

Quarterly Earnings Call Notes – Q3 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 Q2 2023 (April to June 2023). These calls were recorded during Q3 2023 (July to September 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: none

Notes:

- **Experienced a strong quarter in Automotive, Infrastructure, and Personal Safety:** "Looking at our markets, trends played out as expected. We saw strength in automotive, both OEM and aftermarket, as well as highway infrastructure and personal safety, excluding disposable respirators. Health Care, which was up slightly, continues to be impacted by lower post-COVID-related demand, notably in our biopharma, Health Information and Medical Solutions businesses. We also saw continued weakness in electronics, consumer retail and China."
- **Restructuring and spinning off Healthcare Business:** "We've made good progress on our planned spin of our Health Care business, including regulatory filings and system updates in preparation for soft spin. We are also in the final steps of naming a CEO. We continue to work towards closing the transaction by year-end 2023 or early 2024, subject to the required conditions and additional factors we have disclosed in our SEC filings."
- **3M reached agreement to resolve legal claims surrounding its earplugs:** 3M agreed to a \$6 billion settlement with 240,000 plaintiffs to resolve claims that its earplugs led to hearing damage for US veterans and service members.
- **Announced an Agreement to Resolve PFAS Litigation:** "Last month, we announced an agreement, subject to court approval, to resolve public water systems claims nationwide in the AFFF multi-district litigation. This agreement will benefit U.S.-based public water systems that provide drinking water to a vast majority of Americans. The settlement covers all forms of PFAS. As we announced, we have taken a Q2-related charge of \$10.3 billion payable over 13 years."
- **Layoffs from previous quarter mostly impacted management:** "Also, during the quarter, we initiated a large part of our restructuring program to simplify and streamline the organization. We are aggressively reducing management layers and rooftops while also streamlining our go-to-market models and supply chain, bringing us closer to our customers."
- **Decatur and Guin - Advanced Materials segment sales once again grew YoY:** "up low single digits year-on-year"
- **Guin - Transportation Safety, Commercial Solutions, and Industrial Adhesives and Tapes segments posted mixed sales results:** Transportation Safety was up "high single digits organically," while Commercial Solutions were up "low single digits." Industrial Adhesives and Tapes saw a decline in sales of 2.4% YoY. The company cites end-market softness in electronics for the decline in sales; however, despite the decline in sales, 3M's cost cutting actions led to increased operating margins of 22.2%, up from 21.5% from the previous year.

Airbus SE (ENXTPA:AIR)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Issues with the Pratt and Whitney 1100 engines due to "contaminants in a metal used in part of the engine core"** forcing at least 1,200 engines to be recalled for up to 60 days. These engines are used in the manufacturing of the A320neo jets produced by Airbus in Mobile, AL.
- **Order intake totals grew** by 3.7% YoY, but only because of the Airbus Commercial segment: Order intake in Airbus Commercial grew from 259 (2022) to 1,044 (2023), Helicopters shrunk from 163 (2022) to 131 (2023), and Defense and Space shrunk from 6,534 (2022) to 6,038 (2023).
- Financials: Revenue grew 2.9B EUR, Adj. EPS grew from 2.40 EUR to 2.47 EUR, EBIT reported of \$2B down from \$2.86B in 2022 and FCF before M&A and Customer financing of \$1.76B
- **Announced partnership related to sustainable aviation fuel:** "teaming up with LanzaJet to boost production of sustainable aviation fuel, same as SAF. For this growing partnership, we will support the acceleration of alcohol-to-jet SAF production pathway at scale using LanzaJet-proven technology to produce drop-in fuel fully compatible with existing aircraft and infrastructure." "Starting this summer, our customers will be offered an option to have 5% pure SAF on board for their ferry flights from Toulouse and Hamburg, an option that is already available from Tianjin and Mobile."
- **Segment Updates:**
 - **Commercial:** Deliveries were up YoY by 6.4% with 316 deliveries, Revenue was also up by 3B bringing the change to 16.1%, and R&D was up to 1196 from 1020, a 17.3% growth. Yet, profitability was down due to "investments for preparing the future". R&D cost drove their profits down.
 - **Helicopters:** Deliveries were down YoY with 131 deliveries, Revenue was up 26.1% from 2.744B EUR to 3.194B EUR, R&D expense was up 20.8% from 120M EUR to 145M EUR, and EBIT was up 24.2% from 215M EUR to 267M EUR
 - **Defense & Space:** Everything was down, starting with Revenue at -8% from 5,056M EUR to 4,653M EUR, R&D expense at -17.9% from 117M EUR to 96M EUR, and Adj. EBIT at -49.7% from 155M EUR to 78M EUR.

BioCryst (NASDAQGS:BCRX)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: Take note of R&D day in Birmingham in November.

Notes:

- ORLADEYO revenues are expected to be about 320 million
- **In November BioCryst is planning to host "R&D Day" Nov. 3 at the Discovery of Excellence labs in Birmingham AL:** "Our hope is you will see more clearly how our structure-based drug design platform focused on pursuing first-in-class or best-in-class medicines for patients with rare disease, allows us to inherent risk of drug discovery across multiple programs, targets and diseases and increases our probability to get at least one of them to the market to follow the success of ORLADEYO."
- **Biocryst is hoping to bring ORLADEYO to the pediatric population:** The burden of HAE and in particular, the burden of injectable therapy is especially difficult for children. That is why we are focused

on a future pediatric indication with oral once-daily ORLADEYO in the APeX-P trial, including evaluation of a new formulation using granules to best meet the needs of children with HAE.

- **Biocryst is continuing to add investment in discovery and development for new products to bring to the market as they did with ORLADEYO:** "As we focus our investments across multiple molecules, targets and rare diseases that meet our criteria, we are diversifying risk by adding to our options in discovery and early development. Adding these options then increases our overall chances for success in achieving that goal of bringing additional products through registration and to patients."
- **Uncertainty with new molecule BCX10013:** "If the data show, we don't have a best-in-class molecule here, we'll stop development. It is early and there's still plenty of unknowns with BCX10013 program."
- **Revenue for Q2 was 82.5 million with 81 million from ORLADEYO:** CAPEX expected to be lower than last year and operating expenses will be about 375 million.

Boeing Co. (NYSE:BA)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: none

Notes:

- All business segments remained stable or gained in Q2:
 - Commercial Airplanes: Revenue grew from \$6.3B to \$8.8B. Secured 460 net orders; backlog of \$363B.
 - Defense, Space & Security: Revenue stayed flat at \$6.2B. Orders valued at \$6B
 - Global Services: Revenue grew from \$4.3B to \$4.7B. New parts distribution site in Poland.

Carpenter Technology Corp. (NYSE:CRS)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: none

Notes:

- All of the end-use markets saw significantly higher than expected growth in revenue for Q2:
 - Aerospace & Defense: +65%, Medical: +24%, Transportation: +12%, Energy: +66%, Industrial & Consumer: +17%
- The Specialty Alloy Operations (SAO) segment (relevant to Athens, AL facility) saw increases across the income statement:
 - Revenue grew \$9.9B YoY, and \$5.0B QoQ
 - Operating Income expanded by \$50M YoY, and \$31M QoQ
 - These increases mainly came from "higher shipment volumes and improving product mix driven primarily by Aerospace and Defense end-use market"
- The Performance Engineered Products (PEP) segment maintained growth through strong demand for titanium within the Aerospace & Defense and Medical end-use markets:
- Revenue grew 16% YoY, and 4% QoQ
- Operating Income shrunk from \$10.2M to \$5.9M, "due to near-term timing of operating costs versus production flows in the Dynamet titanium business as activity levels ramp up to support customer demand"

Chemtrade Logistics Income Fund (TSX: CHE.UN)

Outlook: Positive

AL Outlook: Positive

Recommended Action: Expansion and project announcements are coming from their ultra-pure acid division to serve the semiconductor industry with locations in AZ and OH. AL is not a semiconductor hub, but given the positive demand outlook for water chemicals, explore opportunities for expansion based on sales and margin growth.

