment.... The second phase of work that we can choose to do when the timing is right, involves 23 new additional high-pressure dryer cans, a new forset reel at the dry end of the paper machine and then a new shoe press in the press section to enhance pricing and improve the drawing. That will take place when we need the tons. So that's to be determined, but we have the luxury of deciding that when we need to decide that." ; "The ultimate project at Jackson would on paper, get us a 2,000 ton a day containerboard machine. It would be one of the largest machines in the Western Hemisphere in terms of productivity and if you could understand and appreciate our efficiencies, it will not only be one of the largest, most productive virgin kraft linerboard machines in the Western Hemisphere, but it will be one of the lowest cost machines...We're in that 1,300 ton a day rate right now...But ultimately, the final phase will give us the extra drying and the speed on the paper machine to take us from let's just say we could run 1,500 tons a day right now with the machine we have. the last phase of work gets us that extra 500 tons a day"
- **Capacity adds in the industry will have effects on competitors, but PCA feels well-positioned due to vertical integration and long-term customer contracts:** "Well, number one is the capacity adds that are coming on really have very little impact for us...the open market is very small in the U.S. And so those that add, they're going to have

to look outside the United States for the most part. This is a very, very integrated market, the open market that does exist is under long-term contracts/"

PPG Industries, Inc. (NYSE:PPG)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- **New CEO, Timothy Knavish, at the helm (Pittsburgh native; stint as plant manager in East Point, GA) with a majority of experience in automotive OEM applications.**
- **Strong automotive sales as supply chain disruptions moderated:** "Sales were aided by our strong U.S. automotive refinish volume growth as supply chain disruptions started to moderate, and our order books remain robust. In 2022, our automotive refinish coatings business delivered over 2,000 net new body shop wins."
- **Seeing improvements from aerospace segment sales (transparencies - windshields and windows - manufacturing and sales for aerospace location in Huntsville):** "Our aerospace business continued to recover, delivering organic sales growth of more than 20% on a year-over-year basis, even with continued supply chain challenges. With an initial reopening in China, strong global order book, increased military related growth and PPG's advantaged technology products, we expect this business to continue to grow in 2023 and beyond."
- **Aerospace demand coming back in the form of healthy backlog:** "aerospace is circa \$1 billion business for us. This \$200 million backlog is typically a small fraction of that. So, this is almost another 2 months of activity. If we can get it done this year, we're still facing some supply challenges that are governing what we can do in a particular month or quarter, but it is a significant backlog relative to historic terms."
- **2022 Challenges expected to be offset by 2023 price increases:** "The challenges were many, including unprecedented cost inflation, unexpected geopolitical issues in Europe, disruptive and unpredictable shutdowns in China, strong appreciation of the U.S. dollar and rapid escalation in interest rates in the United States...responded to these challenges, including rapidly implementing real-time selling price increases that, by early 2023, will offset all cumulative cost inflation incurred since early 2021. Given the more difficult macro backdrop, we also announced, and are quickly executing new cost savings initiatives with particular focus on Europe."
- **Investing in powder coating capabilities with expanding manufacturing footprint through acquisition:** "We made some smaller, but strategically important powder coating acquisitions, which added needed manufacturing capacity and greatly aids our technological capabilities in this fast-growing product category."
- **Communicating uncertainty with a hint of optimism:** "because of all the uncertainty in many different avenues of our business, we're focused on Q1. And clearly, Q1 has some hangover elements from Q4, particularly around China....there are the shopping list of multiple in the potential earnings growth catalyst for 2023, including China, including aero, including refinish, including Comex, EVs, THD, literally a shopping list of potential earnings catalyst"
- **Auto and aerospace poised for growth:** "volume, we've got aero still down significantly. We've got auto, auto has been at recession levels for 3 years now. There's pent-up demand across the planet for cars."
- **Less bullish on global auto builds due to cautious expectations in China:** "we've got 19 PPG manufacturing sites across the country. And we went from near 0 absenteeism very quickly to above 50% absenteeism"
- **Supply-demand imbalance from swing from shortage to surplus in raw materials at PPG has left their suppliers with excess inventory and the opportunity for strong price negotiation for PPG with their suppliers:** "we're destocking. We know from a public commentary, a lot of our peers have excess inventory and are destocking. I do think there is this tug of war with the supplier base, typically, Q1 and Q2 are peak volume quarters for coatings raw material purchases. I don't think that's going to materialize in the same manner this year. So, we'll have a lower buy -- PPG will have a lower buy in Q1. We have suppliers in virtually every week or every day for the past couple of weeks, indicating to us they have excess supply to give to us. And so, we're going to maximize that to the benefit of our shareholders. And we'll negotiate our Q1 and Q2 pricing accordingly."

