

Quarterly Earnings Call Notes – Q2 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 Q1 2023 (January to March 2023). These calls were recorded during Q2 2023 (April to June 2023). Additional Notes encompasses news alerts for additional companies monitored.

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Quarterly Review:

3M Company (NYSE:MMM)

Outlook: Negative

AL Outlook: Negative

Recommended Action: Monitor 3M's ongoing layoffs of 6,000 employees and how Decatur and Guin could be affected. Both plants are in the financially healthier segments of 3M's overall business, but Decatur's exposure to the PFAS phase-out could be cause for concern.

Notes:

- **3M plans to lay off an additional 6,000 salaried employees:** This constitutes a layoff of 10% of 3M's global workforce. The layoffs will spread across all levels of the business, not just manufacturing jobs.
- **Layoffs expected to save 3M between \$700M and \$900M in pre-tax costs:** These cuts represent an ongoing cost cutting plan that 3M has been implementing since the previous quarter.
- **3M set to prioritize high-growth markets:** "At the same time, we are continuing to build 3M for the future, prioritizing high-growth markets like automotive electrification, personal safety, home improvement, semiconductors and health care. We are also investing in large emerging markets that demand our material science innovation, including climate technology, industrial automation, next-generation electronics and sustainable packaging. As we move forward, we will drive additional cost reductions through improvements in sourcing, yield, productivity, factory automation and network optimization of our plants and distribution centers."
- **Sales in all business segments, except healthcare, declined YoY:** Transportation & Electronics (-11.3%), Consumer (-6.8%), and Safety & Industrial (-6.0%)
- **Alabama's Decatur and Guin facilities are exposed to these poorly performing segments, but part of the healthier sub-segments within them:** Decatur produces in the Advanced Materials sub-segment, which saw sales grow YoY. Guin is also in Advanced Materials, as well as Transportation Safety, Commercial Solutions, and Industrial Adhesives and Tapes, which saw sales decline YoY.
- **Guin is more exposed than Decatur in terms of underperforming business segments and sub-segments**
- **3M's worst performing sub-segment was Electronics, which saw a 30% decrease in sales YoY:** The company cited supply chain issues and OEM's aggressively reducing inventories.
- **Automotive Sub-segment saw sales increase 6% YoY:** The company cites increased market penetration into the automotive market, especially with car and light-truck builds.
- **Safety & Industrial segment sales decline 6% YoY:** The company cites the decline in demand for COVID-related respirators and the company's exit from Russia as the key negative drivers for this segment.
- **Adjusted CAPEX for the quarter was \$445M, up 15% YoY:** The company cites investments into growth, productivity, and sustainability as the reason for the increased CAPEX.
- **3M restructuring its supply chain operations:** "We continued our focus on improving our manufacturing and supply chain operations, including executing on restructuring actions to streamline the organization and adjust to slowing end-market demand. Restructuring charges in the quarter were \$52 million or a year-on-year headwind of 50 basis points to margin and \$0.05 to earnings per share. The carryover impact of higher raw material, logistics and energy cost inflation created a year-on-year headwind of approximately \$100 million or a negative 130 basis point impact to operating margins and \$0.15 to earnings."

Airbus SE (ENXTPA:AIR)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: Watch for CapEx growth coming to Alabama based on strong demand for A320 and company's plans to expand CapEx to ramp-up manufacturing. Monitor demand in helicopter segment for expansion with closest manufacturing facilities in Mississippi and Texas.

Notes:

- **Continuation of Poor Supply Chain Recovery Despite a Growing Backlog:** "We booked a total of 156 gross orders and recorded 14 cancellations. As a result, net orders were positive at 142 aircraft, and our backlog in units amounted to 7,254 aircrafts at the end of March 2023, including 6,075 A320 family aircraft. Looking at helicopters. In Q1 '23, we booked 39 [million] net orders versus the 56 million in Q1 2022"... "Finally, in Defense & Space, the conflict in Ukraine has highlighted the essential role that distance and space played for society and the importance for European nations to support their security and defense industry. We started the year with a good order intake of EUR 2.5 billion in Q1 '23. The extensive use of our military aircraft across the portfolio is reflected by the good order momentum in services." The decrease in overall orders has led to a 2.04% contraction in revenue in Q1 YoY.
- **Expanding CapEx as "ramp-up" in manufacturing:** "The A400M continued to weigh on our free cash flow before M&A, but less so than in Q1 2022. Our Q1 2023 CapEx was around minus EUR 0.5 billion versus minus EUR 0.3 billion in Q1 2022, and we expect our CapEx to slightly increase in 2023, supporting our industrial ramp-up. Free cash flow was minus EUR 0.9 billion, with nearly no impact from M&A and customer financing. The aircraft financing environment remains solid with sufficient liquidity in financial markets for our products."
- **Decreases in Production are Mainly Due to Engine Producers and Increased Flying:** "Probably a bit more issues on the engine side as we see the combined challenges for the engine makers to supply Airbus for the production and delivery of new planes, but as well the pressure coming from in-service as the customers are flying very much and that we've seen a big increase in the flight towers being flown in the flight cycles in the market, therefore putting pressure on the support and services of engine parts and the MRO and part for engines."
- **Strong Q1 performance for helicopters is likely to be a one-off:** "On Helicopters, well, yes, there is a very strong Q1 performance on EBIT. There's indeed some one-off that will not be repeated in this very strong Q1. But as well good recurring elements that highlight the fact that helicopters continues to be on the ramp-up trajectory in terms of financial performance." There are two manufacturing facilities for helicopters: Grand Prairie, Texas and Columbus, Mississippi.

BioCryst (NASDAQGS:BCRX)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **BioCryst plans to continue investing in ORLADEYO R&D (BioCryst has an R&D facility in Birmingham, AL) as they are seeing strong year-over-year results:** "We will continue to invest in ORLADEYO R&D to reach more patients and create even greater value. We will do this by adding more countries around the world where patients gain access to ORLADEYO and by expanding the label, like we're doing with the pediatric program. We will also continue to invest wisely and find the next ORLADEYO through our pipeline and discovery efforts. Our goal is to find another rare disease target

where we're able to bring best-in-class medicine to patients while balancing the risk inherent in drug development."

- **ORLADEYO revenue up \$18.7 million, +38% compared to Q1 of 2022**
- **Operating expenses are down:** "This is a decrease of \$7 million from Q1 of 2022 and down \$27 million compared to Q4 of '22, most of which is in the R&D area due to reduced clinical investment following the termination and ongoing closeout of the 9930 programs."
- **For R&D, investing mainly in 3 key areas:** "Continuing to develop ORLADEYO by identifying opportunities to expand the label, such as the pediatric trial, while also continuing to invest in real-world evidence generation."
- **Cash at the end of Q1 was up:** "Following the debt refinance deal that we closed last month with Pharmakon, net proceeds of that deal bring pro forma cash up to \$429 million."
- **Company has flexibility and options with ability to draw up to \$150 million until Sept. 2024:** "These funds are committed and the decision to draw them or not is ours. We will only draw the funds if we can generate value by doing so, but access to it gives us additional flexibility and continued optionality."

Boeing Co. (NYSE:BA)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Problems with the 737 MAX arose in late April, but the management team is confident that the problem has been identified and they have a solution:** "We've been progressing in our early inspection of affected airplanes. The issue's understood. It's isolated to two specific fittings, and we know what we have to do. The work will impact the timing of our deliveries over the next several months. However, we still expect to deliver 450 737 airplanes this year. Unfortunately, the timing of these delivery shortfalls will impact summer capacities for many of our customers, and we feel terrible about that. Deliveries and production will be lower near term, but we will recover over the coming months, and we plan to increase our rate to 38 per month later this year." It is noteworthy to mention that later Boeing commented to CNN that the issue was due to "A supplier used a 'non-standard manufacturing process' during the installation of two fittings in the rear fuselage"
- **Despite all the struggles, Boeing feels confident that they will be able to bring \$3-5B in FCF to investors:** "The 2023 financial outlook is unchanged from what we previously shared, including \$3 billion to \$5 billion of free cash flow generation. Commercial demand remains strong across our key programs and services. Passenger traffic in February increased over 55% year-over-year and is at 85% of pre-pandemic levels. Defense demand is robust, and the initial FY '24 presidential budget is in line with expectations."