Notes:

- **Chemtrade experienced their best quarter in history in terms of EBITDA at \$144.2M:** "The second quarter of 2023 continued to build on our recent track record of strong performance. EBITDA for the period was \$144.2 million, which is our best quarter ever. The strong results reflect ongoing strength across many of our key products as well as increased focus we have placed on an operational reliability and productivity in recent years. Some areas of particular strength this quarter included sodium chlorate, water solutions products and Regen acid."
- **Sulfur and Water Chemicals, Alabama's segment of the business, generated \$280.3M in revenue, which is an increase of 4% from the same quarter last year:** "Revenue benefited from higher pricing for water solutions products and higher volumes of Regen acid but was offset by lower merchant acid selling prices, primarily due to lower sulfur costs. However, the lower merchant acid pricing had a limited impact on EBITDA. The increase in EBITDA was driven by higher selling prices and improved margins for our water solutions products. Pricing for these products has caught up with raw material costs, as we have previously discussed. We also realized higher Regen acid sales volumes, reflecting strong [refinery] demand following our customers' turnaround activity in Q1."
- **Company sees a strong future in supplying ultra-pure acids to the semiconductor industry; announced projects to take advantage of coming demand:** "as the top North American supplier of ultra-pure acids to the semiconductor industry, we are well positioned to capitalize on the incredible demand growth for ultra-pure acid anticipated over the next 5 years. The semiconductor industry is focused on building production in North America, and this will result in the 2 to 3x growth in ultra-pure demand and an upgrading of ultrapure quality in North America. We have previously announced 2 projects to further strengthen our market position in North America and capitalize on this opportunity, which I will provide an update on shortly."
- **Water Chemicals - Chemtrade is the top supplier of water chemicals to municipal drinking water plants in North America; strong demand for chemicals produced in AL going into the future:** "Increasing regulations and population growth are supporting increased demand for their coagulants we produce. We also continue to evaluate and pursue opportunities to capitalize on higher growth areas of the water chemicals market as well, such as PAC and ACH. None of these market trends are short term in nature."
- **Chemtrade expects demand for Water Chemicals to remain stable even in a recessionary environment:** "Water Solutions products are essential for clean, potable water and are, therefore, largely nondiscretionary. If an economic recession were to take hold, we expect demand would not be impacted. Over the medium term, we anticipate continued organic growth in Water Chemicals, given the macro trends I highlighted earlier. Overall, given the strength we've seen in Regen demand, the margin improvements we've realized in Water Chemicals, the organic growth outlook for the segment, we believe the outlook for our SWC segment remains positive for the second half of this year and beyond."
- **Planned CapEx of \$110M to \$140M for 2023:** This number is below the previous CapEx projection, as there have been delays in the Casa Grande, AZ ultra-pure acid project. Their ultra-pure acid project in Cairo, OH is proceeding on schedule and on budget.

Constellium N.V. (NYSE:CSTM)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: Continue monitoring progress of the Muscle Shoals plant.

Notes:

- **Highlights:**
 - Shipments decreased 6% YoY to 398kt which related to a drop in revenue to \$2.2B Euro or -14% YoY.
 - Increased Value-Added Revenue (up 11% YoY) and Profit (Adj. EBITDA up 5% YoY)
 - Decreased leverage from 3x to 2.7x (Net Debt/ LTM Adj. EBITDA)
 - Increased Guidance: "expect adjusted EBITDA in the range of EUR 700 million to EUR 720 million and free cash flow in excess of EUR 150 million in 2023."
- **Packaging & Automotive Rolled Product segment:**
 - Adj. EBITDA of \$80M down in shipment volume (-7%), Revenue (-22%), and Adj EBITDA (-17%)
- **Aerospace & Transportation segment:**
 - Adj. EBITDA of \$97.5M with no change in shipment volume (0%), growth in Revenue (1%), and Adj. EBITDA (53%)
 - "Shipments in TID were down 15% versus last year, reflecting a slowdown in most industrial markets, particularly in Europe, partially offset by strong demand in other markets like defense. Price and mix was a tailwind of EUR 68 million on improved contract pricing, including inflation-related pass-throughs and a stronger mix with more aerospace."
- **Automotive Structure & Industry segment:**
 - Adj. EBITDA of \$42.9M with growth across the board. Shipments grew due to "increasing activity levels" (8%), Revenue (12%), Adj. EBITDA (15%)
- **End Market Updates:**
 - Seeing opportunities in Aluminum for sustainability. "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."
- **Muscle Shoals continuing struggles, but indicating light at the end of the tunnel:** "The company remains highly focused on stabilizing the operating challenges we have been experiencing at Muscle Shoals, so that we can take advantage of these end market dynamics here in North America. We're encouraged by the improved performance we have seen recently at Muscle Shoals and remain confident in our ability to restore the plant's profitability over the course of 2023."
- **Guidance:** Increased to \$770-792M in Adj. EBITDA, >\$165M in FCF, >\$880M FCF by 2025, and long term leverage to 1.5x-2.5x (Net Debt/ LTM Adj. EBITDA)

Daikin Industries (TSE:6367)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Air Conditioning business:** Sales expanded in China and Asia. Even in Japan, the Americas, and Europe, we worked to identify dynamic markets and expand sales of differentiated products and services. This led to higher revenue and profits.
- **Chemicals business [Alabama]:** Despite the significant impact of demand slowdown, efforts were made to expand sales in the semiconductor market, and this enabled us to maintain strong growth in profits.
- **Chemicals saw a decrease in revenue of \$20.77M:** The decreases were true amongst all geographies. The only exception was in Europe, where revenue went up \$22.85M. This represents a 33% change in the European segment.
- **Financials increasing steadily with slightly decreasing profit margins:** Net sales grew by nearly 11%, while operating margin decreased from 11.1% to 10.8%, lastly, net profit margin decreased from 11.3% to 10.5%.
- **Guidance for CAPEX, D&A, and R&D is as follows:** \$2.1M, \$1.1M, \$0.79M

Enviva Inc. (NYSE:EVA)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: Watch for performance improvements and monitor progress of new facilities.

Notes:

- **Q2 adjusted EBTDA is at 26 million**
- **Waycross, Georgia facility is operating again after recent outage:** "One of the key maintenance projects at Waycross was to replace emissions control equipment and the new equipment should last for the next 10 years or so. It's important to note that since Waycross is currently the largest plant in our fleet and is one of the best performers from both the production and cost perspective."
- **Southampton, Virginia and Greenwood, SC facilities had challenges:** "Southampton facility is operating at 65% capacity, this gives us time to fix the underlying asset issues as well as to evaluate the best path forward for this plant."
- **Full 2023 adjusted EBITDA guidance of 200-250 million:** "For third quarter, we're stepping down our expectations from the previous range of \$70 million to \$90 million of adjusted EBITDA to a range of \$60 million to \$80 million."
- **Adjusted gross margin for 2023 was 41 million compared to 54.8 million in 2022:** 2 main factors: 6 million of support payments were not received this year and they saw higher shipping costs.
- **2023 total CapEx lowered down to 335-365 million:** "Epes, AL plant is expected to be operating mid 2024- and Bond, MS plant is expected to be running mid-2025"... Epes is being modeled after Waycross facility which is the best performing plant.
- **Entire industry is suffering from cost increases that have outpaced sales price increases**
- **In the latest investor presentation share at the end of June, Enviva continues to show 2 sites in AL that they are evaluating/assessing.**

Evonik (XTRA:EVK)

Outlook: Negative

AL Outlook: Negative

Recommended Action: Monitor demand and solicit feedback from Mobile and Birmingham facilities.

