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CSTM - Q1 2019 Constellium NV Earnings Call

EVENT DATE/TIME: APRIL 24, 2019 / 2:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Constellium's First Quarter 2019 Earnings Call. (Operator Instructions) I'd now like to turn the call over to Ryan Wentling, Director of Investor Relations. Sir, you may begin.

Ryan Matthew Wentling - *Constellium N.V. - Director of IR*

Thank you, operator. I would like to welcome everyone to our first quarter 2019 earnings call. On the call today are our Chief Executive Officer, Jean-Marc Germain; and our Chief Financial Officer, Peter Matt. After the presentation, we will have a Q&A session.

A copy of the slide presentation for today's call is available on our website at constellium.com and today's call is being recorded. Before we begin, I'd like to encourage everyone to visit the company's website and take a look at our recent filings.

Today's call may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include statements regarding the company's anticipated financial and operating performance, future events and expectations, and may involve known and unknown risks and uncertainties.

For a summary of specific risk factors that could cause results to differ materially from those expressed in the forward-looking statements, please refer to the factors presented under the heading Risk Factors in our annual report on Form 20-F.

All information in this presentation is as of the date of the presentation. We undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law.

In addition, today's presentation includes information regarding certain non-GAAP financial measures. Please see the reconciliations of non-GAAP financial measures attached in today's slide presentation, which supplement our IFRS disclosures.

I would now like to hand the call over to Jean-Marc.

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Thank you, Ryan. Good morning, good afternoon, everyone, and thank you for your interest in Constellium.

On Slide 5, you will see some of the highlights from our first quarter performance. Shipments were 413,000 metric tons. That's up 6% compared to the first quarter of 2018. We continue to successfully execute on our strategy of increasing shipments to the automotive market. Automotive shipments increased 18% compared to the first quarter of last year. This was primarily driven by Bowling Green, which we now consolidate following the acquisition of our partner's 49% interest in January.

Our revenue increased 11% to EUR 1.5 billion. This was primarily due to the consolidation of Bowling Green revenues and improved price and mix. Our net income of EUR 24 million compares to a net loss of EUR 24 million in the first quarter of last year. Adjusted EBITDA was EUR 135 million. That is a record first quarter for the company, and up 12% compared to the first quarter of last year.

A&T had an exceptionally strong quarter, benefiting from strong end market demand and solid operational performance. P&ARP also had a good quarter with growth in both packaging and automotive shipments and very good execution. We continue to make good progress on the ramp up of our new automotive CALP line. Our AS&I business is experiencing higher cost related to the planned build-out of our footprint as we have indicated on our recent call.

Looking forward for the company, we are maintaining our adjusted EBITDA guidance of 8% to 10% growth in 2019. Free cash flow was EUR 73 million in the first quarter. I am very proud of this result. Our first quarter performance is a meaningful first step towards achieving our free cash flow guidance of over EUR 50 million in 2019. On Project 2019, we increased our run rate cost savings to EUR 60 million as of the end of the first quarter. We remain on track to reach our goal of EUR 75 million of run rate cost savings at the end of the year.

Overall, I am very pleased with our first quarter results. Record first quarter adjusted EBITDA and strong free cash flow generation leave us well positioned to deliver on our 2019 targets. We remain focused on executing on our strategy and delivering on our 2022 objectives of over EUR 700 million of adjusted EBITDA and leverage of 2.5x.

With that, I will now hand the call over to Peter for further details on our financial performance. Peter?

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Thank you, Jean-Marc, and thank you, everyone, for joining the call today. Turning now to Slide 7. You will find the change in adjusted EBITDA by segment for the first quarter of 2019 compared to the same period of last year.

For the first quarter of 2019, Constellium achieved EUR 135 million of adjusted EBITDA, an increase of EUR 14 million or 12% year-over-year. P&ARP adjusted EBITDA of EUR 59 million increased by EUR 7 million. A&T adjusted EBITDA of EUR 52 million increased by EUR 16 million. AS&I adjusted EBITDA of EUR 29 million decreased by EUR 7 million. And lastly, Holdings and Corporate was EUR 5 million, EUR 2 million higher than last year, but in line with our guidance of approximately EUR 20 million for the full year 2019.

Now turn to Slide 8 and let's focus on the P&ARP segment. Adjusted EBITDA of EUR 59 million increased 14% compared to the first quarter of last year. Volume was a tailwind of EUR 8 million as shipments increased 9%. Automotive rolled product shipments were up 27%, benefiting from the consolidation of Bowling Green shipments and the continued ramp-up of our automotive capacity.

Both of our CALP lines in Neuf-Brisach, France and in Bowling Green, Kentucky are running well. We expect to ramp up these lines through 2019 with full production in 2020. Packaging shipments increased 4% during the quarter on strong demand and solid operational performance.

Price and mix was a headwind of EUR 5 million as we continued to see some of the mix effects we experienced in the fourth quarter of last year. Costs were a tailwind of EUR 6 million as favorable metal costs were offset by incremental costs in the ramp-up of our automotive programs and by increased planned maintenance and reliability spending. FX translation was a tailwind of EUR 2 million and the application of IFRS 16 was a EUR 1 million tailwind, which were offset by Bowling Green results.