Carpenter Technology Corp. (NYSE:CRS)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Realizing share and price gains through contract negotiations and price increases on transactional business:** “we announced another price increase of 7% to 12% on our transactional business.”
- **Increased hiring:** “We continue to improve the productivity of our labor force across our facilities by safely onboarding new employees across all of our production centers and investing in the training required to accelerate learning.”
- **Specialty Alloys Operations (SAO) segment performance driven by higher sequential and year over year shipment volumes, primarily in Aerospace and Defense and Medical end-use markets:** “the SAO segment delivered operating income of \$49 million, exceeding our expectations. With the improvement in productivity, we were able to ship additional material to our customers particularly in the aerospace and defense and medical end-use markets.”
- **Performance Engineered Products (PEP) segment improved operating income sequentially and year-over-year, driven by higher Dynamet Titanium and Additive sales:** “The PEP segment turned in another strong performance with \$10.2 million in operating income for the recent quarter.” ... “we saw strong demand for titanium products for the aerospace and defense and medical end-use market.”
- **Strongest demand in Aerospace & Defense:** “Our aerospace and defense end-use market accounting for 49% of sales continues to ramp and was up 21% sequentially and 59% year-over-year. Customers across our aerospace submarkets continue to urgently request material and seek higher delivery levels. Global aerospace traffic continues to grow, pushing the supply chain to ramp production for new planes to meet the growing demand. As a result of the continued increases in demand, lead times across the industry have extended and our backlog continues to rise.”
- **Growing demand for electric surgery driving Medical segment:** “The medical end-use market, accounting for 13% of sales was essentially flat sequentially and up 35% year-over-year. The higher year-over-year results were driven primarily by ongoing growth in electric surgery. And to meet growing demand for electric surgery, customers are increasing their manufacturing activity.”
- **Customer demand and low inventory of vehicles driving growth in Transportation segment:** “The transportation end-use market accounted for 7% of sales was up 25% sequentially and up 5% compared to last year with strong demand and low inventory of both light-duty and heavy-duty vehicles. Build rates are expected to increase throughout calendar year 2023.”
- **Growth and margin improvement driven by demand in Energy segment:** “The energy end-use market accounting for 6% of sales was up 27% sequentially and up 24% compared to last year. Demand for energy continues to outpace supply driving growth in capital investment and demand for our material solutions. In many cases, the materials we are supplying into the energy end-use market are now reaching margins similar to our Aerospace and Defense business due to the unique solutions and overall demand environment.”
- **Growth in Industrial & Consumer:** “The industrial and consumer end-use market accounted for 19% of sales was up 22% sequentially and up 17% year-over-year. We remain focused on high-margin, high-growth business like a material solutions used in semiconductor fabrication.”

Chemtrade Logistics Income Fund (TSX: CHE.UN)

Outlook: Positive

AL Outlook: Positive

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:

- **Water Chemicals Business (AL Segment) is performing very well and has achieved margin expansion:** "together the Sulfur and Water Chemicals segment generated \$262.5M in revenue in Q1, up 15% from Q1 2022. All chemicals within the Water Chemicals business have retained strong pricing with the exception of caustic soda, which fell from its' high pricing during 2022 as anticipated."
- **Expect lower raw material costs to further drive margin expansion in Water Chemicals**
- **Performing particularly well with sodium chlorate:** North American firms began to export sodium chlorate to Europe after European countries quit purchasing the substance from Russia. This flight of sodium chlorate from the US to Europe has restricted domestic supply and raised prices. Chemtrade does not export sodium chlorate, and enjoyed expanded margins selling in North America.
- **Chlor Alkali business is also performing quite well:** As natural gas exports to Europe have surged, so has demand for hydrochloric acid for fracking. Natural gas rig counts are higher than in recent years, signaling robust demand for hydrochloric acid.
- **See their portfolio of products as resilient in the face of "economic turbulence":** Their regen acid products and suite of water treatment products typically suffer very limited downturns during recessions.
- **They see positive outlooks in the coming year for their ultra-pure acid products and EC (electrochemicals - i.e., caustic soda, chlorine, and hydrogen) products.**

Constellium N.V. (NYSE:CSTM)

Outlook: Neutral

AL Outlook: Negative

Recommended Action: Continue monitoring engineering shortage, as it continues to be problem for Constellium in Muscle Shoals.

Notes:

- **Struggles due to multiple factors including Muscle Shoals:** "Price and mix was a tailwind of EUR 47 million, primarily on improved contract price, including inflation-related pass-throughs. Costs were a headwind of EUR 64 million as a result of higher operating costs due to inflation, operating challenges at Muscle Shoals and unfavorable metal costs. As we discussed last quarter, our Muscle Shoals team is highly dedicated, and we're working hard to recruit new hires. But this will take some time."
- **Profitability has been significantly hurt due to sticky inflation in the manufacturing industries:** "In the first quarter, and as expected, we experienced broad-based and significant inflationary pressures across our business. As you know, we operate a pass-through business model, so we're not materially exposed to changes in the market price of aluminum, our largest cost input." This has resulted in slightly decreasing EBITDA in Q1 year over year.
- **Constellium seems certain that their independent commodity, aluminum, will lead to an exceedingly profitable company as EV, and other manufacturing industries grow:** "The important takeaway here is that aluminum is a catalyst behind this secular growth given its sustainable attributes. Aluminum is infinitely recyclable and does not lose its properties when recycled. As a result, aluminum will play a critical role in the circular economy and will be a driver of growth in lightweighting, electrification and sustainable packaging."
- **Year-over-year performance of adj. EBITDA has been flat with revenues growing:** "There are 2 important takeaways from this slide. First, we grew our value-added revenue by 16% compared to last year. And second, we continue to have pricing power. The price and mix, and price, specifically, is the biggest increment of our year-over-year variance and helped us offset inflationary pressures." ... EBITDA remained flat year-over-year, mostly because of the increased cost of alloying metals such as lithium and magnesium, caused by constrained supply.

Daikin Industries (TSE:6367)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Ended their fiscal year on March 31, 2023; managed to improve results despite worse than expected business environment:** Both net sales and operating profit reached record highs for Daikin, beating upwardly revised targets set in February.
- **Chemicals business [Alabama's Segment] posted increases in sales and profit for the year:** Daikin attributes these increases in strong demand to semiconductor and automobile markets.
- **Sales in the Chemicals business increased or remained steady in all regions YoY:** Europe up 17%, China down 3%, and the Americas up 20%. Planning YoY Sales Growth of 8% for Europe, 6% for China, and 18% for the Americas.
- **Plan to grow their Chemicals business even further in China and the US:** Capital investment is coming to this segment to expand capacity to meet the growing demand for semiconductors and lithium-ion batteries for EVs
- **Have a plan to handle PFAS situation:** Upgrading products to more sustainable technologies, including dropping fluorinated emulsifiers from their production process and dropping fluorine compounds from most products, except for those used in semiconductors and chemical resistance materials.

Enviva Inc. (NYSE:EVA)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: Continue monitoring plant construction in Sumter County.