Notes:

- **Evonik CEO sees no signs of recovery from weak market conditions any time soon:** "we all had hoped for an accelerating recovery in the course of the year... We all have seen similar crisis before, the financial crisis in 2008, or the corona one in 2020. But this crisis is more severe, and especially longer lasting than any other crisis before. For 5 quarters now, we have been confronted with persistently weak demand and destocking by our customers. There are no signs of recovery yet... In this particular crisis, virtually all of our businesses are equally affected by weak volumes and especially by customer destocking."
- **Animal Nutrition earnings are 80% below the long-term average for Evonik:** "At the same time, methionine prices have been falling until recently, while prices for key raw materials such as propylene and ammonia have increased. As a result, our earnings in Animal Nutrition, which have only shown an average year-on-year swing of below EUR 100 million over the last 5 years, are now 80% below the long-term average this year, which means close to breakeven in some months."
- **In an effort to cut costs, Evonik has lowered CapEx, frozen hiring, and lowered bonus payments:** "On free cash flow, despite declining profits of more than EUR 600 million, we were able to keep free cash flow almost stable. Lower bonus payments for the previous year and a significantly lower cash outflow from net working capital, helped by lower prices and lower sales, even led to an increase in operating cash flow compared to last year. Less CapEx spend in H2, which is this year more H1 weighted and continued tight net working capital management, similar to last year's H2, will result in strong cash generation over the next 6 months. We are also making good progress on our contingencies. By the end of June, we are fully on target for the EUR 250 million of cost savings. We have achieved a run rate of 40% so far. Existing measures will ramp up further in H2. For example, the effect of our hiring freeze will be multiplied with every day in every open position, and we will intensify our efforts and implement further measures for the remainder of the year."
- **Cutting production at several plants globally:** "On top of the contingency measures in place and based on our assumption of no recovery in the second half of this year, we are now rolling out to measures to adjust our capacities to the ongoing weak demand situation. We will reduce overtime accounts. We'll utilize our global production network to mothball single sites temporarily. And we are starting with the, Germans call it Kurzarbeit, short-term work at selected sites. And, as always, we are learning from this crisis."
- **The Methionine Segment, Evonik's segment in Alabama, has experienced challenging market conditions, but prices have likely hit a trough:** "Raw material costs are, of course, falling, but PA12 capacity will be available. And methionine prices are likely bottoming out in Q3. So, the demand has been good over the recent months."
- **Evonik's recent Methionine-related expansions in Alabama have helped Evonik's cost position:** "Second, by disciplined debottlenecking in our plant sites in Singapore and by the building up of the methyl mercaptan capacity in the United States of America, we better our cost position additionally. Why do we do this, in a nutshell? Because for Evonik, methionine is an attractive cash contributor in this respect."

General Electric Company (NYSE:GE)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **GE Aerospace is growing rapidly and GE Vernova saw record orders with improved profitability and continued margin expansion:** Services represented 70% of GE aerospace revenue and about half of GE Vernova revenue. "Given the strength of GE Aerospace and the improvement at GE Vernova, for the full year, we're now expecting revenue growth in the low double-digit range, up from high single digits; \$2.10 to \$2.30 of adjusted EPS, up from \$1.70 to \$2, and that includes \$4.7 billion to \$5.1 billion of operating profit; and finally, we now guide for a range of \$4.1 billion to \$4.6 billion for free cash flow, up from \$3.6 billion to \$4.2 billion."
- **Double Digit growth across all headline metrics:** "Orders increased 58%, up in all segments. Equipment was up significantly led by renewables. This includes 2 large HVDC projects with Tenet and Grid and higher-margin orders at U.S. Onshore Wind. adjusted EPS was \$0.68, nearly double what we delivered last year, driven by profit growth in all segments and meaningful deleveraging. Free cash flow was \$415 million, more than double what we delivered last year, driven by earnings growth."
- **MOU agreements with Hindustan Aeronautics and future deals for Hybrid electrics:** "our defense team signed a historic MOU with Hindustan Aeronautics Limited to produce jet fighter engines for the Indian Air Force. And while our commercial business secured major deals with Riyadh Air, Jet2 and more. For the future, we're developing next-generation technologies like RISE, hybrid electrics and sustainable aviation fuels."
- **Supply chain and inflation challenges persist**
- **Commercial Engines and services were robust:** "32% revenue growth. Commercial Engines revenue grew 35% with LEAP deliveries up over 80% year-over-year and over 10% sequentially. We're on track for 1,700 LEAP deliveries this year. "
- **XA100 engine could receive governmental funding:** "We're pleased the House has recognized the importance of this program by including funding in the National Defense Authorization Act and in the House Appropriations Committee Defense Bill. We'll be closely watching the Senate as it considers legislation this week."
- **Onshore & Offshore Wind and Grid businesses had extreme revenue growth:** "Revenue grew 27% organically, driven by higher equipment deliveries across both Wind and Grid. And offshore revenue tripled year-over-year as we increased nacelle production with June, the highest month to date."
- **GE is continuing to drive incremental pricing to cover inflation**

Honda (TSE:7267)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Honda beat earnings, and operating profit increased 77.5% YoY:** "In Q1 FY2024, with the improved fixed cost structure that we have been optimizing, we maximized the effect of increased sales units mainly in North America and achieved significant growth in automobile operating profit YoY. With respect to the total profit, operating profit grew JPY172.2 billion YoY to JPY394.4 billion, a quarterly record, with operating margin at 8.5%."
- **Cite improved semiconductor supply-chain for production recovery and sales in the United States. China presents a challenge for Honda, as with other automakers:** "In the United States, the improved supply of semiconductors and recovery in production, in addition to strong sales of models introduced last year, led to results substantially surpassing Q1 of last year. On the other hand, in China, expansion of the new energy vehicle market, resulting in more intense competition, impacted the results, which were lower YoY."
- **Announced partnership for software development and another partnership for an EV Charging Network:** "In regard to our electrification efforts, in order to develop the next-generation competitive

software-defined mobility products and services, we reached a basic agreement and partnership with SCSK Corporation. In North America, seven automakers, including Honda, concluded an agreement to establish a joint venture to create a high-powered charging network for EV."

- **US Sales increased by 44.7% from the same quarter last year:** Honda sold 347,000 vehicles in the last quarter in the US alone. Japanese and Chinese market sales fell, but only marginally by 1.2% and 5.0% respectively.

Hyundai Motor Company (KOSE:A005380)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Saw YoY sales increases of 8.5%. Hyundai attributes this to improved supply chain conditions and demand conditions:** "In the Q2, production increased because of improved component supply and demand, and our wholesale sales also increased YoY in response to solid standby demand."
- **Hyundai's vehicles produced in Alabama saw sales increases:** "In North America, wholesale sales increased 12% YoY, driven by continued strong sales of SUVs and Genesis. In the US market, SUV sales in the US increased 7% YoY, driven by sales of the Tucson and Santa Fe."
- **Hyundai's EV sales more than doubled YoY, leading to a 5.5% market share in EV. Company cites Inflation Reduction Act as key to this growth:** "In addition, EV sales in the US grew 134% YoY due to the utilization of leasing and fleet for the IRA impact and the launch of the IONIQ 6. This led to our largest Q2 sales in history and a 5.5% market share."
- **Increased sales volume was effectively translated into increased profitability. Operating income increased 42.2% YoY, while Net Profit increased 8.5% YoY:** Hyundai cites an improved sales mix with a focus on higher-valued vehicles as the main reason for this increase in profitability. One of which was the Hyundai Genesis line; EV and Hybrid Genesis vehicles are produced in Alabama.
- **Hyundai notes increasing risks to their EV strategy:** "the EV market is facing increased competition, which is driving down prices and increasing risks to our EV strategy, including charging standards. However, as we announced at our last CEO Investor Day, we will continue to expand our presence in the EV market by leveraging our unique Hyundai Motorways, including flexible production and modular architecture."

International Paper Co. (NYSE:IP)

Outlook: Negative

AL Outlook: Negative

Recommended Action:

Notes: Watch for more downtime until demand normalizes

- **Demand across all segments improved from Q1 but remains constrained due inventory destocking:** "However, based on feedback from our customers, we also believe that destocking is finally coming to the close. Margins remained under pressure due to the resulting weak volumes and lower prices across our portfolio."
- **Returned 200 million to shareholders with planned sale of Ilim investment to Russian Buyers.**
- **Improved demand in industrial packaging segment was offset by weaker demand in the global cellulose fibers business:** Input costs were favorable (83 million lower) driven by lower energy, wood, and distribution costs...maintenance outages were 88 million lower.