Now turn to Slide 9 and let's focus on the A&T segment. Adjusted EBITDA of EUR 52 million increased 44% compared to the first quarter of last year. Volume was a EUR 3 million tailwind on higher aerospace shipments. Thanks to a great team effort, our TID shipments have largely recovered after the manufacturing challenges we experienced in the second half of 2018.

Price and mix improved by EUR 11 million on strong market demand from both aerospace and TID. Higher TID prices represented the majority of the price and mix benefit in the quarter. Solid operational performance enabled the business to keep costs flat. And lastly, FX translation was a tailwind of EUR 2 million and the application of IFRS 16 was a EUR 1 million benefit.

Now turn to Slide 10 and let's focus on the AS&I segment. Adjusted EBITDA of EUR 29 million decreased 19% compared to the first quarter of 2018. Volume drove a EUR 5 million improvement on increased automotive extruded product shipments. Costs was a EUR 14 million headwind compared to the first quarter of 2018 due to costs related to new product launches and the expansion of our footprint in AS&I. The application of IFRS 16 was a EUR 3 million tailwind.

Looking forward, we expect second quarter results to be below last year's second quarter. As I will remind you, 2019 is a year to pause, regroup and deliver in AS&I. Consistent with that message, we are targeting 2019 nominations of about half of what we have achieved in recent years. We expect these nominations to be largely weighted toward the second half of the year.

Now turn to Slide 11, and I will update you on the progress we have made on our cash improvement initiative, Project 2019. By now, you know there are 3 pillars of Project 2019: cost reduction, working capital improvement and capital discipline.

On cost savings, we achieved an additional EUR 17 million of annual run rate savings during the quarter -- first quarter of 2019, bringing our total run rate to EUR 60 million of savings. These savings resulted from a variety of different initiatives, including a number of savings actions by our procurement team; secondly, consolidating and harmonizing our health and benefit programs in the U.S.; and thirdly, several metal optimization initiatives. We remain confident in our ability to deliver on the EUR 75 million of annual run rate savings by the end of 2019.

Now let's move to trade working capital. We continue to expect trade working capital to be a use of cash. Much of this is connected to the substantial growth in our business. This is a good reason for investment and it will continue. We are working hard to offset some of this growth with working capital reduction across the business.

And we are proud of our much improved working capital performance in the first quarter where we managed to more than offset the working capital growth associated with our growth initiatives. We are confident the trade working capital optimization continues to represent a meaningful cash improvement opportunity for the company.

With respect to capital spending, we continue to expect spending in 2019 of EUR 265 million, including Bowling Green. We believe this level of spending strikes the right balance between maintaining our assets and investing in our future. I want to stress that we remain very focused on capital discipline and that the projects we are investing in are linked to firm customer contracts and come at attractive IRRs and paybacks.

Now let's turn to Slide 12 and discuss the balance sheet. Our free cash flow and our liquidity position. Our net debt at the end of the third quarter was EUR 2.2 billion and our leverage was 4.3x. The purchase of Bowling Green increased net debt by approximately EUR 160 million. While the initial application of IFRS 16 on January 1, 2019, resulted in a EUR 102 million increase in debt. The combination of these effects increased our leverage by 0.5x in the first quarter.

I want to stress that we remain committed to deleveraging and expect leverage to drop below 4x by the end of the year. As Jean-Marc noted in the beginning of the call, we generated free cash flow of EUR 73 million in the first quarter. This included the benefit of EUR 20 million from incremental factoring associated with returning our factoring balance back to historical levels.

We are very proud of this performance and are looking forward to delivering on our free cash flow target in 20 -- of in excess of EUR 50 million in 2019 and building a track record of consistent and strong free cash flow generation.

As a consequence of our free cash flow generation in the quarter and the strength of our liquidity position, we began the deleveraging process during the first quarter by repaying EUR 55 million of lease obligations at Bowling Green. As we generate additional free cash flow, we expect to continue to reduce our gross debt levels.

As you can see in our debt summary on the top -- or on the bottom left hand side of the page, we have no bond maturities until 2021, and our 2021 maturity is very manageable at 0.6x our LTM adjusted EBITDA. Our cash plus amounts available under committed facilities was EUR 539 million at the end of the first quarter, and we remain very comfortable with our current liquidity position.

I will now hand the call back to Jean-Marc.

Jean-Marc Germain *- Constellium N.V. - CEO & Executive Director*

Thank you, Peter. Turning to Slide 14. Let me share a few end market updates. I'll start with the automotive market. Automotive remains a secular growth market for aluminum. We are confident that OEMs will continue to lightweight vehicles, thereby increasing fuel efficiency and reducing CO2 and other emissions.

Further, electrification of vehicles has significant potential for aluminum. Aluminum allows for lightweighting in order to increase the range of the vehicle and is a preferred material to make strong, but light battery enclosures. Constellium is well positioned to realize the benefits of this secular shift to aluminum in automotive.