Notes:

- **Enviva announces closing of senior secured term loan facility of \$105 million:** “This facility provides us with additional financial flexibility as it increases available liquidity under our revolving credit facility.”
- **Credit rating downgraded a notch by S&P from B+ to B.**
- **Received on March 21, 2023, its construction permit for Epes plant under construction in Sumter County, AL.:** “Enviva is excited to repurpose a former business site and construct a brand-new state-of-the-art manufacturing facility, jumpstarting economic growth and bringing employment opportunities back to the community,” said Thomas Meth, President and CEO of Enviva. Hoping to be operational mid-2024
- **Net Revenue grew 2%**
- **Hoping to improve operating position:** Minimizing costs of procured fiber improving fixed cost absorption; "We know what the specific issues are: contract labor is too high, discipline around repairs and maintenance spend is insufficient, wood input costs need to come down further and stay there, and utilization rates at specific plants need to improve and stabilize at those improved levels," President and CEO Thomas Meth said in Wednesday's [earnings] release.
- **Construction planned for mill in Bond, MS for start of 2H 2023:** Both the Epes plant and Bond plant will produce 1.1 million MTPY. Two EVA-1100 standard plants are under development and 2 additional plants are expected to begin development in 2024.
- **Capex for 2023 back-half weighted. 5% will go towards maintenance and the other funds will be for site development and expansion projects.**
- **Hoping to even customer mix and increase industrial customers by end of decade.**
- **Expect demand in EU to be favorable over next 5 years as demand continues to grow in industrial and energy sectors.**

- **Acquired TPI Engineered Systems (specializes in the design, engineering, manufacturing, and installation of custom bulk materials conveyor systems) in Bowdon, GA in April 2023.**

Evonik (XTRA:EVK)

Outlook: Negative

AL Outlook: Positive

Recommended Action: In a stable chemical segment within Alabama. Monitor the company's performance as a whole. Evonik completed a sodium methylate expansion in Mobile, AL in March. Evonik also announced another expansion in February for their methyl mercaptan capabilities in Mobile.

Notes:

- **Implemented short-term contingency measures to cut costs in Q1:** reduced maintenance costs, consultant costs, travelled less, reduced events, and optimized IT costs. Moreover, the company will temporarily not refill open positions.
- **Slightly lower revenue than expected:** due to volume decline and the corresponding lower utilization of Evonik's plants. However, pricing remained strong, up 3% in the quarter. Evonik experienced higher fixed costs than expected.
- **Animal Nutrition was the worst performing segment by far:** Animal protein markets continue to struggle with high feed costs and low margins.
- **Nutrition and Healthcare segments also suffered earnings declines:** Healthcare expected to accelerate in the second half of the year.
- **Smart Materials segment saw earnings grow substantially:** Earnings were supported by strong pricing of 10% YoY and their plant in Marl, Germany came online in a tight market.
- **Expect volumes and earnings to recover in Q2:** Each month in Q1 was better than the last, as costs are coming down with improving volumes. Specifically, Evonik expects raw material costs to fall as the year progresses.
- **Still plan to spend EUR 900M in CapEx for 2023.**
- **Evonik completed sodium methylate capacity expansion in Mobile, AL on March 23, 2023:** Production unit now capable of producing 90,000 metric tons per year. Investment driven by rising demand for renewable energy via biodiesel. Note: This expansion is separate from the methyl mercaptan expansion project announced in February.

General Electric Company (NYSE:GE)

Outlook: Positive

AL Outlook: Positive

Recommended Action: Monitor funding directed to GE's facility in Auburn for operations improvements and capacity expansion.

Notes:

- **1Q Revenue up 17%:** "17% organic revenue growth with all segments up, more than doubling our adjusted profit with margin expansion in all segments, resulting in \$0.27 of adjusted EPS and positive free cash flow."
- **Services remain one of the best assets for General Electric:** "representing more than 60% of revenue, given not only the resiliency and higher margins we enjoy, but the fact they keep us in daily contact with our customers."

- **Cash flow was positive at \$102 million:** "In addition to the strong earnings results, this was GE's first positive free cash flow in the first quarter since 2015."
- **Adjusted costs down 10% YoY:** "For the year, we expect costs of around \$600 million, half the amount in 2021 and in line with reduced corporate needs and progress setting up stand-alone cost structures."
- **Material availability and supplier issues with LEAP engines:** "We saw areas of improvement with material inputs and LEAP shipments improving sequentially, thanks largely to our lean efforts. However, output continued to be impacted by material availability and supplier challenges, particularly in Defense, where revenue declined 2%."
- **Robust commercial engine and service performance:** "35% revenue growth. Commercial Engines' revenue grew by over 30% with LEAP deliveries up over 50%."
- **GE to add \$450 million in investments to Aerospace and Energy sectors (GE Vernova):** "GE Aerospace will account for most of the investments at \$335 million, which the company said would improve assembly operations, expand production capacity, and upgrade safety infrastructure. Funding will be directed to GE facilities in Lynn, Massachusetts; **Auburn, Alabama**; Lafayette, Indiana; and Madisonville, Kentucky, as well as Aero Engine Operation in Evandale, Ohio, owned by GE Aerospace and a GE joint venture with Baker Hughes."
- **New jobs are expected to come to the Aerospace facilities:** "The company said it is hiring some 800 jobs in its aerospace division"... "GE hopes to add more than 900 jobs in its energy segment this year."

Honda (TSE:7267)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Year-over-year growth for Hondas revenue looks healthy in all but one business segment which remained flat:** "For motorcycles, operating profit was JPY 488.7 billion, and a record high. Automobiles operations profit was JPY 42.0 billion. Operating profit from financial services were JPY 285.8 billion. And for Power Products business and other businesses, operating profit came to JPY 22.8 billion."
- **The automobile market segment is expecting to increase in volume sold through innovative solutions and better economic conditions:** "In terms of the unit sales of FY 2024, although the outlook in China is rather unclear, in the global market, we can enjoy the favorable model cycles that continues from last year. And we'll aim to expand our unit sales based on the resumption of the supplies in the market, thanks to the improved operating ratio of the forecast."
- **The Power Products segment is expected to shrink by nearly 16% in 2023:** "... power products including general purpose engines, generators, water pumps, lawn mowers, riding mowers, robotic mowers, brush cutters, tillers, snow blowers, outboard marine engines, walking assist devices and portable battery inverter power sources. In 2019, Honda had renamed Power product business to Life creation business. This renaming represents Honda's intention to evolve Power product business as a function to create new value for 'mobility' and 'daily lives,' which includes existing power products business as well as new businesses for the future, including energy business. Energy business consists of portable and swappable battery rechargeable with renewable energy and energy management service for EV owners to charge their car with the renewables." (2022 10-K)
- **Plans for increasing spending for the electric vehicle switch is on the horizon:** "As for the FY 2024 forecast, we will further improve the operational structures that we have built up until now, and we will strengthen supply chains, such as the stable procurement of the semiconductors will improve operating ratio of the factories. And we will plan to sell 4.35 million cars with expected operating profit of JPY 1 trillion, which will be the best profit ever. Cash generated will be invested to provide the resources for electrification going forward, and we will stay engaged in shareholder return programs"

- **Electrification has been performing well, year over year:** “Regarding our actions for electrification, we set out discussions with POSCO for a comprehensive partnership in order for achieving carbon neutrality. In the Shanghai Motor Show in China, we exhibited the world premiere of the second set of the e:N series called e:NP2 prototype and e:NS2 prototype, as well as the third set of the concept model e:NSUV Xu. Next, moving on to the motorcycle business situations. For the FY 2023, the unit sales increased year-on-year in the main markets.”
- **All of the vehicles manufactured in Alabama have seen strong year-over-year growth:** The sales growth for models produced in Alabama are as follows: Odyssey (+79%), Passport (+9%), Pilot (+3%), and Ridgeline (+40%).

Hyundai Motor Company (KOSE:A005380)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Every geographic segment had significant growth, with the exception of China:** Korea: +16.4%, US: +7.5%, Europe: +13.2%, China: -17.4%, India: +10.2%, Global: +0.2%
- **Strengthening year over year financials with increased efficiency, decreased cost of goods sold, and nearly double net income:** According to the reported information, SGA costs went up 7.4% with decreases in warranties cost, increased marketing, and increased commission fees, depreciation, etc. However, COGS went down as a percentage of sales, year-over-year from 80.9% to 79.6%. Lastly, net income went up a staggering 92.4% since Q1 last year. However, it is notable that this increase is mostly due to losses in provision for warranties, totaling 2B KRW which positively affected net income by making EBT 67.6% higher than the previous quarter. In total, this level of profitability is unlikely to be maintained throughout the rest of the year. On the other hand, EBITDA growth was 10%, this is less affected by one-time interest maneuvers, which indicate healthy growth through operations.

