

HEXCEL CORPORATION (HXL)

ASSESSING THE DURABILITY OF THE ECONOMIC MOAT

A forensic analysis of competitive advantage, capital allocation, and valuation in the post-pandemic aerospace cycle.

EXECUTIVE SUMMARY: THE VERDICT

THE DIVERGENCE

THE MYTH:

Secular Supercycle +
Duopoly Position +
High Switching Costs

vs.

THE REALITY:

Pricing Power Erosion +
Inflation Vulnerability +
Capital Misallocation

High-Quality Product.
Low-Quality
Business Economics.



Narrow Moat company priced as a Wide Moat leader.

DATA DASHBOARD

ROIC vs WACC

3.88%

vs

~9-12%

Spread: Negative

VALUATION

~40x

Forward P/E

(vs Peer Avg 15-20x)



GROSS MARGINS

23.0%

(Compressed from 28% Peak)

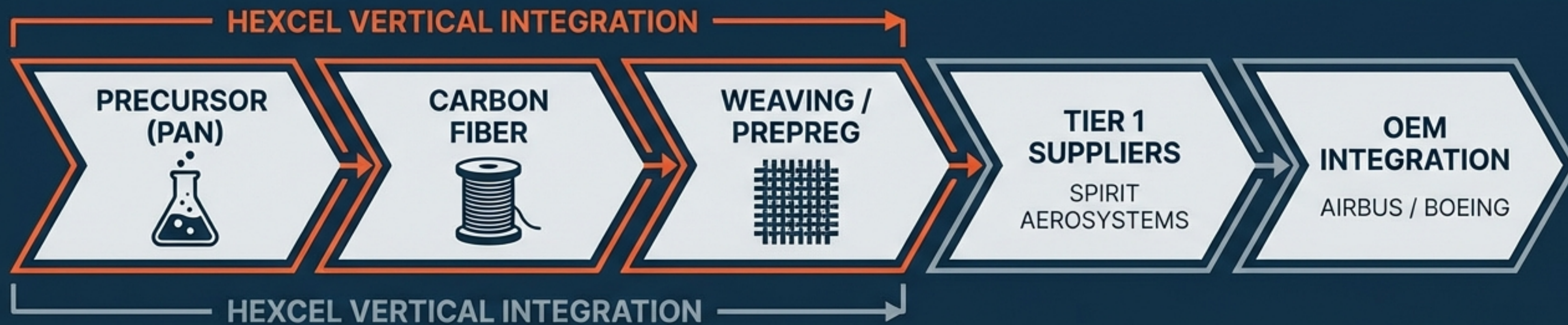


RECOMMENDATION:
CAUTION / AVOID



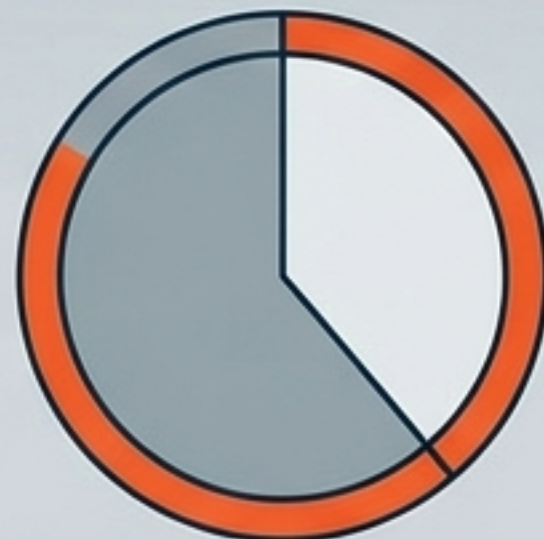
The stock is a high-beta play
on production rates, not a
long-term compounder.