Turning to the near-term trends. The outlook for North American automotive SAAR continues to be a slight year-over-year decline in 2019. European auto sales are expected to remain flat in 2019. However, sales of light trucks, SUVs and luxury cars continue to outperform the market. And I'll remind you that we have more exposure to these types of vehicles.

As far as Constellium is concerned, our automotive order books remain strong across both our rolled product and our extruded product platform, and we have seen only limited pockets of weakness in automotive to date. However, we continue to closely monitor the market. We have been and will remain prudent with our investments. As I have noted many times in the past, we will not make incremental investments without firm customer commitments and strong confidence in end market demand.

Let's turn now to aerospace. We expect Aerospace to continue to be a steady market driven by sustained OEM build rates and near record high backlogs at the major OEMs. In recent quarters, aerospace demand has exceeded our expected long-term CAGR of 2%. We expect this demand strength to continue in the second quarter. We remain focused on maintaining our leadership position with the major OEMs and expanding our relationships with business and regional jet manufacturers.

With respect to packaging, the market remains stable. In the U.S., we expect the continued growth of auto body sheet demand to help tighten the packaging markets over the medium to long term. In Europe, demand continues to grow based on substitution of aluminum for steel. Aluminum cans are an increasingly preferred solution over glass or plastic packaging.

Remember, aluminum is infinitely recyclable and keeps the same properties after recycling. Constellium is well positioned to benefit from this trend as a significant producer of can sheet in both North America and Europe.

Finally, we continue to execute on our strategy of expanding into niche products and markets, including transportation, industry and defense. We see strong or stable markets for our rolled and extruded products in both Europe and North America.

Turning to Slide 15, we detail our financial guidance and outlook. We expect to deliver a range of 8% to 10% adjusted EBITDA growth in 2019. We are targeting over EUR 50 million of free cash flow in 2019, and our 22 -- sorry, and our 2022 targets are over EUR 700 million of adjusted EBITDA and a leverage ratio of 2.5x.

Thanks to the efforts from the team, our strong first quarter results represent an important step towards achieving a goal we set nearly 3 years ago, positive free cash flow in 2019. I am even more excited now than I was then as we expect to deliver not just positive, but substantial free cash flow generation and another year of strong adjusted EBITDA growth in 2019.

We remain focused on operational execution, harvesting the benefits of our investments, disciplined capital deployment and on shareholder value creation.

With that, Victor, we will now open the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Curt Woodworth from Crédit Suisse.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

Peter, do you expect a similar cost headwind near the EUR 14 million in AS&I for 2Q year-on-year?

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Well, we do expect the headwinds to continue into Q2. I wouldn't exactly quantify it as a kind of EUR 14 million, but we do expect there will be some continued headwinds. As Jean-Marc said or as in -- as I said in the -- in my remarks, the Q2 will be lower than kind of last year and so -- and the back half, we're hoping will inflect up.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

Okay. I'm just having a hard time kind of understanding like the magnitude of that cost increase because it sort of felt like this was a business you guys had talked about sort of doubling EBITDA in 3 to 4 years. And the total capital spend for Mexico and Georgia was EUR 30 million to build the facilities and now it's looking like, call it, EUR 20 million of cost headwind and Georgia was ramped -- I think started up in '17, Mexico '18.

So could you just give us a little bit more color on what exactly these costs are for? And then would you expect to recover all these costs next year?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so Curt, I think you're right that we expanded in San Luis Potosí, Mexico; White, Georgia, but these are not the only investments we've made in the auto structure and industry business, right? We've expanded our footprint in Van Buren, Michigan. We've expanded in Dahenfeld, Germany. We've expanded in Gottmadingen.

The expansion in Gottmadingen is actually bigger than the ones we've made in the U.S. We've expand -- we're expanding in Decin as well, putting a second press in Levice, Slovakia. So that and -- and so on and so on. There's more, right?

So the additional costs we're incurring are really about the startup of these operations and the time between when you start running and the time you really hit full production rates. And what we're seeing -- I think I mentioned that on the call last time, for instance, we've hired 700 people in this business over the course of the late 2018, really.

And then, obviously, as we are now starting production in many of those facilities, we are experiencing higher cost because you don't run at full capacity, and you have yield losses that are more important as you're starting and debugging your process. So all that is creating additional costs. These are transitory, but because of the very large amount of different projects we're starting, this is taking a bit of time to work through the systems.

As Peter mentioned, we expect that we're going to turn the corner this year in terms of these cost headwinds and that we'll end up for the year above last year in terms of EBITDA for AS&I.