International Paper Co. (NYSE:IP)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Elevated inventories due to low demand:** "We continue to navigate a challenging demand environment as our customers and the broader supply chain work through elevated inventories of their products. We continue to face very elevated supply chain costs as well as the impact of the high inflation on materials and services during the past couple of years. In a lower demand environment, we are running at full capacity. We believe there is a large opportunity to further optimize our system and take out high marginal cost."
- **Input costs were favorable but maintenance outages and lower demand caused all segments to decline.**
- **Hoping for improved demand environment for 2Q:** "Destocking continues throughout the rest of the supply chain, especially with manufacturers and many of our customers. We believe this will run its course through the second quarter, resulting in an improved demand environment in the second half of the year."

- **IP plans to close sale of 50% interest in Iliiev SA for \$484MM:** "Buyers received an important required approval from the Russian sub commission overseeing exits by foreign companies, but we are still awaiting the approval of the Russian Competition Authority. We are optimistic that this final required approval will be received soon, and we plan to close shortly thereafter."
- **31% of capital expenditures occurred during this first quarter**
- **Investment for box system continues:** "We invested \$341 million in our businesses in the first quarter, which includes funding for cost reduction projects with attractive returns and for strategic projects to build out capabilities in our box system. Going forward, we plan to make additional investments across our box system to support long-term profitable growth, and we will remain disciplined and selective when assessing M&A opportunities. For 2023, we are targeting Capex of \$1 billion to \$1.2 billion with increased investments in our U.S. box system to build additional capabilities and position us for long-term profitable growth with our customers."
- **Ag business is recovering:** "So that has been a really tough business because of weather over the last couple of quarters, and we're starting to see that pop back up, which I think is a very good sign."

JBS S.A. (BOVESPA:JBSS3)

Outlook: Negative

AL Outlook: Negative

Recommended Action: none

Notes:

- **JBS invested (R\$)1 billion to new Seara site in Brazil creating 600 job openings.**
- **JBS invests (US\$)200 million for new (Columbia, MO) Principe foods unit creating 100 jobs and possible hiring of 200 people next year:** "JBS USA Pork began operation of its first Italian specialty meats plant in January 2023." Hoping to add value to companies' portfolio of products. 45% of Capex is intended for maintenance and the other 55% is expected to go towards expansion."
- **Net Revenue was down year-over-year in every sector except Seara. Export revenue year-over-year was -13% mainly because of high input costs and lower demand:** "It's clear that this year's first quarter does not reflect the potential of our business and even less than what we expected from this year. This first quarter 2023 is an outlier."
- **Demand and exports may start to look slightly better in upcoming quarter:** "Resumption of China export, new export authorization in Canada, Philippines and Mexico, as well as a strengthening domestic supply relationship programs, provide the Brazilian business beef with much better outlook for the month ahead."
- **JBS is not expecting improvements in debt until Q4 or until 2024**

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

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **First quarter revenue grew 18.1% from Q1 of 2022:** "First quarter 2023 Revenues include contribution of \$12.0 million of Revenue from the acquisition of the Engineering Division of Southern Research Institute (SRE), and consolidated organic Revenue growth of 12.0 percent, primarily in our Space, Satellite and Cyber, Turbine Technologies, C5ISR and Microwave Products businesses."

- **Kratos has been selected as part of a team for new multi-billion dollar satellite constellation:** "includes Kratos' virtualized OpenSpace ground infrastructure system and our Turbine Technologies business receiving a large next generation engine development award, the value of which to Kratos could ultimately exceed \$100 million."
- **Company is seeing good progress in drone sector and seeing decent returns:** "Kratos today is producing hundreds of affordable high performance jet drones in the United States, with established and performing partners and suppliers, at real, known cost points and we stand ready to support the U.S. industrial base, our Country's and Allies security requirements and deterrence of threats today, with quantities and affordable mass."
- **Kratos announces partnership with ALL.SPACE (in Washington DC):** "strategic partnership aimed at jointly developing and delivering solutions that will enable software-defined satellite ground systems to better leverage the capabilities of next-generation smart terminals."
- **Parts shortages and related, continued significant cost and price increases, including for employees, materials and components are impacting the industry and Kratos.**
- **Kratos is expecting contracts for unmanned drone funding from the Marines, Navy and "other customers":** "And then you bring in things like commlinks, communication links, satellite communication links, inertial navigation systems, augmented autonomy, artificial intelligence. There's a lot that goes into these. And my personal opinion is the Pentagon, the branches are working their way through the way to field this brand-new paradigm of weapon system."
- **Expecting specific drones like the tactical fire jet drone to possibly receive more contracts:** "And we are under contract with that with certain entities, and that would be an ideal type of a platform for, say, what's going on in Europe or what might happen over in the Pacific."
- **Expecting demand for Ground Equipment in new satellite projects to increase:** "The bottom line is the number of space vehicles going up is incredible. That means the demand for the ground equipment is going to be equally incredible, and we're the industry leader in the ground equipment."
- **Kratos has "continued to make advanced inventory purchases in attempts to mitigate some of the supply chain disruptions"**
- **Kratos joined Airforce in a \$21 million contract agreement to supply "17 aircraft, mission kits, certain flight consumables, and technical data for the BQM-167A Air Force Subscale Aerial Targets (AFSATs) under the five-year base contract."**

Louisiana-Pacific Corporation (NYSE:LPX)

Outlook: Negative

AL Outlook: Negative

Recommended Action: The OSB facilities in Thomasville AL, and Hanceville AL, are 2 of 11 facilities (others include Carthage, TX; Jasper, TX; Roxboro, NC; and Watkins, MN. International OSB facilities include 2 in Chile, 2 in Canada, and 1 in Brazil). Watch for more downtime in Alabama plants as the company lowers supply to match decreased demand.

Notes:

- **OSB saw decreases in sales and will continue to see volume and sales declines into Q2:** "Net sales for the first quarter of 2023 decreased year-over-year by \$583 million (or 50%), including a decrease in OSB segment revenue of \$555 million, or 75%, due to 66% lower prices and 26% lower volume and a decrease in South America segment revenue of \$11 million, or 17%, predominately driven by lower OSB sales volumes and pricing. Siding segment revenue remained flat year-over-year."
- **LP reached an agreement to acquire the Wawa OSB mill in Ontario from Forex for \$80 million.** Volume decrease of Sider Solutions was driven by "a challenging new home construction market and elevated levels of channel inventory compared to the prior period."

- **Capital expenditures for 2023, excluding the \$80 million paid for the Wawa acquisition, are expected to be in the range of \$330 million to \$370 million, including \$140 million to \$160 million for the mill conversions, \$120 million to \$130 million for sustaining maintenance, and \$70 million to \$80 million for other strategic growth projects.**
- **OSB is still having issues with volume from conversion of the Sagola, MI mill from OSB to siding production**
- **Housing starts along with mortgage rates/inflation hinder Siding and Structural Solutions growth:** "The housing market is not out of the woods quite yet. Single-family starts were down nearly 30% in Q1 with inflation and mortgage rates impacting affordability, and Q2 is looking roughly the same."
- **A new siding solutions plant will be online in Q3 in Bath, NY.**

Mercedes-Benz (XTRA:MBG)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Increasing their strategic plays such as their chip-to-cloud architecture as well as new partnerships:** "Where we explained our chip-to-cloud architecture and also announced some new partnerships such as the one with Google and then the ESG conference, which we did more recently, outlining where we are heading and which progress, we are doing on the ESG front with some examples such as a groundbreaking for the battery recycling plant or the power purchase agreement with Iberdrola."
- **Despite very difficult inflationary and foreign exchange environments, Mercedes continued to have an extremely productive quarter:** "We significantly outweighed the headwinds from material cost and inflationary increases by pricing power. That makes the gross grow by almost EUR 600 million, with a stable gross profit ratio of 26%, and some of you know what I mean by emphasizing that. Selling expenses are slightly higher."
- **Through pricing power, Mercedes has made the car segment very positive despite challenges:** "... higher raw material prices, onetime commodity charges, inflation and outbound supply chain-related costs. And that means that the net-net -- that the net price increases could definitely outweigh inflationary increases. So, the net-net is definitely very positive."
- **The van segment has seen exceedingly higher sales than previously expected:** "Throughout the year, we lifted the sales guidance to slightly above. On the return on sales side for vans, here, we lift the guidance by 200 basis points to 11% to 13% with a strong tailwind from the first quarter. Going forward, we see more volume and the net-net pricing being stronger than anticipated before."
- **The mobility segment has moved away from Russia and has had slight increases in demand from the rest of Europe and North America. China has had rapid growth in demand:** "Let's have a look on the demand side of the markets for Europe. On the incoming order side, we see that in the first quarter still sluggish. The order bank in Europe, however, may support the sales in the coming months. In the U.S., we continue to see U.S. demand on a good -- on a healthy level. And in China, we see the momentum coming back post-Chinese New Year with strong demand and order intake at the end of the first quarter which is, I think, good news."