THE PURE PLAY: VERTICAL INTEGRATION & VALUE CHAIN



REVENUE EXPOSURE

61%
COMMERCIAL
AEROSPACE



39%
DEFENSE &
SPACE

STRATEGIC POSITION

Unlike diversified peers (Toray, Syensqo), HXL is **100% exposed** to advanced composites. **No chemical portfolio buffer.**

THE BULL CASE: ANATOMY OF THE MOAT

JETBRAINS MONO CERTIFICATION BARRIER

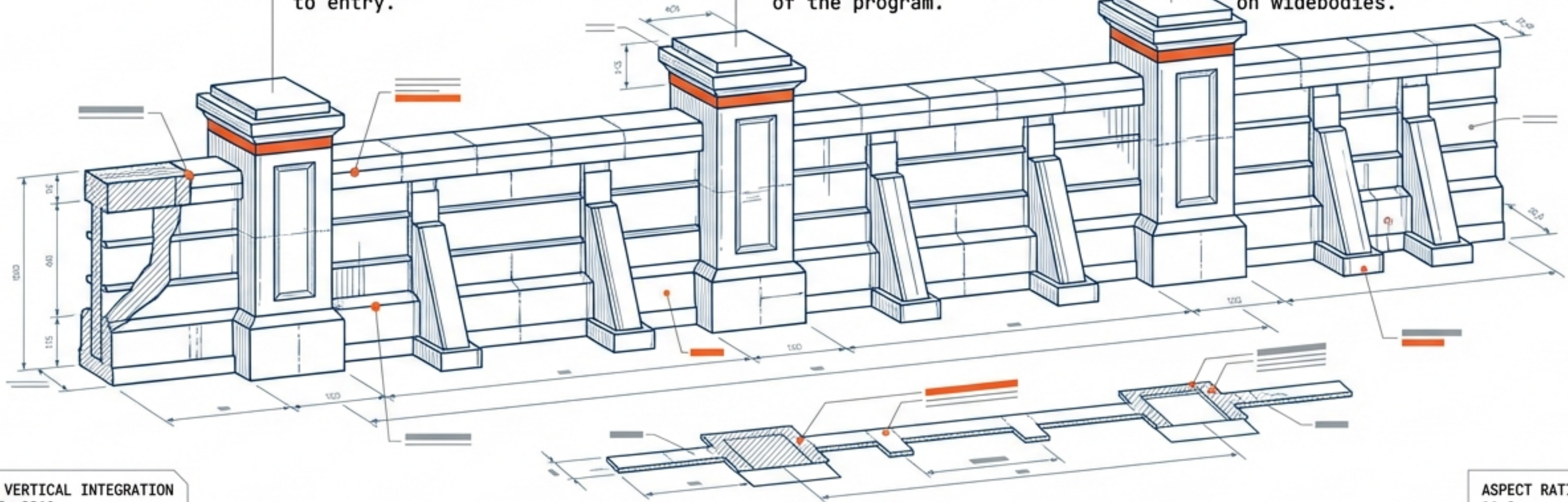
Build-to-print regulatory lock-in. Qualification requires testing thousands of coupons. High barriers to entry.

JETBRAINS MONO SWITCHING COSTS

Recertification costs hundreds of millions. De facto monopoly for the 20-30 year life of the program.

JETBRAINS MONO SECULAR PHYSICS

Carbon fiber is 5x stronger and 30% lighter than aluminum. Irreversible trend toward >50% content on widebodies.