So really, the way I look at it is, purely, this is not our best performance ever operationally in AS&I. There's lots going on. We know what we have to do. We're focused on it. We're doing it. We'll be turning the corner, and I don't see any reason to change my very optimistic view about the value creation that is possible for us this year in terms of EBITDA growth year-on-year and certainly into the future years.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

Okay. And then just a follow-up on automotive. In terms of thinking about the -- I guess, EBITDA trajectory of the 2 CALP lines. Can you talk about when you would expect more, I guess, material earnings out of the CALP lines. Can you give us a sense of what the utilization rates are today for Bowling Green and the new line at Neuf-Brisach?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, sure. So we're -- so in Bowling Green, I remind you, we said this year, 2019, will be a negative contribution, right? EUR 10 million to EUR 15 million is what we indicated back at the Investor Day in December. The results of the first quarter and the progress we've made make me confident that we'll be towards the better end of the range. And we'll see and -- it was about EUR 4 million, EUR 5 million negative headwind in Q1.

Now both lines in Neuf-Brisach and in Bowling Green are close to the 70% utilization rate. I mean depends on what months we're talking about. But that's kind of where we are and well on track to be at full production rates by the end of the year.

And if you think of it, full production rates in 2020 doesn't mean full product and full profitability either because you still have optimization to do on your cost base, on your process efficiencies so forth and so on. So we still see some dues in terms of getting from '20 to '21 getting some better profitability out of these lines. So we're really in a good place now.

Curtis Rogers Woodworth - *Crédit Suisse AG, Research Division - Director & Senior Analyst*

And what do you view as your total capacity for auto sheet today?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Well, 100,000 tons in Bowling Green, 180,000 tons in Europe between the CALP lines we have. And you know there may be a little bit of creep over time. So 300,000 tons by the time we're around 2022 is not out of sight. We still have a lot of work to get there, obviously, but that's kind of what I'm looking at now.

Operator

And our next question comes from the line of Jeremy Kliewer from Deutsche Bank.

Jeremy David Kliewer - *Deutsche Bank AG, Research Division - Research Associate*

Congrats on the good quarter. Regarding your Aero & Transport segment and I guess you had a great margin there, both this quarter and last quarter. So how should we look at that whatever, EUR 720 per ton margin moving forward? Is it going to contract much? Or is this TID and additional aero volumes going to help out moving forward?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, well, I think we're very pleased with the performance in A&T this past quarter and this past year as well. And 2018 was a good year, and we're starting 2019 very strong. I think it's a result of our strategy, which is really to focus on the higher value-added products and making sure we optimize, we run our mills with developing our TID presence and making sure we get paid for it as well. So that's got -- there's many pillars to this outcome.

So I view the performance as sustainable knowing that if you think of Q2 last -- Q1 last year was a win. When you look at the comparisons to last year, Q1 was a little bit weak, Q2 was super strong in A&T. And this year we have a very strong Q1, Q2 would be more difficult.

But over time as I look at the full year, I look at the team that is performing well in terms of pricing the products, placing the right products with the right customers or executing in the plants very strongly. So I look at an EBITDA that will continue to grow overall for A&T segment as a whole in 2019 compared to 2018.

Jeremy David Kliewer - *Deutsche Bank AG, Research Division - Research Associate*

Right. And as a pricing increase, is that capable due to your like increasing aerospace volumes, so that there's less supply on the TID -- or higher yield, I guess, increasing those prices?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so I think a lot of it has to do with the select -- product selection, right? I mean there's -- the aerospace market is strong, but I'd say, I believe, that there is capacity in this market to supply the market.

So it's really about making sure we focus on the right markets in TID, build the right relationship with a customer, demonstrate the value of our product. Go more directly to the OEMs as opposed to going through distributors and making sure we build that connectivity and get paid for it.

So I think a lot of it -- I mean, obviously, the economy overall is favorable, right? But I wouldn't say that we're in a situation where there's a squeeze and significant imbalance between supply and demand. We're not in that situation.

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Yes, and Jeremy as we said in the kind of prepared comments, most of the price benefit came from kind of TID. And I think most of that is really as a result of the implementation of the strategy of trying to move into higher value-added products and diversify the mix over time.

Operator

And our next question comes from the line of Matthew Korn from Goldman Sachs.

Matthew James Korn - *Goldman Sachs Group Inc., Research Division - Senior Metals and Mining Analyst*

Congratulations for the quarter. So there's a question I've been getting from a few people I find interesting is that we've been hearing for a while -- it's almost boilerplate now, but the potential tightening of the aluminum can stock market as capacity switches to the higher margin opportunity in ABS.

And over the last quarter, we've heard some comments from some of the packaging industry that this actually may be starting to kick in and availability is tight.

I know that auto and aero get all the press, but for you is this an opportunity that could be emerging maybe sooner than later? Do you have that potential now that capacity seems to be tightening to rework any of your expiring contracts in more favorable terms? Is that something within sight?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so when you say sooner rather than later. I mean we've been talking about a tightening of the market for, I think, 5 years, right? I mean we as an industry. And there's always been enough can sheet to make all the cans that are needed. So yes, I mean, the situation is a little bit tighter, but I don't think there's any supply risk or security of supply risk or major squeeze that are happening.

Now over time, I think it is important for us to get paid and to get a fair return on our capital, which is quite significant in this business. And we are very keen to -- when the opportunity arises, which is that contract renewal time, to engage in a discussion with our customers to make sure that we find a balanced situation between us and them in terms of them being able to continue to develop their business and us getting paid for what we do.