• **Seeing success with Chinese EVs:** "We're winning where the EVs are gaining the most and that's China...65% or so of the EVs sold last year were in China...we're growing significantly with the largest EV producer in China. So, it's a combined effort of selling our new and differentiated products like our battery fire protection, and our dielectric coatings products to those customers, but also targeting and winning with the EV winners in the market."

Quest Diagnostics (NYSE:DGX)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: none

Notes:

• **Investing in three primary areas: consumer-initiated testing, oncology and genomic sequencing, and pharma services (i.e., companion diagnostics, partner with pharmaceutical companies to do testing and validation work for Phase I clinical trials).**

- The genomic sequencing investments resulted in a new laboratory developed test that was produced at San Juan Capistrano, CA facility and work will expand to a second facility in 2023 (likely an existing facility in CA or the Northeast).

- The Pack Health acquisition should help augment 2 out of 3 investment areas: 1) help Quest in its mission to serve direct-to-consumer by having solutions beyond the lab and 2) use Pack Health's engagement platform to augment pharma services offering

• **Actively managing costs, which include workforce reductions in corporate support functions:** "We have also taken actions to reduce our SG&A by approximately \$100 million in 2023, including workforce reductions of approximately 1.5%, primarily in corporate support functions."

• **Inflation having an impact but also having modest success pushing through price increases to offset:** "70% of what we purchase each year is under contract...So where the inflation hit us in 2022 is really on some of the nonsupplies, the reagents and things like that. Some of that could have been pre-analytical supplies, masks, gowns, things like that; as well as just the normal inflation that you all see in your businesses, which could be hotels, air travel and things like that. Now again, we think that's softening here as we get into 2023." & "our pricing was down about 50 basis points, which actually represents the best that I've seen in my time with Quest Diagnostics. So, we feel good about that."

• **Workforce challenges being met with productivity initiatives and increasing investment in automation in the labs:** "Now as we go into 2023, we've got a full funnel of productivity ideas, productivity initiatives that we're driving through the company. And I would say the other thing that we think will really help us in 2023 is simply the stabilization of our workforce. Attrition has really a major impact on your productivity when you're constantly churning phlebotomists, logistics and specimen processing."

• **Pack Health announced a \$5 million expansion of its Birmingham HQ and 200 additional jobs in January. Highlighted as a key additional service offered to healthcare providers, health insurers, and pharmaceutical companies:** "So what else can we do for these organizations?...Health coaching and medication adherence. We bought a business called Pack Health. That's what Pack Health does. It provides coaching services to Medicare members to people -- we also serve the pharmaceutical industry."

Sanmina-SCI Corp. (NASDAQGS:SANM)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: none

Notes:

•**Strong demand from end markets and Supply Chain lead times improving:** " The key highlights were: growth was broad-based, driven by strong demand from our end markets; and performance of our supply chain organization was excellent by working closely with our customers and suppliers. We can also tell you that the lead times for semi components is getting better. We saw nice improvements in the first quarter."

•**Proof of strong demand:** " I can tell you that the demand for our product was strong across all markets. For Industrial, Medical, Defense and Automotive segments, we delivered a revenue of \$1.345 billion, which was quarter-over-quarter growth of 4.5% and year-over-year 27.5%."

•**Q1[Q4] seasonally down for Sanmina, but strong backlog. Supply chain issues improving but not gone:** "For us, this is a seasonally down quarter. But with healthy backlog, we have a strong outlook for the second quarter of \$2.2 billion to \$2.3 billion. We expect to see some supply constraints to continue through our second quarter and beyond. But good news is that things are getting a lot better."