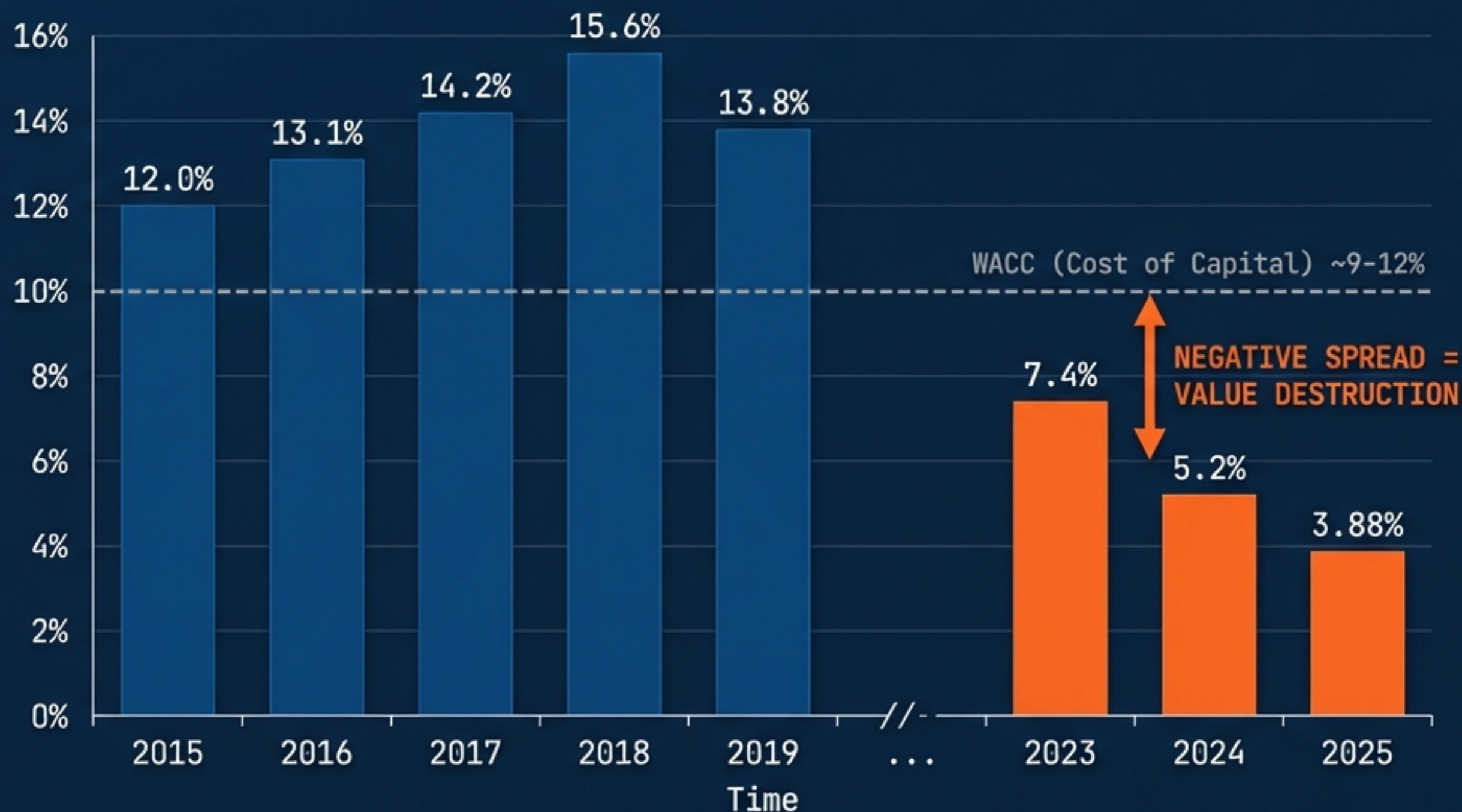
HEXCEL VERTICAL INTEGRATION
ANALYST: Q319

ASPECT RATIO:
16:9

THE REALITY CHECK: VALUE DESTRUCTION

Forensic Engineering

ROIC (Return on Invested Capital)



THE CAUSE: STRANDED CAPITAL

- Heavy investment in capacity for production ramps that stalled. Low asset turnover weighs on returns.
- **PEER CONTRAST:** Syensqo Materials EBITDA Margin 31.4% vs Hexcel ~19%.

THE PRICING PARADOX: SQUEEZED IN THE MIDDLE

OEM DUOPOLY

LTA Concessions &
Volume over Price

HEXCEL MARGINS

INFLATION

Energy, Acrylonitrile,
Labor Costs

GROSS MARGIN COMPRESSION

2015-2016 Peak	28.0%
2025 Actual	23.0%
Delta	-500 bps

Insight: High switching costs have NOT translated to pricing power.
Costs are absorbed, not passed through.

INDUSTRY DYNAMICS: THE BULLWHIP EFFECT



RECORD DEMAND

- Backlog: >15,000 Aircraft
- Delivery Shortfall: 5,300 planes
- Airline fleet renewal urgency

The Bullwhip Effect:
Small OEM cuts amplify pain
for Tier 2 suppliers.