NFI Group Inc. (TSX:NFI)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: Watch for ability to access improved credit terms. Growth in backlog could be beneficial to Anniston facility in the wake of consolidation if the company can strengthen their financial position.

Notes:

- **Improving financial performance amidst supply chain disruption:** "In the quarter, manufacturing segment of bus and coach deliveries was up 20% and revenue up 18%, with adjusted EBITDA up 42% from 2022. This significant improvement in adjusted EBITDA driven by improved volumes and enhanced product mix. We also had fewer legacy inflation-impacted contracts that were originally bid in 2020 and 2021 in the first quarter. And so, while there was an overall improvement, the manufacturing segment continues to be impacted by certain supply disruption as well as lower-than-expected ZEB deliveries and legacy inflation-impacted contracts."
- **NFI Group's auditor gave an unqualified opinion expressing doubt that the company can continue as a going concern in its annual filing.** This is largely due to estimates of the value of two of its cash generating units / subsidiaries. The auditors estimate of value for the business segments is less than the value reflected on the company's financial statements. This results in the company being at risk of not meeting certain financial covenants: "As the Company expects to be unable to comply with certain of its financial covenants under the terms of its credit facilities beginning on July 1, 2023." **The company will need to rework credit agreements imminently:** "We are now engaged with our banking partners to develop a new long-term, multi-year credit agreement with the capacity and covenants matched to our historic results and expected financial recovery. We expect that we will be able to get this completed in the first half of 2023. Cash flow and capital allocation remains our top priority as we strive to generate cash flows, lower leverage, and strengthen our balance sheet."
- **Record levels of government funding in EV transportation has yielded strong Zero-Emission Buses (ZEB) performance and backlog growth:** "... we provide a quick summary of the record government funding in each of the major markets in which we participate, which continues to drive the heightened bid environment." ... "Year-over-year, our North American public bid universe is up 18%. New orders to NFI are up 33%, and our active bids are up 99%, reaching 11,066 equivalent units, the highest number of quarterly active bids we've ever had. We entered the first quarter of 2023 with 2,833 equivalent units bid in process and another 8,233 equivalent units bid submit, which we expect to translate into steady orders throughout the rest of this year and growing our backlog going forward. Our backlog has now reached a staggering \$6.7 billion, up from \$4.9 billion at this time last year. It is our highest dollar value ever, and NFI has a steady demand environment for today, for our short-term order book and for our future."
- **Unprecedented levels of investment in the industry:** "record government funding in each of the major markets in which we participate, which continues to drive the heightened bid environment."
- **Closed 25 facilities and cut 2,000 positions, last quarter, while expecting to double CAPEX:** The moderators did not hit on either of these points directly, but they were on the slides.

Nucor Corp. (NYSE:NUE)

Outlook: Positive

AL Outlook: Slightly Positive

Recommended Action: Nucor is expanding, but not in Alabama as of now. Investigate further expansion for the state. Investments have been predominantly infrastructure related to support renewable energy projects and EV demand growth spurred by Inflation Reduction Act incentives and in capacity expansions for steel sheet and plate.

Notes:

- **Investing in new capabilities and capacity in Decatur, AL; Brandenburg, KY; Gallatin Co., KY; and Gallipolis Ferry, WV:** Most recent investment was in the Brandenburg, KY facility to sustainably produce steel plate, including heavy gauge plate used in monopile foundations for offshore wind towers (demand for which is being driven by Inflation Reduction Act incentives). The company also acquired and continues to invest in its Towers & Structures Business Unit that builds transmission towers and utility infrastructure. An expansion was announced in February for the Decatur, AL facility to be one of two locations to support the Towers & Structures Unit.
- **Despite the interest rate environment, Nucor Corp continued to perform strongly:**
 - Steel Mills segment shipped ~6 million tons, up 18% from Q4.
 - 79% mill operating rate, up from 70% Q4
 - Steel Products segment shipped ~1.1 million tons, down 3% from Q4
 - Raw Materials segment shipped ~2.1 million tons, up 32% from Q4
- **Continuing to invest in themselves to organically grow business:** “As we execute our Expand Beyond strategy, we are maintaining a selective and disciplined approach, seeking those that enhance our service offerings for customers and generate superior returns for our investors. Our competitive advantage lies not only in the breadth and quality of the products we produce, but in how we make them as more customers look to reduce emissions across their supply chains, the low embodied carbon in Nucor Steel is a real differentiator for us.” ... “Over the balance of 2023, we expect the Brandenburg mill will produce up to 500,000 tons of steel and turn profitable by year's end. This game-changing plate mill gives us a unique capability and will play a pivotal role in building out our nation's infrastructure across multiple growth sectors.”
- **Large Federal legislation will lead to rapid growth and tax incentives:** “Three pieces of legislation, the Infrastructure Investment Act, the Inflation Reduction Act and the CHIPS Act provide a combined \$975 billion of funding or tax incentives which will have a multiplier effect on the actual amount of capital deployed. Taken together, we believe that these 3 programs have the potential to generate up to 8 million tons of incremental steel demand per year over the balance of this decade. According to the American Iron and Steel Institute, an estimated 5 million tons of steel is needed for every \$100 billion in infrastructure spending.”

Olin Corporation (NYSE:OLN)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Olin sees poor market conditions continuing into the future, but sees positives in the Military side of their business:** "But Olin is busy adjusting our market participation across the ECU to support product values fixing our prior shortfall of not recession-proofing the Epoxy business while simultaneously

growing Epoxy systems and correcting commercial ammunition channel loads and landing new military business in Winchester."

- **Detailed the restructuring of their Epoxy business, including facility closures internationally; no domestic closures in this segment as of now:** "And so in March, we announced that the Terneuzen Cumene plant and our solid epoxy resins facilities in Korea and Brazil are to be closed. And you see that we took a restructuring charge of almost \$60 million in the first quarter to do that. We had additionally also closed 1 BPA facility in our Stade, Germany plant. And there's more to come.
- **Olin looking to establish a new 12-month trough for EBITDA that is significantly higher than previous peaks:** Delivered \$442M in EBITDA in Q4-2022 and \$434M in EBITDA in Q1-2023, so the firm believes they are on pace to do that.
- **Olin's chlor-alkali business operates in Alabama in Mobile and McIntosh:** The operating rate for this business is hovering around 67% for most of Olin's sites.
- **Olin's Epoxy Resins business is operating at a 40% rate currently:** The company cites the global recessionary landscape for this low operating rate.
- **EBITDA has declined YoY:** Olin cites this decline in EBITDA as a decline in volume, which they again attribute to the global recessionary environment.
- **EBITDA for the Epoxy Resins business has declined from \$158M in Q1-2022 to \$36M in Q1-2023:** The firm cites slow China recovery, slowdowns in the European economy, business restructuring, and record Asian exports as the reasons for the decline.
- **EBITDA for the Chlor-Alkali business has declined from \$452M in Q1-2022 to \$360M in Q1-2023:** The firm explains this relative stability as evidence that their model works in recessionary environments, that their cost controls are working, and that vinyls showed positive momentum in Q1-2023.
- **Projecting \$200-\$250M in CAPEX for all of 2023**
- **EBITDA for the Winchester business has declined from \$125M in Q1-2022 to \$67M in Q1-2023:** The firm is very positive on this business segment, as they see a structural increase in shooting sports participation (driving commercial demand), an increase in their business due to international military contracts, and a **significant** increase in their business in 2024 when the Lake City Next Generation Squad Weapon program comes online.