You know those contracts are long term so it doesn't happen all at once. It's progressive. Things may change in the future. There may be new developments in the market. But certainly, we see every contract renewal opportunity as an opportunity to generate more value for ourselves. Make sure we continue to get paid, we get paid better for what we make, and we continue to have the means to invest in this business and deploy the capital that is needed to make those products better, more efficient and more productive for our customer's benefit.

So we're very focused on that. And I think, over time, it should play out nicely in terms of rebalancing the profit pool or profit supply chains.

Matthew James Korn - *Goldman Sachs Group Inc., Research Division - Senior Metals and Mining Analyst*

Do any of those reopeners, any of those opportunities exist within the next 1 to 2 years?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

I don't want to go into specifics, but do not expect anything significant in the next 1 year or 2.

Matthew James Korn - *Goldman Sachs Group Inc., Research Division - Senior Metals and Mining Analyst*

Okay, all right. And switching gears over to aero. And we did hear from a notable aerospace air frame supplier last night, now that given the reduced build rate for the 737 Max there's a risk you could see some destocking activity triggered this year. How can we best think about your exposure, say, that this particular build rate reduction lingers or worsens into the back half of the year?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so I don't think we've got significant exposure. We've got a very diversified portfolio of products. We, obviously, monitor the situation closely. We have seen no impacts so far. And there would be an impact in terms of reduced build rates. From my window as I -- from where I sit now, I see us having many options to offset that.

Operator

And our next question comes from the line of Martin Englert from Jefferies.

Martin John Englert - *Jefferies LLC, Research Division - Equity Analyst*

So improvements in working capital were a notable driver of the positive free cash flow during the quarter. Can you discuss some of your initiatives to improve payment terms as a legacy agreement? And if this is more of an annual step change that we should expect in 1Q. And then also remind us of your trade working capital expectations for the full year.

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

So let me just step back a little bit and kind of talk about free cash flow generally for a second because I think it's something that we're super proud of in terms of achieving the working capital improvement that we did in the quarter. If you -- and the free cash flow that we did in the quarter.

So if you look at kind of that from the standpoint of where the benefits are, I think they came from -- really from all different pieces of working capital. We were able to manage our receivables better. We continued to work down our inventories in the quarter, and we managed to kind of extend payables.

But I think kind of this is just again one tool that we expect to bring to the table in managing kind of strong free cash flow and sustainable free cash flow in 2019. So what we said is that, just in terms of the second part of your question, we had said that we thought that working capital would be a use of EUR 25 million to EUR 45 million in the year. Obviously, the first quarter was much better than that, and we're going to continue to work off of that.

But the challenge that I think you need to kind of keep in mind is that trade working capital can swing for reasons that aren't always in your control. And I'd remind you of things like Rusal and kind of some of the 232 actions that led us to take certain actions vis-à-vis working capital. So based on what we see, we think, we have it under control, but we're not moving away from that forecast, but we obviously are hoping to beat it.

Martin John Englert - *Jefferies LLC, Research Division - Equity Analyst*

Got it. And also just circling back on the packaging business. Are there any volumes in 2019 that you're selling into the market that are not under contract? If so, if you can talk about one of the pricing dynamics there?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so we -- this year, we've made a choice to not contract out all our capacity to make sure we are fully reliable, and we're able to respond to peak demand. We are not after making a quick buck and extort extraordinary prices from customers that have a need at a certain time.

We're in this business for the long term. There's only a few suppliers, only a few customers, and we want to make sure that we have a balanced relationship with the -- with our customers. So pricing may drift up a little bit, but it's nothing really to write home about.

Operator

And our next question comes from the line of Piyush Sood from Morgan Stanley.

Piyush Sood - *Morgan Stanley, Research Division - Research Associate*

Jean-Marc, Peter, congratulations on the quarter. Couple of questions, first one, could we talk a little bit about your thoughts for 2Q profitability companywide? I think you've already said the AS&I will be lower. The reason I'm asking is the full year guide is unchanged after the 1Q beat and start-up costs are front loaded this year. And lastly, 2Q last year was very strong. So are we looking at 2Q down year-on-year before growth picks up again in the second half?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so Piyush, you're right that Q1 is strong and Q2 is a different comp compared to last year. I think the way I think of this full year guidance is we're tracking towards the higher end of the guidance. The pace of the solid gains we've had in Q1. I mean it's still early in the year to say exactly where we're going to land at the end of the year. We'll keep you updated.

I think we're building a track record of letting you know what happens as it happens. So I'm confident we're tracking towards the higher end of the guidance. And I think, maybe, Peter has a few more comments to add.

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Yes, I mean, I think, Piyush, just looking at the year. Again, if we just take the segments one by one and looking at P&ARP, Bowling Green is a critical piece of the pie this year. We had guided to it being 10% to 15% negative. Obviously, in the first quarter, we feel like we've done a little bit better than that. So maybe we're at kind of the better end of our guide on that front.