- **Box shipments were down 8.3 percent YoY:** Due to ongoing inventory destocking. Lower demand environment impacted operations and costs. They expect destocking period to be completed in Q3.
- **Goal moving forward:** "optimizing mix and usage of fiber and energy, reducing labor costs and over time, shifting to lower-cost suppliers, driving lower distribution costs and reducing discretionary spending and overhead expenses."
- **They invested 267 million this quarter:** "which includes funding for cost-reduction projects with attractive returns and for strategic projects to build out capabilities and our box system. 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."
- **Full year EBITDA for the company is expected to be at 2.1-2.3 billion with free cash flow at 500-600 million:** "macroeconomic trends have shifted resulting in weaker-than-expected demand for our products and price reductions across our portfolio through the second quarter, including prior index changes that will be implemented over the remainder of the year."
- **2023 target CAPEX of 1.1-1.2 billion.**
- **The Pensacola Mill is temporarily idled to drive down costs for GCF (global cellulose fibers segment) and to allow other mills to run smoothly**

JBS S.A. (BOVESPA:JBSS3)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: none

Notes:

- "JBS announced dual listing plan in Brazil (B3) and in the US (New York Stock Exchange) with the aim of increasing the Company's market value, attracting a wider range of investors, and expanding the investment capacity."
- **Challenges in the US with their poultry business will persist through Q4:** "Net revenue for the quarter fell 3% year-over-year, reflecting lower global poultry prices due to a global oversupply. On the other hand, profitability improved sequentially as a result of operational corrections to the problems we faced in the previous quarters."
- **JBS Beef North America and USA pork saw a decrease in adjusted EBITDA YoY and will continue to see low profitability through Q4:** Net revenue for JBS beef North America raised from 5.5 billion to 5.8 billion and 2 billion to 1.7 billion for USA pork. So, volume is remaining fairly consistent.
- "According to the U.S. inventories are on a downward trend, which could benefit the rebalancing of supply and demand in the medium term."

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

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Q2 Revenues hit \$257 million increasing 14.6% compared to Q2 of 2022 including 17.1% of organic growth in Government solutions segment**
- **In Q2 Kratos funded \$10 million in R&D for Space and satellite business, software-based OpenSpace command & control, telemetry tracking & control, and other ground system solutions**

- **Revenues increased YoY 32.7 million in Q2:** "Second quarter 2023 Revenues include contribution of \$13.1 million of revenue from the acquisition of the Engineering Division of Southern Research Institute (SRE), consolidated organic revenue growth of 10.7 percent and organic revenue growth of 17.1 percent in our KGS Segment"
- **KUS segments, KGS segment EBITDA increased YoY**
- **Kratos is prioritizing winning program awards (received 95 million this quarter for target drone system award) organic growth, and free cash flow:** "We will make certain, targeted investments, in areas where Kratos can be disruptive and first to market, with no significant acquisitions planned. A primary operational challenge remains obtaining and retaining qualified personnel to execute existing and expected program awards, including individuals willing and able to obtain National Security Clearances, and the significantly increased cost of these individuals, all of which every Kratos business is collaborating and working closely together to address."
- **CapEx is listed at \$45-50 million and R&D at \$39 million FY23.**

Louisiana-Pacific Corporation (NYSE:LPX)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Home sales are down 23% and Siding solutions saw sales decline 11% YoY:** "Comparing the first half of 2023 to the first half of 2019 before the pandemic, Siding revenue has grown at a compound annual rate of 14%. Over the same 4-year period, single-family starts were essentially flat."
- **New "ExpertFinish" facility in Bath, NY will open during Q3:** "bringing increased automation and improved efficiency to LP's Prefinished siding production". LP is also adding 2 new additions to Siding product portfolio.
- **LP opened new innovation center as well at the Natural Resource Research Institute in collaboration with the University of Minnesota Duluth:** "The innovation center will accelerate our development of high-performance and sustainable building solutions."
- **OSB business saw a rise in demand and raised prices in single-family new construction**
- **LP began engineering work on Wawa Ontario mill for it to become** "a state-of-the-art siding mill so that we can meet growing customer demand."
- **YoY freight costs declined offsetting headwind from raw material inflation.**
- **Bulk of 2023 CapEx has been spent:** "Remaining expenditures for the year should bring full year CapEx to about \$300 million, implying roughly \$110 million of spending in the second half of the year with a roughly 60-40 split between growth and sustaining maintenance."
- **EBITDA is expected to be between 160-180 million:** "Siding revenue is expected to grow 5% compared to first half of 2023, but last year Siding had record volumes so Siding will still decline 10%. OSB prices will slowly continue to rise as demand begins to rise."
- **LP is still working through inventory and distribution issues for Siding but hoping to be stable by end of Q3.**

Mercedes-Benz (XTRA:MBG)

Outlook: Positive

AL Outlook: Positive

Recommended Action: none

Notes:

- **Sales grew YoY across all vehicle segments:** Sales grew 6% YoY for all Mercedes-Benz vehicles, with sales increasing 51% for EVs. Sales increased 12% for Mercedes' top-end vehicle range. Mercedes attributes this growth in sales to an easing of COVID-era supply chain difficulties and an easing of semiconductor supply issues.
- **Received Level 3 Certification for autonomous driving system in California, plans in the works to bring autonomous vehicles to Germany as well:** "On the technology side, we're making progress. We now also received Level 3 certification for autonomous drive system in California. So, step by step, we're building our position here. And this is, of course, just the first few steps and much more to come in the next few years, but also the launch of what we call automatic lane change on highways is a function that you really must try. Now I think we're also going to be the first ones that get to launch that in Germany as well after speaking to the German authorities. So that's very positive for our customers."
- **First automaker to use ChatGPT in their vehicle infotainment system:** "Since we have our own cloud infrastructure and a cloud layer, where we can quickly through our back-end add technology to our vehicles, we were the first manufacturer that took the opportunity to do a beta test of ChatGPT in our vehicles in the U.S. And what I've heard from customers so far has that been very positively received. And the usage of our infotainment system has gone up even more." It remains unclear how ChatGPT is augmenting the function of the infotainment systems.
- **In the process of switching their business model to a direct sales model:** "We're in the process of changing our business model in go-to-market and moving towards direct sales. And in this past quarter, Germany, which is our third biggest market switched to direct sales, and that went as smooth as you can expect, realizing how big of a market this is, but also in overseas markets, we're pushing ahead, Turkey is a good example. So strategically, on many fronts, we are taking Mercedes into the future."
- **Mercedes optimistic about the future of their plug-in hybrid range, with every new vehicle coming with the option for plug-in hybrid capabilities:** "Plug-in hybrids. Now I think we have the most comprehensive fleet of plug-in hybrids. And literally, every new vehicle that we have launched over the last couple of years and are about to launch with a WLTP standard, we have around or more than 100 kilometers range. So, you really get half an electric vehicle now more or less. Monday through Friday going back and forth to work or wherever you go, you can drive electric, but you also have the high-tech combustion engine on board. So, the plug-in hybrid will play a role throughout this decade. And I think we have the lineup to take advantage of that."
- **Cited IRA as a positive for their EV fleet, but are also aware of the competition in the segment. Also emphasized the partnership with Tesla on charging:** "If you look on the key messages on Mobility, Page 14, MBM is facing a challenging market environment, especially in China. Overall penetration rates are under pressure with positive trend for battery electric vehicles, in particular, in the U.S. due to IRA. Profitability is impacted by lower margins due to higher refinancing rates and intensified competition in the financial services sector. The ramp-up of our new charging business is getting traction, as Ola mentioned before, with our own branded high-power lodging network with third sites are planned to be opened in the second half of the year and with the announcement on the Tesla charging network, which we joined as well as what we announced yesterday in terms of creating another network together with other OEMs in the U.S."
- **Expect subdued growth for the second half of the year due to higher than normal inflation globally, restrictive monetary policies, and uncertain geopolitics:** "We see with regional differences, the overall growth momentum of the world economy likely to remain rather subdued in H2 despite ongoing declining inflation rates. Inflation is expected to remain above average in many places. Continued restrictive monetary policies at central bank is likely to weigh on consumers, companies and economic growth. In addition, geopolitical imponderables remain another uncertainty factor. By contrast, energy prices in H2 are expected to remain at significantly lower level than previous year."