Outokumpu Oyj (HLSE:OUT1V)

Outlook: **Positive**

AL Outlook: **Neutral**

Recommended Action: none

Notes:

- **Very strong financial performance, despite inflationary pressures and demand dips:** "Adjusted EBITDA reached 204 million euros which is 85% higher than in the previous quarter. Our deliveries were up nicely by 12%."
- **Growing operations while being a leader in sustainability within an industry filled with pollutants:** "We maintained our recycled material content at a record-high level for the industry at 94%. Additionally, we announced plans to explore the decarbonization of our stainless steel manufacturing with emerging nuclear technology. We also entered the metal powder business with additive manufacturing."
- **Low CO2 footprint makes them positioned well to capture competitive advantage from EU's Carbon Border Adjustment Mechanism (CBAM):** "Ferrochrome production will increase and return to normal levels in the second quarter; however, the business area is preparing for a maintenance break in the third quarter." Adj. EBITDA was 16M EUR for the segment which is up from 14M EUR last quarter and down from 79M EUR year over year.

Packaging Corporation of America (NYSE:PKG)

Outlook: Negative

AL Outlook: Negative

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

Notes:

- **(Paper Segment) Sales volume was down 23,000 tons from Q1 of 2022 and down 6000 tons compared to Q4 of 2022:** "Packaging segment demand was below our expectations for the quarter. Consumer spending continues to be negatively impacted by higher interest rates and persistent inflation along with consumer buying preferences skewed more towards services versus durable and non-durable goods."
- **Packaging segment demand is down, and manufacturing is continuing to decline:** "the PMI index indicates manufacturing has remained in contraction territory for the last five months and continued to decline."
- **Low demand in the paper segment and expenses rising:** "Primarily due to recent increases in contract rail rates at most of our mills, we expect higher freight and logistics expenses compared to the first quarter."
- **EBTIDA is down \$62 million from Q1 of 2022:** "Total company EBITDA for the first quarter, excluding special items, was \$405 million in 2023 and \$467 million in 2022."
- **Causes for low demand in all sectors:** "As noted in our earnings release yesterday, the shift of consumer buying preferences more towards service-oriented spending, persistent inflation and higher interest rates continue to negatively impact consumers' purchases of both durable and nondurable goods."
- **Ag business struggled first quarter due to severe weather hindering demand / expecting volume and sales to increase but may still be behind from Q2 of 2022:** "We suffered badly in that first quarter in that ag business as we alluded to, down in Florida from the hurricanes. In Northern California from the significant rain and flooding that they had, and of course, in the Pacific Northwest because of the cold weather. I think we're towards the end of that big problem relative to the volume situation."
- **Starch costs and labor costs are high and starch/rail rates are not going down anytime soon**
- **Jackson, AL mill's No. 3 machine is undergoing conversion:** "will permanently convert the 365,000 ton-per-year UFS paper machine to a 700,000 ton-per-year high-performance, virgin kraft linerboard machine. PCA estimates the capital cost of the No. 3 machine's conversion to be approximately \$440 million."
- **Wallula, WA mill temporarily lays off employees:** "Packaging Corporation of America has notified its Wallula mill employees the plant will be idled and won't resume operations until later this year. We expect to resume operations at the mill later this year. It appears the decision will affect about 300 of the 450 Packaging Corp. employees at Wallula."

PPG Industries, Inc. (NYSE:PPG)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: Monitor growth in powder coatings and potential opportunities. (Huntsville currently deals in transparencies manufacturing and sales for aerospace end market.)

Notes:

- **Announced a \$44 million investment to upgrade five powder coatings offerings:** Enhancements and expansions are already completed or under way at powder production facilities in Brazil, IN; Gainesville, TX; Greensboro, NC; San Juan del Rio, Mexico; and Sumare, Brazil. PPG expects to complete these total projects by the fourth quarter of 2023. Since 2019, PPG has focused on growing its powder coatings capacity and capabilities, making four strategic acquisitions and expanding production and service elements

at seven sites across the globe. A key factor driving the rapid adoption of powder coatings is the growing interest in more sustainable solutions. Powder coatings are generally formulated without solvents that release volatile organic compounds (VOCs) and in the application line, these coatings can be reclaimed and reused.

- **The volume of sales is trending downward due to price increases; however, net sales are up:** net sales are up 2% but the volume of sales are down 3%. Sales for Q2 are projected to be "up or down a low single digit." "First quarter sales were a record \$4.4 billion and were achieved despite the backdrop of macro challenges including soft global industrial activity, elevated cost inflation, continued geopolitical issues and weakening demand in US construction-related end-use markets."
- **China is reopening, and European demand is beginning to stabilize:** "We are well positioned to serve our customers in the aerospace aftermarket, and our backlogs expanded once again this quarter following the reopening in China as customers need to replenish their stock with PPG's technologically advantaged products, including sealants and transparencies. We expect this business to continue to grow for the remainder of 2023 and beyond."
- **Glidden DIY paint expansion to all Walmart's:** "During the quarter, we benefited from several customer wins that included becoming the primary paint supplier at Walmart's 3,800 locations that carry paint products. The expansion of our well-recognized Glidden DIY brand at Walmart and in our independent dealer channel will support further growth opportunities."
- **Aerospace and automotive recovery is exceeding Q1 of 2022:** Aerospace sales are up YoY and sales in everything are projected to be up YoY for Q2. Traffic solutions were down in Q1 but are projected to be up in Q2. "Auto OEM sales aided by robust global production levels; strong YOY growth in Europe." "Just to put some numbers to the China aerospace opportunity. International flights to and from China are down about 70% versus pre pandemic still. Domestic travel in China is down about 20% versus pre pandemic. Big -- obviously big market for all aerospace players. And again, for us, that's all opportunity in both OEM and our aftermarket business."
- **Raw material inventory is still too high and raw material sales expected to decline in Q2:** "We ended Q3 and Q4 with abnormally high inventory balances. We were buying raw materials where we -- when we can get them. So, we have to work that inventory down. If you look at our inventory balance actually in Q1, it's still elevated relative to what our expectations are." "We expect Q2 to be about low single digits down on a year-over-year basis. And beyond that, we expect continued further moderation, but it is hard to quantify the scale of that at this point because there's still so many moving parts."
- **Positive operating cash flow in the first quarter for the first time in 7 years:** "Our operating cash generated was about \$400 million higher than the first quarter of 2022. Our financial results were better than our preliminary first quarter update on April 3. This was mostly attributable to stronger sales at the end of the month, a richer sales mix and lower costs than we predicted."
- **Uncertainty on industrial and manufacturing:** "We've got uncertainty on the general industrial side. And really, uncertainty on the pace of recovery of industrial/manufacturing in China. So those are really the key drivers in the second half. It's still 10% EPS growth Y-o-Y in an extremely challenging environment."

Quest Diagnostics (NYSE:DGX)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: none

Notes:

- **Base business revenue grew 10% and base business volume increased 8%:** "The strong volume growth we experienced in our base business across all customer types, points to a continued return to care in the quarter. We saw a faster growth in the number of tests per requisition across a broad range of clinical test categories. This suggests more people are returning to the health care system for routine care after delaying care during the pandemic."
- **Quest is currently expanding Pack Health in Birmingham:** "A company Quest acquired in early 2022 to add capabilities in digital patient engagement and health coaching, announced plans to expand its headquartered facilities and add at least 200 full-time jobs in Birmingham, Alabama."
- **In February, Quest announced they will be helping Tower Health in Pennsylvania to manage laboratory supply chain and perform tests**
- **Quest announced planned acquisition of Haystack Oncology:** "Haystacks liquid biopsy technology, combined with our strengths in screening, pathology and sequencing will now position us to play a leading role in the fast-growing MRD category. We expect to focus initially on colorectal, breast and lung cancers and to start generating revenue next year. We anticipate Haystack Oncology to begin contributing revenue in 2024 and to have a positive ROIC by the end of 2025."
- **Strong year over year growth in many sectors including Alzheimer's, COVID, prenatal genetics, and blood-based tuberculosis testing/screening.**
- **Operating income down year-over-year due to Covid pandemic ending:** "The year-over-year decline in adjusted operating income is related primarily to lower COVID-19 testing revenues, partially offset by growth in the base business."