•**Spent more on expansion this year:** "And we are very positive what's in front of us, especially with the new programs that are coming up. As Kurt mentioned, we spent a little bit more money on expansion. And the reason we're doing that is all driven by the new programs in our high technology product, mission-critical customers. "

•**Expect Q2 [Q1] CapEx to be around \$50 million for new programs**

•**Spent \$37 million in CapEx in Q1[Q4]**

Sonoco Products Company (NYSE:SON)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

• **Record setting year in terms of revenue and profitability growth**

• **4Q lower volumes but higher sales due to the metal packaging acquisition and price increases to offset inflation:** "The sales growth was driven primarily by the Sonoco Metal Packaging acquisition and an 11.5% increase in price as strategic pricing efforts continue to both offset inflation and reflect the value we provide our customers. Volumes in the fourth quarter declined 8.5%, due primarily to declining demand in the global URB [uncoated recycled paperboard] and converted paper products markets, and also due to soft consumer volumes, particularly in the last weeks of the quarter."

• **"We're continuing to invest for growth and productivity led by the increasing demand for sustainable packaging in our rigid and flexible packaging businesses."**

• **"The operating environment does remain very tough right now. But our expected performance reflects our better portfolio and business mix that is expected to be less volatile to business cycles."**

Less exposure to paper with a reduction from 50% to now 30-35% of the business.

The Scotts Miracle-Gro Company (NYSE:SMG)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: Watch for continued improvement in home and garden. No near-term threat to the mulch production facility in AL. Their Hawthorne (cannabis) segment is a long way from growth opportunities. Do not see expansion on the horizon.

Notes:

- **Cost-cutting measures ahead of schedule with smaller headcount going forward:** "When we spoke last quarter, we committed to \$185 million of annualized savings across the 2 phases of Project SpringBoard by fiscal '24. We will achieve the full \$185 million in savings by fiscal '23 and now have line of sight to additional savings in excess of that commitment." "But I think that the teams are smaller, a lot in this building, a lot at Hawthorne. And I think that, that's pretty much where we plan to be."
- **Weakness in Hawthorne (cannabis) business due to market challenges leading to expectations of top-line revenue decline year-over-year**
- **Not signaling much in the way of expansion this year:** "We are deploying CapEx of \$100 million in 2023 funding maintenance requirements and high-return, short payback projects."
- **Seem to have resolved their inventory issues since Q4:** "I think the quarter was a lot better than we thought it was going to be...I don't think we have an inventory problem at all at retail. And I think that the springboard work, which was the entire company did fantastic." From Q4: "Because of built up inventory, production was pulled back in all of their manufacturing facilities, and they will continue to limit production and reduce inventory levels through 2023. There were lay-offs announced with a target to reduce overhead by 10% announced last quarter." [Truist analysts say in a note that the company appears to be better set up for the season than they would have anticipated.]
- **CEO James Hagedorn says consumer shipments to retailers reached record levels, and that the company's merchant partners "want the season to happen" despite concerns about consumer spending this year.** "They're very much focusing on lawn and garden and that benefit accrues to us."

Toyota (TSE:7203)

Outlook: **Neutral**

AL Outlook: **Neutral**

Recommended Action: none

Notes:

- **North American Vehicle Sales increased to 1.852M units as of Q3 2023 (Ended Dec. 31, 2022):** Represents a 2.6% increase in vehicle sales in NA when compared to sales as of Q3 2022. Differs from Honda who saw a decrease in sales in the same region.
- **Saw sales decrease Europe and Japan over the same period:** Differs from Honda who saw domestic sales in Japan increase.
- **Sales grew in the rest of Asia over the period:** Differing from general trend of Asian auto manufacturers struggling in the region over this period. Other manufacturers particularly struggled with Chinese sales, but this doesn't appear to have slowed Toyota's sales in the region. With Chinese sales increasing from 1.471M vehicles to 1.496M vehicles from 9mo FY 2022 to 9mo FY 2023.
- **Sales revenues increased overall from 23,267B Yen, to 27,464B Yen from 9mo FY 2022 to 9mo FY 2023:** This increase in revenue is attributed to the world recovering from the pandemic and Toyota's efforts to source semiconductors and maintain production even during semiconductor shortages
- **Maintaining production under semiconductor shortages came with costs:** higher material costs contributed to 1,110B Yen in extra procurement expenditures for Toyota from 9mo FY 2022 to 9mo FY 2023. 170B Yen of which was offset by increases in efficiency and other cost cutting measures.
- **Incurred a loss of 423.7B Yen from terminating production in Russia**
- **Operating Income plummeted (503.9B Yen 9mo FY 2022 to 49.2B Yen 9mo FY 2023) in North American segment despite increased sales:** Toyota attributes the majority of this decline to soaring material prices and expense increases in the region.