And I think in terms of -- as we've said in the general comments, automotive demand for our products remains strong and the packaging demand remains very strong. So if we can produce the tons, we should be able to kind of maintain a decent performance in P&ARP.

In A&T, again, we've talked about this a little bit already on the call, but shipment volume there, we think, can continue to remain robust there as we've got TID as kind of back to where we had it before and aerospace remains strong. And as Jean-Marc said in his prepared remarks, we expect that to remain strong.

So again, most of that business is contracted. So again, if we can produce the tons, we should be able to sell them and generate decent results. And AS&I, as we've said, is going to be a challenge, but we are expecting year-over-year improvement in adjusted EBITDA and that's based on kind of working through some of these startups and moving in the right direction, which we're confident we can do.

Piyush Sood - *Morgan Stanley, Research Division - Research Associate*

That is great. Appreciate that color and a quick question on your free cash flow. So 1Q, you're already above the EUR 50 million mark. So the remaining 9 months, do you expect some more positive free cash flow? Or do you expect the remainder of the year to be a use of cash?

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Yes, so let me just start again by stepping back on free cash flow. So free cash flow, multiple levers here in the company. One of the things that's really exciting for us is that I think, we've got the whole team focused on using all these levers to get to kind of strong free cash flow.

In the first quarter of the EUR 73 million, remember, EUR 20 million is related to factoring. So if you take that out, we're positive EUR 53 million in the quarter. We feel -- I would say, we feel very good about kind of free cash flow for the rest of the year, and our goal is not to generate free cash flow in 1 year. It's about sustainable free cash flow.

If you ask why are we not upping our guidance on free cash flow, it's because there are some things that can swing. As I said earlier in the call, things like working capital, sometimes it's completely out of your control. Obviously, we feel like thus far we've been able to overcome the growth investment piece of trade working capital, but I think we want another quarter to kind of see how the year is panning out. And then with some better visibility, we'll reconsider our guidance for the full year.

Operator

And our next question comes from the line of Christian Georges from Société Générale.

Christian Eric Andre Georges - *Societe Generale Cross Asset Research - Equity Analyst*

I'm interested -- just going back on your aerospace division, I think you just said that Q2 would be more difficult. I mean it's been a great Q1, EUR 52 million EBITDA. That's not [just to -- what's your strategy] in Q2 '18? And if I look at your -- the commercial spread, you are at 20%, which is the first time we've seen that in long time.

So when you're saying 2Q more difficult, are we looking at the similar kind of the contrast between both quarter that we had in the third quarter last year as well as the second quarter? Is that kind of the idea?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

I think by more difficult, we mean the base, the comparable from last year is very high. So I think we beat by more than 40% from the last year's Q1 EBITDA. I mean I'm certainly not expecting to beat Q2 by 40%. But we're working hard to have a solid Q2 as well.

Christian Eric Andre Georges - *Societe Generale Cross Asset Research - Equity Analyst*

Okay, because Q2 last year was pretty strong as well, right? So even if you have equalized that in Q2 last year...

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes.

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Yes, that's -- yes, and again, just to emphasize what Jean-Marc's saying. We're not saying that Q2 is going to be weak in any regard. All of the contracts are in place and the pricings in place, so we feel really good about Q2. But just remember the jump of last year Q1 to Q2 was very substantial. We don't expect that big a differential this year.

Christian Eric Andre Georges - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. And if I look at P&ARP, again, just looking at your commercial spreads, the delta with the price of aluminum, it looks one of the weakest you've had in some time, I think, I calculated about 17%. I mean the inclusion of Bowling Green, does this, eventually, have an impact on the margin you're able to achieve over and above the cost of aluminum?

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

I mean Bowling Green is definitely negatively impacting the results in the quarter, right, as we said earlier. So if you kind of take apart the numbers, what you can see is that Bowling Green is basically a negative 5%, right?

So what we said earlier was we believe that Bowling Green -- actually we're performing well at Bowling Green, but it is definitely negatively impacting our P&ARP results. Now over the course of the year, we expect to improve that and so for negative 5% in Q1, hopefully, by the time we get to the end of the year, we're kind of making a positive contribution there.

Christian Eric Andre Georges - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. And then I think just thinking about this compared to Q1 last year when you only included part of it?

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Well, remember, it wasn't included last year. Because remember we don't consolidate it. So this is the first time we're consolidating it and so it's -- it shows up in our bridge in the Other bucket. And obviously, next year when we have a full year comparison, you'll start seeing it broken out by all of the different bridge items. Not it specifically, but it will be included in all the different bridge items.

Christian Eric Andre Georges - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. That's very clear, I understand. And then the very last thing on that resell getting together with Brady. Just in terms of your experience, I think, they're aiming for 300,000 tons of automotive aluminum. How long would that potentially take to reach the market, like 5 years, in your experience? This kind of size.

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Well, I mean, it's -- I mean, at the moment, it is a project, right? That is reasonably advanced so it is a project base. The ground still needs to be broken. The power needs to be brought to site. So building a cast out, a rolling mill, finishing equipment and all that, you're talking fairly more than 5 years altogether to get it to commercial production.