Sanmina-SCI Corp. (NASDAQGS:SANM)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Both business segments—Industrial/Medical/Automotive and Communications/Cloud—have grown 18% and 27%, respectively, and expecting higher than usual performance in Q2, despite economic uncertainty:** "For the second quarter, demand for the products was stable across most of the markets. For industrial, medical, defense and automotive, we delivered \$1.362 billion. The growth was quarter-over-quarter 2% and year-over-year growth of 18%. Communication networks and cloud infrastructure was \$958 million, pretty strong for the second quarter that was down slightly 6% and a strong growth year-over-year of 27%. Typically, for a second quarter seasonality – seasonally, this is a down quarter, but we had – this quarter was stronger than typical as we delivered \$2.32 billion"

Sonoco Products Company (NYSE:SON)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Improved portfolio management and business mix provides fewer volatile results than in previous business cycles:** " We have a backlog of growth and efficiency investments that are material to future earnings. While we navigate near-term macro volatility, we're going to invest in the businesses and place our investments on projects with the highest returns for our shareholders."
- **Sales are up 5% (to \$909 million) due to acquisitions and strong price performance but volume is still down as elevated customer inventory and normalizing supply chains interrupts volumes.**
- **Operating profits are up 30% to \$94 million as price/cost offset utilization:** "This is a notable example of the results of our disciplined operating model as we continue to operate these important businesses for optimal results."
- **Volume results varied and are still uncertain for the rest of the year:** "Really, when you think about Flexibles and Rigid Paper Containers, those both had really good quarters, but ended up relatively flat with kind of an uncertain trend for the rest of the year. Metal was down slightly, really due to weakness in aerosol."
- **Labor costs and availability are being monitored along with Europe and Asia volumes for signs of improvement.**

Sumco Corporation (TSE:3436)

Outlook: Positive

AL Outlook: Positive

Recommended Action: Discuss further expansion with SUMCO in the state.

Notes:

- **Q1 sales exceeded SUMCO's expectations by JPY 5 billion (\$36.3M)**
- **Forecasting sales for the next quarter of JPY 108 billion (\$785M):** The Mitsubishi Materials polysilicon plant in Alabama is expected to contribute approximately JPY 5 billion (\$36.3M) of the 108 billion.
- **Expanding capacity this year, dividend returning to normal levels:** "This fiscal year, we have a strong need for cash as this will be a significant year for Green Field capacity expansion investments. As such, our dividend payout ratio has reverted to the previous 30% level. Last fiscal year, SUMCO generated significant profits and had abundant cash on hand, so we were able to raise the payout ratio to 40%. But this fiscal year, there will be large-scale outlays related to capacity expansion, hence the return to a 30% payout ratio."
- **SUMCO expects the semiconductor wafer business to struggle through 2023 with a recovery set for mid-2024**
- **Demand for 150mm wafers has been soft, but pricing has increased for LTA (long-term agreement) customers, so the decrease in sales volume has been accompanied by higher prices per sale.**
- **SUMCO views the emergence of ChatGPT and other AI as mainstays in the workplace as an indicator that semiconductor demand will recover and remain robust for years to come.**

The Scotts Miracle-Gro Company (NYSE:SMG)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Cost of goods is improving along with free cash flow:** "Free cash flow was favorable, improving nearly \$600 million through our first half. We're reaffirming our guidance of generating \$1 billion in free cash flow through fiscal '24. The cost of goods is improving, too. While we expect commodity costs to be up almost \$100 million over fiscal '22, this is about 20% less than we projected as recently as the end of Q1."
- **Net sales are down for all segments and drastically down for the Hawthorne segment:** "For the quarter ended April 1, 2023, company-wide sales decreased 9 percent to \$1.53 billion. U.S. Consumer segment sales decreased 2 percent to \$1.36 billion, from a record \$1.38 billion last year. Hawthorne segment sales decreased 54 percent to \$93 million, compared with \$203 million during the same period a year ago, reflecting the continued challenges in the hydroponic industry."
- **Continued investment in innovation, marketing, and incremental growth:** "We also will continue to invest in innovation, marketing and incremental growth within and outside of our core business. This can range from alternative landscapes and natural and organic products to live goods as well as strategic investments in Hawthorne to ensure we prioritize initiatives and approach them in a coordinated and measured manner."
- **Consumer spending remains uncertain and a concern.**
- **The company is hoping to do well in point-of-sales this summer with favorable weather:** "May looks to be relatively normal in temperatures and precipitation. June forecasts are on a similar track, an indication we can extend the peak lawn and garden season deeper into the summer."
- **They are looking at Hawthorne (cannabis segment) with a 'different lens':** "What we learned is that those at the top want solutions and partners to help them grow and scale. We're determined to be the only partner on the supply side to develop and deliver competitive solutions to help them grow."
- **To continue driving profitable volume, media and promotional plans this year will run through the fall.**
- **"In categories besides lawns and growing media, we continue to trend towards flat units versus prior year"**
- **Continued market oversupply along with limited and costly access to capital in an uncertain regulatory environment remain problems with Hawthorne:** "even though Hawthorne saw a substantial decrease in warehousing costs in the first half, the volume decline paired with higher material and freight costs, has outpaced year-to-date pricing actions to drive the segment's gross margin rate lower."
- **Only "big players" in the cannabis industry can afford the expensive LED lighting system produced by Hawthorne, hindering volume and sales.**

Toyota (TSE:7203)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Revenue and net profit increased year-over-year, beating analyst expectations.**
- **EV sales projections positive:** Toyota projected sales of about 202,000 battery electric vehicles in the fiscal year that started in April, helped by the recently introduced bZ3 and Lexus RZ models. That would be sharply higher from about 38,000 units sold the previous fiscal year. Toyota expects EVs, including hybrid cars, to make up 37% of Toyota and Lexus cars to be sold this fiscal year, up from 30% the previous fiscal year.
- **Increasing capex by 16% to 1.9 trillion yen.**
- **Positive guidance for the year:** The carmaker said sales growth and cost cuts would help offset the negative impact from the yen's projected strength.

Tyson Foods Inc. (NYSE:TSN)

Outlook: Negative

AL Outlook: Negative

Recommended Action: Watch for closures/layoffs.

Notes:

- **This quarter Tyson noticed headwinds of low chicken commodity market prices, high commodity input costs, and HPAI (avian flu) export bans.**
- **Tyson taking strategic action:** "work closely with customers, optimize capacity & cost structure, and invest in digital and automation."
- **Pricing increased by high single digit to low double digits.**
- **Operating income decreased, but sales volume and pricing increased for chicken:** "2Q23 operating income decreased due to higher input costs, including higher feed ingredient costs of \$145M, an unfavorable year-over-year derivative impact of approximately \$135M and the effect of strategic decisions in the quarter."
- **For pork and beef, year-over-year sales revenue declined.**
- **Tyson recently closed two chicken plants (in Arkansas and Virginia) and reduced finished inventory pounds by nearly 20%:** "These strategic actions are expected to generate significant efficiencies going forward, although some of them generate incremental cost in our current results"
- **"We now have 50 debone lines that are fully automated. We have room to optimize our cost structure and a portion of the actions we took last month are focused on this."**
- **"Tyson laid off 15% of its senior leadership and 10% of its corporate workers last month as it faces steep inflation on labor, grain and other inputs."**
- **Adjusted anticipated revenue declined:** "Tyson Foods Inc. now anticipates fiscal 2023 revenue of \$53 billion to \$54 billion. Its previous forecast was for revenue between \$55 billion and \$57 billion"
- **Expected CapEx is down to \$2.3 billion for fiscal year 2023 from previously expected \$2.5 billion:** "in summary, the first half was challenging and many of the headwinds experienced are likely to persist for the remainder of the fiscal year."