Tyson Foods Inc. (NYSE:TSN)

Outlook: Negative

AL Outlook: Negative

Recommended Action: Monitor for improved supply and demand dynamics in chicken business.

Notes:

- **Revenue growth led by international segment, chicken, and prepared foods.**
- **Profit impacted by higher input costs (predominantly inflation) that exceeded price increases:** "While pricing actions led to an improvement of \$222 million, higher input costs per pound increased cost of goods sold by \$1.3 billion. About 2/3 of this increase was driven by inflationary impacts on raw material and supply chain costs. The remainder was primarily due to a shift to producing more value-added mix, higher labor costs and unfavorable derivative impact." "This is the first time I've seen all markets work against us all at the same time," said chief executive Donnie King.
- **Invested \$589M in capex in Q1 "to capitalize on projected demand growth over the next decade...priorities are first to invest in growth and productivity in our existing footprint." Anticipate \$2.5B in capex spend for the year (indicate that this is a high-water mark).**
- **Market demand in Q1 was challenging, but positive on yearly outlook:** "we had a slower start than expected, but are optimistic on the outlook for the remainder of the fiscal year and long term."
- **Chicken demand was lower than expected. Tysons replaced their head of the chicken business segment and is hyper focused on forecasting demand by region better in the future:** "But the one thing that's obvious we can do better is understanding the consumer shifts in our business and making sure we got the right amount of birds in the right place at the right time."
- **Consolidating corporate HQ to Arkansas and closing its corporate offices in Chicago, Downers Grove, Ill., and Dakota Dunes, S.D. Roughly three-quarters of the 500 employees in Tyson's South Dakota office told the company they wouldn't make the move to Arkansas. More than 90% of the employees in Tyson's Chicago office have declined to relocate.**
- **Demand for prepared foods lead to the announcement of 400 additional jobs at the prepared foods plant in Caseyville, Illinois in January.**

United States Steel Corp. (NYSE:X)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: Monitor Fairfield plant. Capacity constraints at the plant could be the result of many factors, but labor is a possible factor.

Notes:

- **Had an Excellent Year Financially and Beat Expectations:** " In 2022, we delivered some all-time record performances, best safety and environmental performance in our history; best execution on strategic projects, delivering greater returns that far exceeded the weighted average cost of capital; best cash and liquidity positions of \$3.5 billion and \$5.9 billion, respectively; best year-end balance sheet ever with 0.2x net adjusted debt to EBITDA; best strategic market volumes; second best adjusted EBITDA of \$4.2 billion; and second best free cash flow of \$1.8 billion."
- **Tubular Steel (Fairfield, AL Plant) was Strong:** "On a brighter note, our Tubular segment delivered impressive results in Q4. Strong selling prices and a reconfigured tubular business model, with internally sourced substrate, resulted in record level EBITDA margins for the segment."
- **However, Fairfield Plant is Capacity Constrained to Meet Full Expectations:** "On the demand side, I think

what's important to remember is that the shipment levels that we saw particularly in the second half of the year are really full utilization given some of the capacity constraints that we have at our Fairfield Works facility."

• **Planned CapEx of \$2.5B for 2023 (Spent \$4.6B in Capex from 2019-2022)**

• **Planned \$1B of CapEx directly related to their new CBA:** "We also believe that negotiating what will be \$1 billion of capital investment commitments over that 4-year period will continue to supply supportive CapEx to maintain our integrated assets with really exceptional operating quality and reliability performance, but is at a significant advantage to some of the commitments that were negotiated by our competitor. "

• **Invested in 500,000 tons of Pig Iron Production at Gary, IN Plant:** "Our investment in up to 500,000 tons of pig iron production at our Gary Works facility was completed ahead of schedule and on budget, with the first barge of pig iron received at Big River Steel on January 6. "

WestRock Co. (NYSE:WRK)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: Remain vigilant during period of heightened business uncertainty.