NFI Group Inc. (TSX:NFI)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: NFI successfully received extensions and term changes with current creditors as it works to complete its refinancing plan (positive progress compared to last quarter). Also, new orders and backlog growth continue to be a boon for production in AL and elsewhere. The Central Ohio Transit Authority is the latest new customer announcement.

Notes:

- **North American active bids up 33% YoY:** "Year-over-year, our North American public bid universe is up 120%, and active bids are up 33%. We ended the second quarter with 1,682 equivalent units of bids in process and another 8,372 equivalent units of bids that were already submitted resulting in a new record for the highest number of bids submitted by NFI within one quarter."
- **Saw significant supply chain improvement. This improvement led to increases in revenue and EBITDA:** "We also saw significant improvement in supply chain performance and associated production efficiencies. There's no question it will take time for our operations and production efficiency to get back to pre-pandemic levels, but Q2 2023 showed promising signs of significant recovery, supporting our line entry ramp up and hiring efforts that we've embarked on. In the quarter, Manufacturing segment for bus and coach deliveries were up 66%. Revenue increased by 66%, and adjusted EBITDA improved by 159% from the same quarter in 2022. This significant improvement was driven by higher volumes, improved sales mix and record quarterly performance from the aftermarket segment of NFI that actually exceeded our expectations."
- **Planning to increase new vehicle production rates in the second half of the year in light of the improvements in the supply chain:** "We've seen a solid trend of improving supplier delivery performance and this has happened even as we've started to ramp up the levels of production. Speaking of which, we have continued with our plan to increase new vehicle production rates in the second half of this year, subject to continued and sustained supply performance and we're in the process of hiring an estimated additional 100 direct team members before the end of this year."
- **Expect a full recovery from pandemic production levels by 2025:** "Line entries in the first half of 2023 have showed material improvement from '21 and '22. By the time we get to 2025, we expect line entries to be back around 1,500 units per quarter, similar to the 2019 levels we experienced pre-COVID."
- **Have already sold all 2023 production slots and have begun selling 2024 production slots:** "We have essentially sold all 2023 production slots and have sold a higher percentage of 2024 slots than where we would typically by this time of year. We also have customer options out to 2028, providing significant visibility for future years. Heavy duty transit bus deliveries were up by 85% year-over-year. Low-floor cutaways were up 87% and coach deliveries were essentially flat. We also saw higher average sales prices within heavy-duty transit and coach, reflecting our ongoing efforts to adjust pricing to reflect inflation as well as transition to higher-priced zero-emission vehicles"
- **Aiming to improve liquidity via refinancing plan:** "We are confident of our refinancing plan will improve liquidity by over \$135 million. But as we await its completion, we have been taking other actions to support financial flexibility. On July 20, 2023, we sold our interest rate swap contracts for total proceeds of \$18.4 million and as part of the waiver extension that we announced on July 31, 2023, we temporarily lowered the minimum liquidity requirement under our senior secured facilities from \$25 million to \$5 million. We appreciate the syndicates flexibility on this change. Following completion of the refinancing plan, minimum liquidity will increase back to \$50 million."
- **See increasing growth in zero-emission bus sales:** "Zero-emission deliveries have increased rapidly from our 8% of total volume in 2020 to 23% last year in 2022, with expectations that will make up more than 40% of our deliveries by 2025. Zero-emission as a percent of our backup also been growing quickly, doubling in size from '21 to '22 and rating stable at that level at record 36% in 2023 quarter 2."

Nucor Corp. (NYSE:NUE)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: none

Notes:

- **The first half of US steel products has led a 52% 5-yr CAGR in the steel products earnings & margin growth:** "In recent years, our customers are attributing more value to the solutions we provide, helping to depart from the traditional cost-plus paradigm. As a result, products such as joist and deck, pre-engineered metal buildings and insulated metal panels command higher margins than in years past. Our performance also reflects some fundamental changes we've made to improve efficiencies in metal buildings and rebar fabrication, which are now driving better results for our customers and our shareholders."
- **Announcing the "Expand Beyond" plan:** "there is considerable growth potential in the utility infrastructure market with the need to expand and hardened transmission infrastructure while accelerating the connection of distributed renewable energy to the grid. As we evaluate and pursue new expand beyond platforms, we're focused on opportunities that leverage our core capability as an efficient industrial manufacturer and are aligned with steel-intensive mega trends or themes. Passage and implementation of the infrastructure bill, IRA and chips and Science Act are helping to drive these megatrends and Nucor intends to capitalize on them further to grow and diversify our earnings potential."
- **Steel Mills Group delivered \$1.4 billion of pretax earnings in the second quarter, an increase of 68% over the first quarter:** "This was due to higher metal margins, especially at our sheet mills as gains on realized pricing and steel outpaced higher prices for both scrap and ore-based metalics."
- **Steel Products segment saw pretax earnings of just over \$1 billion:** "We continue to realize attractive pricing and margins, even as some subsectors like warehouses continue to moderate from their historically high levels of 2022. While Nucor operates a diverse portfolio of downstream steel products, and some of the strongest contributions came from our joist and deck business and our pre-engineered metal buildings group. We also saw improved results in our rebar fabrication and Tubular Products businesses."

Olin Corporation (NYSE:OLN)

Outlook: Neutral

AL Outlook: Positive

Recommended Action: Monitor McIntosh facility for potential expansion – plant may be well positioned relative to TX facility – and company expects the chlor alkali outlook to improve. Also note strong demand for Winchester ammunitions, which could spur a potential project (AL has had fair looks at other ammunitions related projects in the past year).

Notes:

- **Olin has now beaten earnings projections for four straight quarters; however, market conditions remain difficult and revenue has declined:** "Global market conditions continue to be quite poor. Additionally, our performance in the second quarter not up to expectations, partially due to the previously announced Freeport vinyl chloride monomer plant operating issues, but also due to excessive Asian epoxy resin exports and our associated epoxy asset right sizing activities. These factors will result in a lower trough expectation for 2023 adjusted EBITDA. The bright spot in the second quarter was our purchase of 2.5% of our outstanding shares while simultaneously reducing net debt compared to the first quarter."
- **Expect Epoxy Resins and System Sales volumes to improve in the next quarter, while the firm expects the Winchester brand to also improve:** "In the third quarter, we expect epoxy resins and system sales volumes to slightly improve relative to the second quarter. However, inventory reduction efforts will lead the business in negative EBITDA territory. While Winchester's performance is expected to slightly improve

in the third quarter, mainly due to international and domestic military growth, our chlor alkali and vinyls business is expected to be slightly down, mainly due to execution of our leadership model as we see bottoming of ECU values in some geographies likely a positive sign for 2024."