BROKEN SUPPLY

- Destocking: Inventory burns in 2024-2025
- Boeing 737 MAX Capped at 38/mo
- Quality Escapes & Titanium Shortages

THE GROWTH CALCULUS: SHIPSET MATH



Shipset Value: ~\$4.5M - \$5.0M
Composite Content: 53%
Target Rate: 10/mo



Shipset Value: **~\$1.5M - \$2.0M**
Composite Content: **50%**
Target Rate: **10/mo**

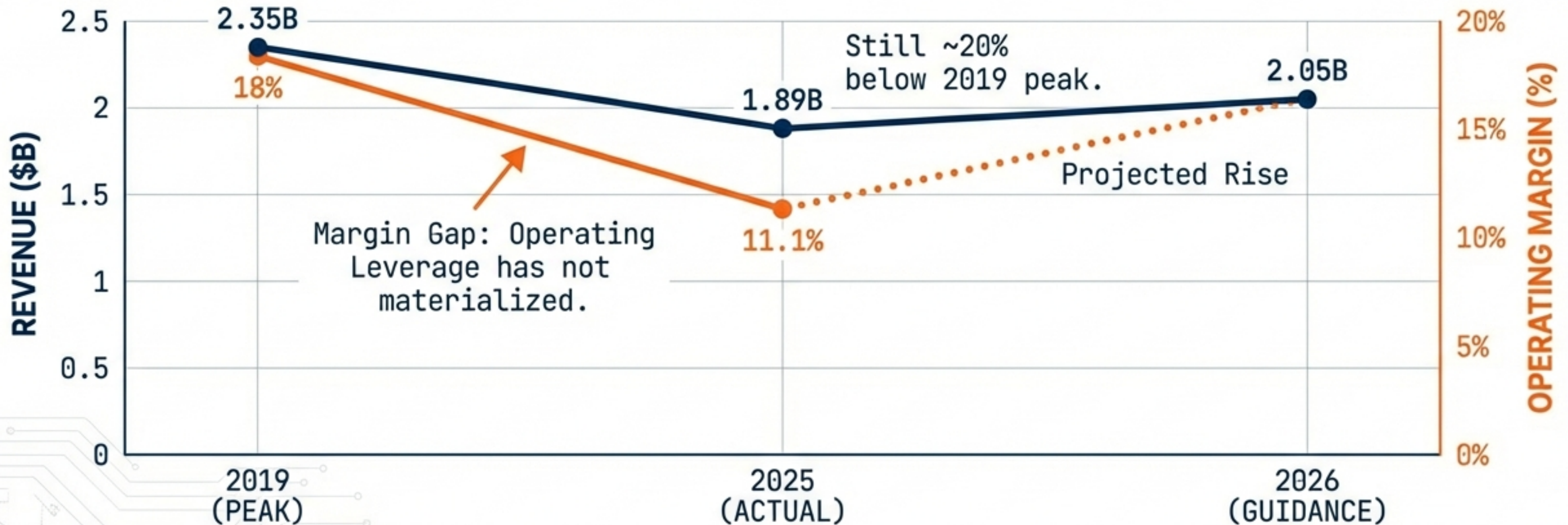


Shipset Value: <\$500k
Legacy tech limits exposure.

THE TARGET: +\$500M Revenue Opportunity relies on hitting peak production rates.