And in my experience, when you look at the precedence, Logan Aluminum was a 5 to 10 years before they reached breakeven between the time you break the ground and the time you reach breakeven. You look at the Ma'aden example, which is a rolling mill in Saudi Arabia built by Alcoa. It's also a long-term project. So all these projects are long term.

Operator

And our next question comes from the line of Matthew Fields from Bank of America Merrill Lynch.

Matthew Wyatt Fields - *BofA Merrill Lynch, Research Division - Director*

Just 2 questions. We've talked a lot over the last 5 years, as you rightly noted, about the tightening packaging market. But when you look at the revenue over the cost of aluminum in your packaging sector, this quarter, it's down, as has been the case for the last several years.

But I'm just wondering to -- and maybe to an earlier question, when are we going to start to see the uptick in pricing in can as your contract mix kind of changes and legacy contracts roll up and kind of newer contracts roll on? When -- what's the trajectory of that -- of the pricing in that segment?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so it's important to not confuse the margin of a metal with pricing because you've got significant impacts of mix in there, right? So for instance, this year, we've got less end stock than can stock -- and body stock, sorry, within can sheet. Even taking it into the week, within auto, we've got less outers, more inners, more of everything, but less of the mix.

And then -- and those products have different prices because they've got different costs, right? There's more cost in making an end stock than there is in making body stocks. You don't even have the same productivity in the mills. You don't even have the same raw materials. So all -- and all these fluctuate quarter-over-quarter.

So if you look at an equivalent of value-added revenue, for instance, per ton on a quarterly basis, it is very difficult to look at this and then conclude that prices are going up or prices are going down. You can have prices going up in both end stock and body stock and still the average value-added revenue divided by tons go down because of mix change.

So -- sorry, for this longer opening preamble, right? But we're seeing better margins in P&ARP, again, they are depressed by the inclusion of Bowling Green in Q1, and we are -- and I am quite optimistic that we will continue to see an improvement in margin over time in this segment.

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Yes. And maybe just to add a little bit to that. So remember, on the auto side, as we've said before, we're ramping these lines up. We'll be at full run rate in 2020, but we'll still be getting the full realization of the profitability in 2021, right? Because once you ramp up these auto lines, there's some optimization that needs to go on.

And then last -- or secondly, on the can sheet side, I think you can infer from Jean-Marc's earlier comments that we don't have a -- the big contracts coming up in the next 1 to 2 years, but then there's opportunity, thereafter, depending on market conditions. And we'll certainly be kind of looking at that very closely.

Matthew Wyatt Fields - *BofA Merrill Lynch, Research Division - Director*

Okay, that's helpful. And then as Novelis and Aleris work their way through the regulators they may be forced to divest some assets. Are there any assets in Europe, maybe, Duffel or one of Novelis' auto lines that you might be interested in acquiring? And kind of like what's the level of comfort taking leverage up to acquire something in a forced sale context?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so fair question. We're very focused on all the opportunities we have within our 4 walls. I mean we've got plenty to do internally. We've got all these investments that we're ramping up, that are going to generate positive EBITDA that at the moment are generating negative EBITDA as you're seeing in some of our bridges. So that's what we're focused on.

As we've said a number of times, our priority in terms of capital allocation is deleveraging, right? And paying down debt, which we've started to do as Peter mentioned. We're repaying the leases that we inherited from the acquisition of Bowling Green.

So our level of comfort with bringing leverage up, is very, very minimal. We don't want to do that. And we should never say never, but whatever we would do would be very, very carefully considered like we did with Bowling Green, right?

We took a long and hard look at the purchase of the 49% in Bowling Green. We had an inside look into it, obviously. We knew what was there. We felt that this was a compelling opportunity, but it took us some time before we decided to cross that bridge. So the likelihood that we acquire any assets even out of a full sale is very, very slim.

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Yes, and I would just kind of jump in to remind you that one of the things that we think is so exciting about this story is that we have all the tools within our 4 walls to generate kind of continued really strong earnings and free cash flow.

Think about each of the businesses, we've made substantial investments, and so it's a matter of kind of ramping them up, as Jean-Marc said, and they'll deliver earnings and cash flow. Think about Project 2019 where there's still, we would say, kind of significant additional room beyond even Project 2019 in the company. So it's a -- there's the makings of a really good story both from earnings and cash flow without doing things on the outside.

Operator

And our next question comes from the line of Sean Wondrack from Deutsche Bank.

Sean-M Wondrack - *Deutsche Bank AG, Research Division - VP & Senior Credit Analyst*

You guys have had a lot of success amongst your 3 sectors over the past 3 years in terms of growing revenue and EBITDA. Have you seen any shift in sort of competitive intensity when you think about your 3 segments where, maybe, you see more entrants coming in or more competition arising?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

I wouldn't talk about new entrants, really. But it's a competitive market. I mean we've got very strong competitors that make good products for which we have a lot of respect. And yes, it's not easy everyday. But I don't think I would characterize it as increased competition or decreased competition. I think it's a very healthy, robust level of competition that forces all of us to improve.