- **Chlor Alkali, Alabama's segment of the business, should recover before other business segments. Chlor Alkali should be the predominant contributor to potential peak EBITDA of \$3B, with Winchester also contributing:** "our outlook certainly says the structure of chlor alkali only gets better over time. And it's true that we've done some restructuring in our Epoxy business. But I will say that in order for epoxy to get back to the levels it was that's probably a couple of years out. So, you're going to see the next peak in chlor alkali while epoxy is still recovering. And that's why we put the next peak at somewhere just about \$3 billion." --- "Yes. I would say epoxy is not going to be the contributor that it was in recent history where we were running \$700 million-plus annual EBITDA. Included in that \$3 billion is not epoxy at that level. It's somewhere between today and that level. So, what is in there is a strong performance from chlor alkali as the outlook on structure looks good and outpaces supply. It's very likely that, in fact, caustic growth may outpace chlorine growth due to all the things that are going on with minerals and batteries and everything else and that imbalance helps us in the future. So, in the chemical side, it's much more heavily weighted toward chlor alkali, and in Winchester is a contributor to that as well. And in fact, for the first time ever as evidence that we're going to move that way, for the first time ever in Q3, the consumer piece of the Winchester business is going to be less than 50% of that business, and the military plus other is the larger part of it."
- **Industry chlorine price declined, while Olin's price increased:** Highlights the strength of Olin's position going into the future of their Chlor Alkali business; however, their Vinyl Chloride Monomer plant in Texas is still encountering costly operating issues to the tune of \$50M.
- **Winchester business is set to double military sales:** Driven by domestic and international demand growth and the Next Gen Squad Weapon project, which Winchester has been selected to participate in. Expect EBITDA growth from this segment of \$200M
- **CAPEX is still expected to be between \$200M and \$250M for 2023:** This is a positive sign, as these numbers are in line with 2022.

Outokumpu Oyj (HLSE:OUT1V)

Outlook: Positive

AL Outlook: Positive

Recommended Action: While European business is weak, the company is bullish on the American market going so far as to entertain an expansion in the U.S. with the addition of a hot rolling mill (they currently partner with another company – likely AM/NS, which is co-located with the Calvert facility, which limits their capacity without further direct investment)

Notes:

- **Adjusted EBITDA of \$209M in Q2**
- **American business is doing very well:** "had almost 15 quarters in a row of good performance there financially."
- **European business is "a bit more cloudy."** This is due to the "commercial side and specifically price of various raw materials and price of various products." Mainly from Stainless Steel pricing.
- **Deliveries similar in volume compared to the pandemic:** "502,000 tons, we are compared to the level we are not terribly far from what we saw even during the course of COVID times. ... Now, of course, we have more macro drivers and the cost of capital drivers which are potentially driving customer behavior." (Reversion to mean level of output)
- **Strong interest toward Outokumpu's "Circle Green" product:** "Circle Green is a new product, it has the lowest carbon footprint of any stainless-steel grade in the world. It's up to 92% lower footprint compared to the industry average." Confidence in the product comes from 4 major partnerships: Thyssenkrupp Materials Processing Europe for the automotive industry, Nordic Steel for Renewable and

transportation infrastructure, Sverdrup Steel for Offshore wind facilities, and Lemvig-Muller for Industrial customers in Denmark.

- **Beginning preparations for "phase 3" of their long-term business plan, beginning in 2026, which includes:** Intended to achieve "Targeted productivity investments to improve margins. Additional investment to improve sustainability" through "capital discipline and strong shareholder returns"
- **As one of two stainless steel providers in the US, Outokumpu sees large potential for expansion in the US and Mexico.** The main reason for this has been the regulatory backdrop in the last couple of years including the Inflation reduction Act, Build America, Buy America Act, CHIPS and Science Act, US Infrastructure Bill, USMCA, and Section 232 tariffs.
- **Financial situation is "best in the industry"**
 - Net Debt of -\$9.9M even with a large dividend payout and pension loan payments.
 - Liquidity reserves of \$1.3B bringing a cash ratio of 8.51
 - Increased credit health, rating upgraded by Moody's
- **Guidance:**
 - Adj. EBITDA is expected to be lower than Q2, have a sense of single digits EBITDA, tracking COVID levels of profitability.
 - Scaling Calvert in operations for scrap
 - Specific progress in rolling for Phase 3

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:

- **EBITDA still down 85 million from Q2 of 2022:** Second quarter net sales were \$2 billion in 2023 and \$2.2 billion in 2022. Total company EBITDA for the second quarter, excluding special items, was \$418 million in 2023 and \$533 million in 2022.
- **Expenses of .07 cents per share for costs of Jackson (AL) mill conversion:** for paper to containerboard conversion-related activities and closure costs related to corrugated products facilities and design centers.
- **Demand for packaging was as expected**
- **Wallula (WA) Mill will temporarily remain curtailed:** "We will continue to monitor any potential changes to the strategy along with our outlook for demand during the second half of the year. This was not a reaction to any change in our views on demand but rather our thoughtful approach to manage containerboard supply as economically as possible. The shifts 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: Inventory Destocking and the manufacturing index is still in contraction territory."
- **Sales volume down 14% compared to last year's Q2 with the absence of volume from Jackson Mill.**
- **126 million of CAPEX used in Q2:** We ended the quarter with \$630 million of marketable securities and cash on hand with liquidity of almost \$1 billion.
- **Expect stronger volumes in paper segment for back to school:** although prices are expected to trend lower based on the recent declines in index prices.
- **CapEx expected to be around 400 million for 2024...same as 2023:** Compared to 2022 spending of 824 million. PKG claims they are waiting for the opportunity to move in to the final phase of No. 3 machine at Jackson Mill.
- **Natural disasters that caused low volumes included hurricanes affecting Ag business in FL, flooding in NC, and droughts in east WA.**
- **Building Products segment has slowed down dramatically because of continued high interest rates**

PPG Industries, Inc. (NYSE:PPG)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Record Financial results with 4.9 billion in sales:** "Our adjusted EPS is about 24% higher than the second quarter of 2022, and cash generation of \$750 million higher year-over-year"
- **Varying global economic demand caused production to be muted:** reflecting cautious consumer buying behavior in Europe and slower-than-expected recovery in China and softening demand in certain end-use markets in the U.S. "We expect global industrial production to remain at lower levels in the third quarter, including similar demand activity in Europe, some further slowing in the U.S. and modest sequential improvement in China."
- **Aerospace, automotive, automotive refinish, PPG Comex, and protective & marine coatings business were the 5 out of 9 business segments that had record sales:** "We implemented incremental price increases in the first half of the year, primarily in the Performance Coatings segment and our aggregate 2-year stack pricing for the company is now about 20%, which is offsetting historically high-cost inflation."
- **Plans to further reduce raw material inventory levels:** "plans to further reduce these inventory levels over the next several quarters as commodity supply availability has improved significantly this year"
- **They expect demand for aerospace and auto OEM coatings products to remain high and possibly rise.**
- **Not optimistic for DIY demand and PRO contractor residential repaint demand in the US.**
- **Recent investment seems to be targeting aerospace and auto OEM industries:** PPG partnered with Satys in France to provide electrocoating (e-coat) for OEM aircraft. PPG continues to roll out new paint coatings for auto & aerospace. PPG opened \$30 million battery pack application center in China. And PPG partnered with Chery to open color creation lab in China. PPG also acquired Tikkurila and Arsons's (Paint & Powder coatings)
- **PPG and Universal Display Corp opened OLED (organic light emitting diode) manufacturing site in Ireland.**
- **CapEx amount not specified but PPG plans to pay around 500-600 million in debt this year:** They've already paid 200 million. The rest of CapEx is likely going to be intended for auto OEM as they claim to be bullish in auto industry the remaining of the year.