Notes:

• **Significant economic downtime due to inventory rebalancing:** "the first quarter operating environment saw continued inventory rebalancing, elevated inflation and shifting consumer spending. These trends primarily impacted external containerboard demand as well as our Corrugated Packaging segment... incurred 356,000 tons of economic downtime during the quarter." "Note, consolidated adjusted EBITDA was negatively impacted by \$119 million [during the first quarter] due to economic downtime and weather disruptions, which impacted our volumes and operating costs."

• **Strength in consumer segment, which encompasses packaging for predominantly grocery and retail products, with margin expansion as price increases hit the market:** "Our Consumer Packaging business and external paperboard continue to see consistent demand supported by exposure to several resilient end markets and adoption of our plastics replacement solutions. During the quarter, our Consumer business was negatively impacted by weather disruptions and other items in several of our mills. However, we continue to see healthy demand and backlogs. The resiliency of our consumer business illustrates the benefit of our diversified business model and differentiates us in the market. Longer term, it also positions us well to capture more share of wallet as we are the only paper and packaging company able to offer a full range of packaging solutions, including machinery and automation... We are continuing to implement previously published price increases in our consumer business, which should continue for several more months. "

• **Actively managing portfolio of assets by investing in some mills and closing others -- "continuing to optimize footprint" with greatest risk to plants in Southwest:** "Last year, we invested more than \$860 million to maintain and improve our assets... We are also continuing to refine our portfolio to focus on the most attractive markets, reduce volatility and improve our return on invested capital. Last year, we permanently shut capacity in higher-cost facilities in Panama City and St. Paul, enabling us to redirect significant capital investment toward better use in other assets. In December, we closed on the sale of two noncore URB mills and we continue to work toward closing on the sale of our stake in RTS and our Chattanooga mill, which remains subject to regulatory approval." "We have opportunities in our Southwest box plant within America to close down some of our more poorly performing facilities and then leverage some of the really high-performing, well-capitalized Gondi facility [in Mexico]."

• **Still managing inventory in Corrugated Packaging and experiencing weakness in Containerboard and Paperboard, which holds the greatest level of uncertainty:** "We are managing our business for current conditions, and we'll continue to balance our production with our customers' demand." & "We saw weaker demand for containerboard and more resilient demand for paperboard during the quarter. Export containerboard declined 65%, while domestic containerboard declined 33%." "Where we see the biggest headwind is in our Global Paper business. Our customers really experienced much higher inventory levels in the last quarter with a much softer demand environment than they even expected. And that was particularly true in the export market."

- **Macro uncertainty led to removal of full year guidance/forecast but think they're near the trough of the down cycle:** "That said, we're not immune from macroeconomic conditions, which have created uncertainty in the near term. As such, we're removing our full year guidance." "[T]his is a cyclical business. We think we're kind of near or at the bottom of the trough"
- **Mahrt mill in Cottonton (Russell Co.), AL labor issues resolved:** "Alex mentioned Mahrt, and I did want to let you know that the contract was ratified yesterday, so our employees will be back to work as soon as administrative will be possible."

Westwater Resources Inc. (NYSE:WWR)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: Construction is proceeding as planned in AL, but company overall is still operating at a net loss.

Notes:

- **Entered into an agreement with an EV battery producer to use Graphite from Alabama plant, Joint Announcement later in March:** "Under the agreement, the 2 companies will work together to ensure that the CSPG expected to be produced at our Kellyton plant can be used as a high-performance anode for their batteries. Subject to those efforts and terms and conditions yet to be negotiated in a future agreement, this agreement allows for the sale of potentially all anode material from our Kellyton plant for those batteries."
- **Kellyton Processing Plant and Coosa Deposit represent 1st fully vertically integrated battery-grade graphite facility in the U.S.:** "We also hold mineral rights to approximately 42,000 acres across the Alabama Graphite Belt. Once in operations, the Kellyton graphite processing plant and the Coosa deposit represents the first fully vertically integrated domestic battery grade graphite company in the U.S. We believe this will provide significant competitive advantages, given the passing of the Inflation Reduction Act in 2022 with its domestic content requirements for electric vehicle battery materials."
- **Due to Increased Demand, will be Doubling Phase 1 production capacity at Kellyton Plant:** "we are pleased to announce that we have completed an optimization study of the Kellyton graphite processing plant, which we believe will significantly improve the economics of the project. As a result, we now expect to double our throughput capacity in Phase 1 to approximately 16,000 metric tons per annum and more than doubling our estimated CSPG production to 7,500 metric tons per year."
- **Higher Production Capacity has Changed Project NPV:** "The higher throughput results and an expected increase in the estimated pretax NPV compared to the original DFS of over 3x to \$417 million and an increase in the estimated cumulative pretax cash flow to \$1.9 billion and an increase in the estimated pretax IRR of 65% to 24.7%. With the optimization, we now estimate the total cost of Phase 1 to be approximately \$271 million."
- **Expect to begin Phase 1 Testing and Commissioning in late 2023, First Production in Early 2024**
- **Have Mineral Rights to 42,000 acres in Coosa Graphite Deposit:** "Regarding our Coosa graphite deposit, on Slide 7. In April 2022, we completed our exploration drilling program and completed our geological model and published a technical report in the fourth quarter, which identified about 3.8 million short tons of graphite, enough to supply the estimated feedstock requirements for Kellyton graphite processing plant for over 35 years. It's worth noting that a technical report was completed based on drilling approximately 4,100 acres of the approximately 42,000 acres to which we hold mineral rights."
- **Finished the Year with \$75.2M cash balance and no debt, spent \$55M cash on Phase 1 construction so far:** "Regarding financing, we are pleased to announce that we have signed a nonbinding nonexclusive indicative term sheet for \$150 million of private debt, which will cover the balance of the current estimated Phase 1 capital requirements. We are targeting to close on this transaction in the second quarter of this year. Since beginning construction, cash expenditures totaled approximately \$55 million related to the Phase 1 construction, and we estimate approximately \$260 million of cash spend remaining of the now estimated total cost of \$271 million, which includes the Phase 1 optimization."

•**Net Loss for 2022 was \$11.1M, down from \$16.1M in 2021:** "Lastly, net loss for 2022 was \$11.1 million or \$0.25 per share compared to a net loss of \$16.1 million or \$0.49 per share in 2021. The \$5 million reduction in net loss was due primarily to lower product development and arbitration costs and higher interest income earned on our cash balances. These were partially offset by higher G&A expenses as we continue to build out our team and the absence of the gain recognized in the fourth quarter of 2021 related to equity securities held by Westwater that we received in 2020 with the final sale of our former uranium business."

Additional Notes:

Austal Limited (ASX:ASB)

- SEC charged US executives with accounting fraud
- Executives at the Mobile, Ala.-based company worked to artificially lower cost estimates by tens of millions of dollars to finish certain shipbuilding projects for the U.S. Navy between 2013 and 2016, the securities regulator said

Benchmark Electronics Inc. (NYSE:BHE)

- Opened a new Precision Technologies facility in Mesa, AZ

Fidelity National Information Services, Inc. (NYSE: FIS)

- Class action lawsuit filed for investors claiming misleading information regarding the Worldpay integration

KATEK SE (DB: KTEK)

- Acquisition of Nextek (precision electronic assembly and engineering services to aerospace and defense, healthcare and medical, industrial, energy, utility, commercial, and niche markets) announced 11/29/22

Polaris Industries (NYSE:PII)

- Lenders for purchases of powersports vehicles, like those produced by Polaris, are starting to tighten their belts amid rising interest rates and some signs of consumer credit deterioration, Michael Swartz and Lucas Servera, analysts at Truists

Aerojet Rocketdyne Holdings, Inc. (NYSE:AJRD)

- Aerojet Rocketdyne sale to L3Harris approved by shareholders ; pending antitrust approval ; likely to close in 2H 2023
- Hiring started at third Huntsville location; 379,000 sq. ft. manufacturing facility to produce inert solid rocket motor components