Sean-M Wondrack - *Deutsche Bank AG, Research Division - VP & Senior Credit Analyst*

Got you. And then shifting gears a little. When you think about your earnings and the market for aluminum scrap, obviously, you recycle a lot of scrap. Have there been any discrete benefits there? And what's your outlook for the scrap market kind of moving forward throughout the rest of the year?

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Well, I would say we expect the scrap market to remain kind of strong, kind of a benefit, obviously. Because we -- given some of the trends in that market, we would anticipate that they would continue at least for the foreseeable future, certainly through the end of 2019.

We do benefit from it in our packaging businesses as we've kind of called out in the past. And specifically, this year, we -- or in this quarter, we highlighted the fact that we're getting some benefit from kind of metal in our results and specifically again in the packaging business.

We would characterize it as kind of a handful of millions so to speak. Because there are, as we've said in the past, a number of kind of puts and takes on the scrap side. So it's not all good, right, from our vantage point.

Sean-M Wondrack - *Deutsche Bank AG, Research Division - VP & Senior Credit Analyst*

Right. No, that makes sense. And then sorry to ask this question again, but just in terms of your debt stack, I think you had sort of mentioned you were kind of looking at the 2021 Euro notes. Do you have any update there? Are you still looking at the capital market?

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

We're still looking. There was a -- now as we've said in the past, look, the bonds are callable at par. In May, we're watching the markets carefully. We note that they're very strong, and we continue to watch.

Operator

And our next question comes from the line of Karl Blunden from Goldman Sachs.

Karl Blunden - *Goldman Sachs Group Inc., Research Division - Senior Analyst*

Just a couple of questions on the end markets. We discussed packaging a lot and tightening conditions there. Are you able to quantify what the utilization rates are in the industry in Europe and in North America in your opinion?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, I think, our industry in rolling is working pretty much at full capacity, both in Europe and North America. I mean we saw that there was a surge in demand in Q4 in the U.S. and everybody was scrambling, certainly, us, and I believe our competition as well to deliver everything that was needed. We've managed to work through it with our customers but yes, it's pretty tight in both markets.

Karl Blunden - *Goldman Sachs Group Inc., Research Division - Senior Analyst*

Got you. Similar question on the auto side. We've -- aware, obviously, of some shipments from Europe to the U.S., just given how tight the conditions are in the U.S. There's couple of capacity additions coming on from Novelis, and we hear about this longer-term project at Brady. Could you talk about your confidence that that market will remain pretty much fully sold out? And how long those conditions might be maintained?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, so I think in Europe there is a bit of extra capacity. You're right. And that's why it's being used to -- for international shipments. But by 2021, I believe, we're back to market, which is more than balanced and actually would require new investments even in Europe in 2022, 2023. And I think in the U.S., the lines are being built. I'm not talking about the Brady lines here. Obviously, needed otherwise the market would be in a deficit as soon as 2021.

So I think we've got a pretty good horizon. And again, this trend towards more aluminum in cars is -- in every discussion we have with the automakers, is a secular trend. They need to lightweight and aluminum is a cost-effective way to do that. And especially -- and on the European side, where diesel was a very important player -- play reducing emissions. Getting diesel out of the fleet increases emissions of CO_2, right? So there's another engine that fosters the development -- the adoption of aluminum in automotive.

So I think all these expansions are needed. Now when they come, you know that it's not a smooth and easy ramp up anyway. But so on the face of it, you open a plant, you look at it and all of a sudden, you've got 100,000 tons more of capacity. So reality is the sellable capacity is not 100,000 tons right out of the gate.

So the ramp up is also helping to smooth the peaks in capacity versus a pretty steady increase in demand. So I think we're looking at a market that is going to be reasonably balanced plus or minus something for the next 3, 4 years.

Operator

And we have a follow-up from Jeremy Kliewer from Deutsche Bank.

Jeremy David Kliewer - *Deutsche Bank AG, Research Division - Research Associate*

Just regarding your comment on limited pockets of weakness in the automotive industry. Was that referring to like particular regions? Or is it on models that you guys are exposed to?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Yes, no, it's more on the -- so it's both in the U.S. and Europe. I think some models or OEMs on which we may have somehow new exposure, right, somehow limited exposure. But again, we don't see that as having any impact on our guidance either short term or long term.

Jeremy David Kliewer - *Deutsche Bank AG, Research Division - Research Associate*

Okay. And then on the decision to kind of reduce some of your contractual obligations on the packaging sheet, was that all on the end stock? Or was it both body sheet as well as the end stock sheet?

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Both.

Peter R. Matt - *Constellium N.V. - Executive VP & CFO*

Both, yes.

Jean-Marc Germain - *Constellium N.V. - CEO & Executive Director*

Well, thank you, everyone. I think that concludes our call for today and our Q&A. Thank you, again, for your interest in Constellium. As you can tell, we remain very optimistic about our prospects for 2019 and onwards. And we look forward to updating you on our Q2 numbers performance in July. Thank you. Have a good day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.