Quest Diagnostics (NYSE:DGX)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Double-digit revenue growth YoY. Base business revenue growth of about 10%:** Continued acquisitions along with strategic deployment of automation and AI will be key drivers of growth.
- **New Partnership with PLS and Northern Light Health has been promising along with 'Genetic Insights', a new health test on questhealth.com**
- **AD-Detect, an Alzheimer's blood test has "potential to draw strong consumer demand."**
- **Completed acquisition of Haystack Oncology in June:** "which positions us to enter the high-growth area of minimal residual disease or MRD testing. We continue to expect to introduce our first MRD test in early 2024. We intend to launch this test from our Oncology Center of Excellence in Lewisville, Texas."
- **Continued Investment in AI and automation in Lenexa (KS) and Lewisville (TX) to improve operations**
- **Financials:**
 - Covid 19 revenues declined dramatically down 88% to \$41 million
 - Adjusted operating income was \$389 million compared to \$435 million last year
- **Alzheimer's test and Haystack acquisition continued investment:** The Alzheimer's test that we've brought to market that requires investment, and we're going to continue to invest in that space. We're going to continue to invest in molecular genomics and oncology because we're getting growth in that space. And with the Haystack acquisition, we're going to continue to invest there to try to get the test to market as quickly as possible

Sanmina-SCI Corp. (NASDAQGS:SANM)

Outlook: Neutral

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Strong financial report for Q2:** "Revenue grew approximately 9% from \$2 billion in Q3 FY '22 to \$2.2 billion in Q3 FY '23. Operating margin improved from 5.3% in Q3 FY '22 to 5.7% in Q3 FY '23. Finally, EPS grew approximately 23% from \$1.26 in Q3 FY '22 to \$1.55 in Q3 FY '23."
- **Outlook for Q4:** Revenue between \$2.1B-2.2B, GAAP Diluted EPS between \$1.24-1.34. I/M/D/A shows strength in automotive and defense, medical and industrial is stable. As for Cloud Communications, Communications is expected to have lower revenue due to inventory issues, but Cloud is stable and growing.
- **Revenue Segmentation remains strong as a 60/30 split:** "For the third quarter, revenue was stable of \$2.2 billion, year-over-year growth of 9%. Industrial, Medical, Defense and Automotive for the quarter was fairly flat of \$1.344 billion, but for the year, it was nicely up, up 10%. Also, the market trends and mix are improving. We continue to diversify in industrial, medical, defense and automotive markets, driven by new program wins and new customers. As you can see, mix improved to 61% of our revenue."

Sonoco Products Company (NYSE:SON)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Net Sales are down 11% YoY to \$1.71 billion and operating profit is down 16% YoY to \$211 million:** Additionally, adjusted EBITDA is down 1 million from Q1 and down 12% YoY to \$275 million for Q2. "We experienced negative \$86 million of expected metal price overlap in the period. Excluding the impact of metal, EBITDA increased and EBITDA margins increased to over 17% compared to Q1.
- **Consumer sales segment did well, increasing by 5% to \$909 million:** "However, elevated customer inventory and normalizing supply chains continue to interrupt volumes across the Consumer business, and our near-term volume outlook is less positive than it was beginning of the year. Consumer volumes declined 1%, including acquisitions and divestitures."
- **Industrial sales down 12% and volumes are down 13%:** "The U.S. volumes were lower due to increased maintenance and lack of business downtime, as well as the impact of exiting the corrugated media markets and divestitures. We're monitoring Europe and Asian demand recovery carefully. We will continue to take periodic lack of business downtime in Europe and Asia at similar levels to the first quarter until demand improves."

Sumco Corporation (TSE:3436)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: Watch for news on decreasing their inventory or increasing purchase volume from customers.

Notes:

- **Q2 Actual financials beat SUMCOs forecast:** Net Sales beat expectations by JPY 2.7B (\$18.5M), Operating Income by JPY 3.8B (\$26.2M), and Net income by JPY 5.2B (\$35.9M).
- **SUMCO has a rapidly expanding Inventory with lower purchase volume:** "inventory levels continue to rise, getting close to a peak in our view."... "Customers have indicated they will undertake substantial production cuts, but inventory is unlikely to decline until these cuts are implemented. That said, in Q3 and Q4, with almost no exception, customers will make major production cuts, so we hope to see some improvement in conditions."
- **Expecting to see even lower Net Sales and EBITDA margin levels**

The Scotts Miracle-Gro Company (NYSE:SMG)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Lawn and Garden business suffering because of lower consumer takeaway:** "This is attributable to the combined effects of post-COVID sentiment, declining retailer traffic, regional weather extremes, inflationary pressures and price elasticity. As a result, we will not meet our goal of plus 10% POS in our lawn's unit. The full year impact will be an \$80 million EBITDA miss to our lawn's target. The other businesses performed more or less to expectations."
- **Free cash flow will be directed to pay down debt:** Hoping to pay off \$300 million by fiscal year end.
- **Hawthorne (cannabis industry) still has not brought as much as return as they had hoped:** "The current state of our capital structure is not optimal. We are carrying a significant debt load without the earnings we expected for our investments in Hawthorne. One thing we are missing is financial flexibility." Hoping to be profitable by the end of the fiscal year.
- **Planning to invest during other seasons in the future rather than heavily investing in the spring:** "With spring less reliable, starting in fiscal '24 and beyond, we will diversify our marketing and promotions to work around weather extremes and elongate the lawn season."
- **Targeted price reductions and costs beginning to moderate:** "Other commodity costs like resins, corrugate and pallets have come down and freight rates continue to moderate."
- **Future investments likely will be targeted towards R&D, paying down debt, supply chain, and marketing.**
- **Total company sales down 6% YoY**

Toyota (TSE:7203)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: none

Notes:

- **Sales volume increased across all regions for Toyota during the quarter:** company cites improved semiconductor market conditions and productivity improvement efforts they have taken with their suppliers. Despite this increase in sales, Toyota still acknowledges the existing order backlog leaving some customers still waiting for their vehicles to arrive.
- **Toyota experienced sharp rises in materials costs:** these costs had a relatively small impact due to increased sales and increased operating income
- **Electrified Vehicles accounted for 34.2% of all Toyota vehicles sold during the quarter:** this is up from 28.5% during the same quarter last year. Toyota includes hybrids and plug-in hybrids in their definition of "Electrified Vehicle." Battery Electric Vehicles only accounted for 1.05% of Toyota's total vehicles sold during the quarter, up from 0.16% from the same quarter last year.
- **Despite growing sales across all regions, North America was the weakest region in terms of sales growth:** North American sales only grew 7.4%, while Japanese sales grew 32%, and Asian (excl. Japan) and European sales grew by 15.5%.
- **As of this quarter, Toyota is forecasting its highest Revenue (38 trillion Yen, 262 billion USD) and Operating Income (3 trillion Yen, 20.7 billion USD) in the past 5 years:** Moreover, Toyota is forecasting a CapEx for the year of 1.86 trillion Yen (12.8 billion USD), up 15.9% from the previous year.

- **Company still facing challenges in the Chinese market:** intense price competition from foreign and domestic Chinese producers has cut into Toyota's market share in the country, despite rising sales.

Tyson Foods Inc. (NYSE:TSN)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: Monitor poultry facilities in AL as chicken pricing/demand remains uncertain.

Notes:

- **Tyson decided to close 4 additional chicken facilities in AR, IN, and 2 in MO.**
- **Beef industry continues to face headwinds as well:** "in the latest USDA cattle inventory report, herd liquidation continues to tighten supply, leading to higher cattle cost, narrowing spreads and difficult export market conditions. Pork remains under pressure across the industry, and we continue to see headwinds there with both our internal live production and our external sourced hog supply, increased feed cost and low cutouts drove spread compression through our results."
- **Tyson's prepared food business saw strong volume growth:** "our Tyson core business lines, including the iconic retail brands, Tyson, Jimmy Dean, Hillshire Farm and Ball Park, continue to outpace total food and beverage and our peers in volume growth up 5% versus a year ago."
- **Financials:**
 - Total sales down 2.6% YoY driven by pork and chicken: "More than 90% of the decline in adjusted operating profit was driven by lower profitability in our Beef and Chicken segments"
 - Beef revenue was flat YoY with an operating margin of 1.6%
 - Pork revenue was down 18% driven by softer demand
 - Chicken sales declined 3.5% as global oversupply continue to strain market.
- **"Year-to-date, CapEx is roughly \$1.6 billion as we continue to moderate our pace of spending. Based on this pace, we don't expect CapEx to exceed \$2.1 billion"**

United States Steel Corp. (NYSE:X)

Outlook: Positive

AL Outlook: Neutral

Recommended Action: While the future of US Steel is highly uncertain, there is undoubted recognition in the value of the EAF assets and investments they've made, as well as, the positive dynamics in the steel market. Monitor US Steel for outcome of strategic review.