United States Steel Corp. (NYSE:X)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Investing in new mill in Osceola, Arkansas with expectation for improved financial performance and environmental sustainability:** “[A]n update on...Big River 2. This state-of-the-art mini mill remains on track for a 2024 startup and in line with its \$3 billion budget. This is a game-changing investment that will bolster U.S. Steel's financial performance and environmental sustainability for years to come. Once complete, this cutting-edge facility, in combination with the existing Big River Steel, will form a green steel campus capable of supplying some of the most advanced and sustainable steels in North America.”
- **The Big River 2 plant is expected to generate a lot of free cash flow by 2026:** “With the new mill online next year, we expect Big River portfolio will deliver annual through-cycle EBITDA of approximately \$1.3 billion and annual through-cycle free cash flow generation of \$1 billion plus by 2026. That is an unprecedented level of cash generation for U.S. Steel to invest in our business and reward stockholders.”
- **The Big River Steel plant will enable higher production of electric vehicles:** “In fact, EVs cannot run without the kind of ultra-thin electrical steel that will be soon rolling off the line at Big River Steel to the tune of about 200,000 tons a year. The launch of our new Electrical Steel Index further strengthens our partnership with strategic customers. In this case, the growing numbers of manufacturers of EVs. Index will also serve the booming market for green power generation. This specialized steel is in high demand from our customer base. In fact, we've already pre-sold our first coil of electrical steel from Big River.”
- **The macroeconomics of the steel industry are very healthy right now driven by pass-through price inflation, and increased demand from green energy:** “Spot hot-rolled coil prices are over \$1,100 per ton today, up over 75% since year-end, reflecting healthy market dynamics. The higher selling prices are supported by higher raw material inputs, like scrap steel cost as well as healthy customer demand. In addition, improvement in the domestic steel market appears to be taking hold, supported by diverse capabilities domestically to meet customer demand, a strong policy environment supporting domestic manufacturing and abundant natural resources, including green energy.”
- **As manufacturing is coming back to the US, US Steel is positioned well to have rapid growth as they are a fully integrated steel manufacturer:** “And our steel is mined, melted and made in the U.S.A., positioning us at the heart of the domestic manufacturing resurgence. We're also one of the few steel makers with access to our own iron ore natural resources and the only one with mini steel -- mini mill sheet production. We believe our iron ore is the lowest cost in Northern Minnesota and will be increasingly in demand. Let me elaborate. We believe as electric arc furnaces move up the value chain, they will need to consume more and more virgin iron units to produce the cleaner and thinner seals customers are demanding”
- **All segments of the order book are either stable year over year or ticking up slightly:** “Take automotive, for example. Q1 light vehicle sales are trending up, up nearly 7% versus last quarter and up 15% versus the quarter before that. We expect an additional 1 million auto sales in 2023 versus 2022. Appliance sales are also robust, with 2023 expected to be roughly flat year-over-year. This is particularly encouraging after coming off 2 record years in appliance production. 2022 appliance production rates were the second best ever, outdone only by 2021's performance. In energy markets, it remains stable. Rig counts are off their peaks of late 2022, but remain at healthy levels. If you dig a layer deeper, rig counts in strategic basins, like the Permian, like the Eagle Ford, are relatively unchanged. Service center statistics are strong as well. Q1 flat-rolled service center shipments were up about 10% year-over-year and above average seasonal volumes. This is an important indicator because it suggests a demand for end users of steel remains strong.”
- **There are some key risks to take note of with US Steel. The main two being lead time increases deterring customers and foreign price competition:** “Lead times, while still robust, are beginning to inch

lower and we face the risk of low-cost foreign steel coming into the marketplace.” ... “We have built flexibility, optionality and resilience into our business plan. We are focused on controlling what we can control, and we are poised to weather a potential downturn in the economy in a way we just weren't a few years ago.”

WestRock Co. (NYSE:WRK)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: Watch for footprint “optimization.” Current Alabama locations in Stevenson, Cottonton, Demopolis, Cullman, Athens, Montgomery, Eutaw, Lanett, and Huntsville.

Notes:

- **Westrock saw Paper (-24%) and Distribution (-15%) sales decline but consumer packaging (+1%) and corrugated packaging (+15%) sales increased, leaving Westrock with -2% net sales year-over-year.**
- **Westrock company announced it will permanently cease operating North Charleston paper mill in August of 2023:** "The decision to close a facility and impact the lives of our team members is never easy, and we are committed to assisting our North Charleston team with exploring roles at other WestRock locations and outplacement assistance."
- **The North Charleston mill will lose 500 employees:** "The combination of high operating costs and the need for significant capital investment were the determining factors in the decision to cease operations at the mill."
- **Westrock is looking to invest in growth, optimize their footprint, and improve returns on invested capital.**
- **Westrock is in the process of exiting uncoated recycled paperboard (URB) production and is in the process of selling stake in RTS joint venture along with the Chattanooga mill:** " By exiting these less productive assets, we are able to direct our capital towards better use and invest for growth in the most attractive markets and geographies."
- **Hoping to hit target of \$250 million in savings**
- **Expecting to spend \$1 billion in Capex this year**
- **Continue to expect soft demand in difficult year-over-year comparisons for paper business**
- **Have \$300-500 million earmarked over never 2 years for strategic investments:** "We've pointed to things like the Longview, [WA] box plant as an example of those strategic investments, investing in some mill conversion type efforts to get to more strategic substrates would be another example."
- **Looking to expand machinery business likely in Latin America.**

Westwater Resources Inc. (NYSE:WWR)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: Continue to watch for their ability to access equity and debt.

Notes:

- **Announced a joint development agreement with SK On:** Under the development agreement Westwater and SK will work to ensure that graphite from the Kellyton plant will be used to supply anode material for SK's 2 EV plants in Georgia, 1 new EV plant in Georgia with Hyundai, and 3 coming plants for SK's BlueOval joint venture with Ford. The joint development agreement with SK allows for potentially all of the anode material processes at Kellyton to be used in SK's plants across the country.

- **Phase 1 on Kellyton plant construction continuing:** Expect a run rate of 7,500 metric tons of graphite per year by mid-2024. Plant expected to be operational Q1 2024, but not at full capacity until Q3.
- **Phase 2 estimated to cost \$465M:** Still at the feasibility study phase
- **Finished the quarter with a cash balance of \$40M and no debt:** Planning to close a private debt transaction for \$150M
- **\$90M has been spent so far on Phase 1 construction, with \$180M remaining:** Given that Westwater has \$40M in cash and is expecting to secure \$150M via debt, the company should be able to cover the remaining construction costs for Phase 1; however, there are concerns from analysts about the company's ability to cover other operational costs in the meantime. The CFO stated that Westwater plans to "keep costs low" and "avoid needing a significant amount of additional raises beyond the \$150 million for normal operating costs." Additionally, the company's filings remind investors that they have not recorded revenues from operations since 2009 and has instead relied on equity financings, debt financings, and asset sales to fund operations. It is important to closely monitor construction progress and ability to access equity and debt financings until the development phase is over and the graphite can be monetized.

Additional Notes:

In8bio, Inc. (NASDAQGM:INAB)

• **In its annual report, auditor raised “going concern” doubt:** “The report from our independent registered public accounting firm for the year ended December 31, 2022, includes an explanatory paragraph stating that our recurring losses since inception raises substantial doubt about our ability to continue as a going concern. Our existing cash will not allow us to fund our operations past mid-July of 2023, which includes reserves for all necessary winddown expenses. We have taken measures to defer or reduce costs in the near term in order to preserve capital and increase financial flexibility. These cash preservation measures may impact our ability and the timing to execute our strategy, including our ability to achieve the anticipated milestones for our preclinical and clinical programs. To continue to fund our operations, management has developed plans, which primarily consist of raising additional capital through some combination of equity and/or debt offerings, including through our ATM program, and identifying strategic collaborations, licensing or other arrangements to support development of our product candidates.”