Notes:

- **Company in the midst of a strategic review after multiple unsolicited proposals that ranged from the acquisition of certain production assets to consideration for the whole Company.** Bids are likely opportunistic as US Steel's stock price has been depressed by weak free cashflow from investment in new steel mills. Leading offer from Cleveland Cliffs with support from the United Steelworkers union. Outcome and timeline are unclear and any acquisition would likely trigger an anti-trust review.
- **Sustainable Steelmaking and the impact:** "Later this summer, we'll start producing nongrain-oriented or NGO electrical steel on time and on budget. We've combined our state-of-the-art sustainable steelmaking assets at Big River Steel with a model for next-generation NGO electrical steel right here in the United States. ... We forecast a 7% compounded annual growth rate just in NGO and in motor laminate compared with 1% for the broader sheet market." "Unmatched in capabilities, we'll be able to produce electrical steels that are thinner, able to go 0.1 to 0.8 millimeters thin, wider up to 1,650 millimeters wide and bigger up to 30 metric tons, better than what the domestic market can produce today."

- **Leaders in the EV manufacturing space:** "We are pleased and excited to recently have earned our first customer orders for industrial and X EV auto grades. Those are orders in hand before the assets are running. So not only are we confident in our NGO steels, so are our customers. The sales team tells me, when we make it, we take it, meaning we will take market share since no competitor comes close to our NGO steel."
- **Deglobalization:** "These are long-term tailwinds that will provide uplift as we execute our strategic transformation to being a less cost intensive, less capital-intensive and less carbon-intensive business. The path to value creation is clear."
- **Digitization:** "At U.S. Steel Europe, we've achieved a \$5 million annual run rate savings by deploying energy cost optimization models based on market price and electricity purchase recommendations. Also, at U.S. Steel Europe, we're leveraging machine learning with exhaust gas sensors to predict final values for carbon temperatures to recommend process actions. The benefit has been a \$3 million annual run rate savings. We're utilizing advanced analytics to reduce natural gas usage at our boilers by monitoring key performance indicators to improve boiler operations and reduce fuel consumption. The value, \$4 million of savings."

WestRock Co. (NYSE:WRK)

Outlook: Negative

AL Outlook: Neutral

Recommended Action: Continue to monitor demand for packaging/paper to look for signs of stabilization.

Notes:

- **YoY Financials include distribution sales decreased 11.2%, global paper sales decreased 33.8%, Consumer Packaging sales decreased 1.5%, Corrugated packaging sales increased 7.7%, and Westrock's total sales decreased 7.2%**
- **Net sales were 5.1 billion with a consolidated adjusted EBITDA of \$802 million:** "As a reminder, we faced difficult comparisons with record results in the prior year quarter. While demand for Corrugated Packaging declined year-over-year, our North American shipments per day were sequentially stable. Looking forward, we expect improvement in the first half of fiscal 2024, driven by inventory rebalancing, moderating inflation and new business wins."
- **Hoping to exit year with \$450 million in savings:** This will likely be for debt payouts.
- **Late July Westrock decided to close Tacoma, WA mill and are expecting to cease operations in Sept. Westrock also announced consolidation of 3 additional packaging converting locations on the basis of high operating costs:** Goal of closing Tacoma mill is to lower costs and improve margin structure. Expecting \$345 million of restructuring charges. This will reduce capacity by 1.9 million tons. Other recent closures include North Charleston, SC, Panama City, FL, and St. Paul, MN.
- **Westrock plans to invest in mills with an anticipated annual capital spending of 120 million:** "We expect our mill investments to drive efficiencies and enable us to further reduce our mill costs."
 - Westrock construction for Longview, WA box plant will be completed soon and operations will start in Nov.
 - Mexico acquisition: "This transaction increased our exposure to the fast-growing Latin America market and brought us closer to many of our multinational customers."
 - Westrock developed EnduraGrip and Cluster-Clip per request of Costco. (Westrock serves Costco through their corrugated and consumer segments)
 - Westrock is expecting gradual improvement in volumes for corrugated packaging as they complete Mexico acquisition
- **Westrock is hoping to sell RTS stake and the Chattanooga URB mill:** "So that the RTS sale (consumer segment) is not complete. We hope to have that complete in September as we move forward in the business. And as again, just a reminder, it was a \$375 million sale."

- **CapEx FY 2024 uncertain but expected to be \$300-700 million.**

Westwater Resources Inc. (NYSE:WWR)

Outlook: Negative

AL Outlook: Negative

Recommended Action: Continue to watch for their first purchase agreement and ability to access debt – this is pivotal to completing their development of the Kellyton Graphite site.

Notes:

- **Developing process plant first:** get to revenue and positive cashflow sooner before developing the graphite concentrate /mining
- **Joint Development Agreement with SK On with positive feedback on product**
- **LOI with Dainin Material (private Japanese industrial conglomerate; opens up Japanese battery market):**
 - May through July shipped 36 samples
 - 7 total LOIs in place
- **Phase I Kellyton construction:** 5 primary processing plants complete, shaping mills begun, waiting on financing, and expect to install equipment later this year total cost estimate ~\$271M
- **April 2022 finished geological study & technical report indicates 35-year supply from Phase I and II**
- **Financials:**
 - \$107M spent on Phase I
 - \$164M more needed to complete Phase I
 - \$17.3M cash balance and zero debt currently
 - negotiating term sheets with lenders; lenders focused on energy, definitive sales agreement key to securing lending, and SK On positive/encouraging to lenders
 - \$150M private debt transaction plus \$17.3M in cash less \$164M remaining in Phase I spend leaves a \$3.3M buffer (less than a year's worth of G&A and product development expense)
 - product development cost related to sending out samples
 - ***need Phase I output under contract
- **Q&A:**
 - targeting mass production sample for SK On
 - anticipate closing purchase agent by end of year
 - Economic analysis & cash flow estimates from mine analysis expected later this year for valuation
 - purchase agreement critical milestone
 - Debt transaction taking longer:
 - rising rate environment
 - new market in US (relative to China) leading to lender education hurdle
 - offtake agreement will lead to more lender confidence
 - working with lenders with allocation towards energy transition
 - SK On would take majority of Phase I volume
 - Timing of Phase II can be sped up because of modular design
 - Need to sell out Phase I prior to Phase II
 - Once financing is in place, can start Phase II feasibility study
 - "Turned over every stone" with lending
 - ABL cost is high
 - debt-to-asset coverage required is a high covenant for pre-revenue company

Additional Notes:

STERIS Corp. (NYSE:STE)

- **Steris completed the acquisition of assets from Becton, Dickinson, and Company (NYSE: BDX) related to surgical instrumentation, laparoscopic instrumentation and sterilization containers.** BD's manufacturing footprint in the U.S. appears to be concentrated in Nebraska. It is unclear whether these products will be consolidated into Steris' current manufacturing footprint or continue to be made in Nebraska.

L3Harris Technologies (NYSE:LHX)

- **L3Harris completed the acquisition of Aerojet Rocketdyne Holdings, Inc. (NYSE:AJRD).** The Aerojet business will operate as part of a new standalone segment post-transaction. Both companies have a sizeable presence in Huntsville, AL. Aerojet also recently announced the successful development and test of the Zeus 1 – an advanced stage 1 large solid rocket motor, for Kratos – a San Diego based manufacturer of aerial target systems and unmanned tactical aerial platforms for the U.S. Department of Defense and other nations internationally with a location in Birmingham and Huntsville, AL.

BAE Systems (LSE:BA)

- **BAE announced that it will supply up to 541 Gen3 electric power and propulsion systems for the Toronto Transit Commission's new fleet of battery-electric buses.** The electric propulsion technology uses advanced materials such as silicon carbide to increase power density and electrical efficiency, and the technology is developed and serviced at its facilities in Endicott, NY and Rochester, U.K. BAE has locations in Huntsville, Anniston, and Albertville, AL.