FORENSIC ENGINEERING

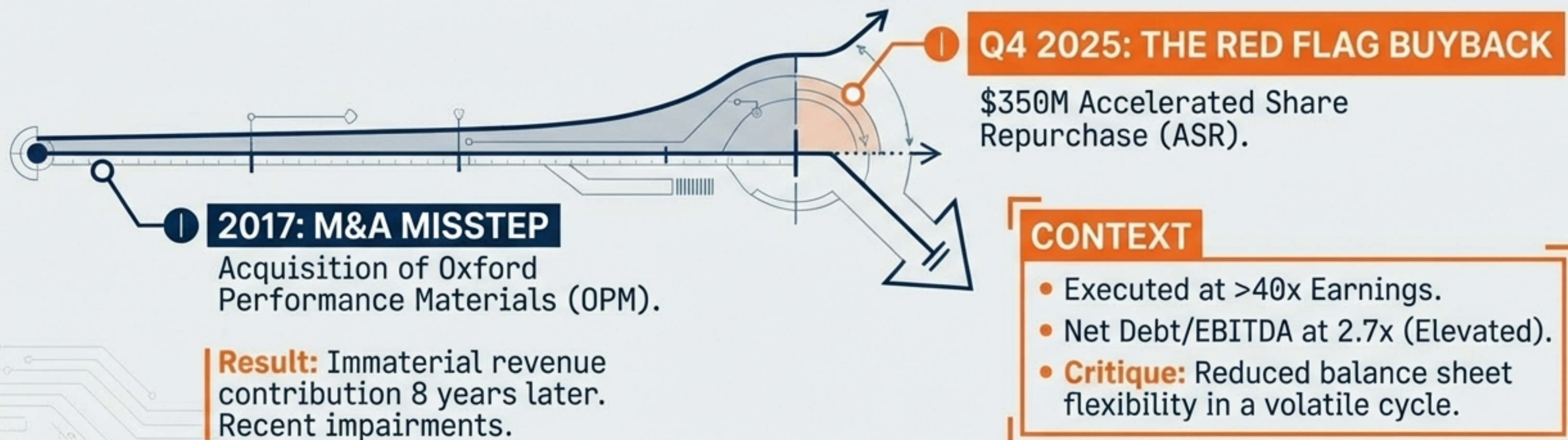
FINANCIALS: THE RECOVERY LAG



2026 is the 'Show Me' Year. Requires perfect execution of A350 ramp to hit guidance.

FORENSIC ENGINEERING

CAPITAL ALLOCATION: ENGINEERING EPS OVER RESILIENCE

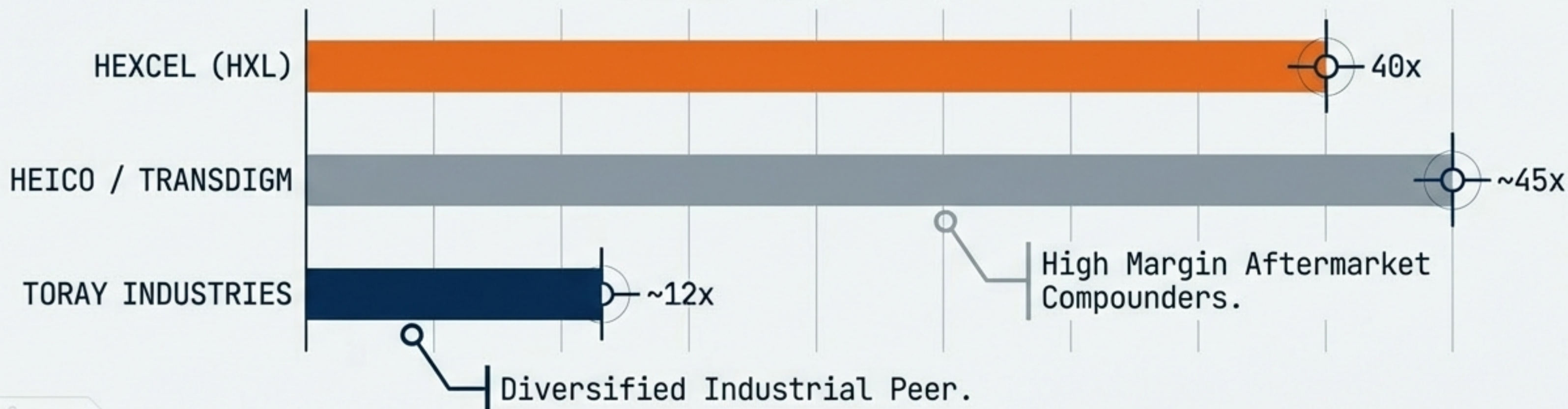


Forensic Engineering Analysis | in Alert Orange | pole in the coal of EPS over atloptment.

FORENSIC ENGINEERING

VALUATION: PRICED FOR PERFECTION

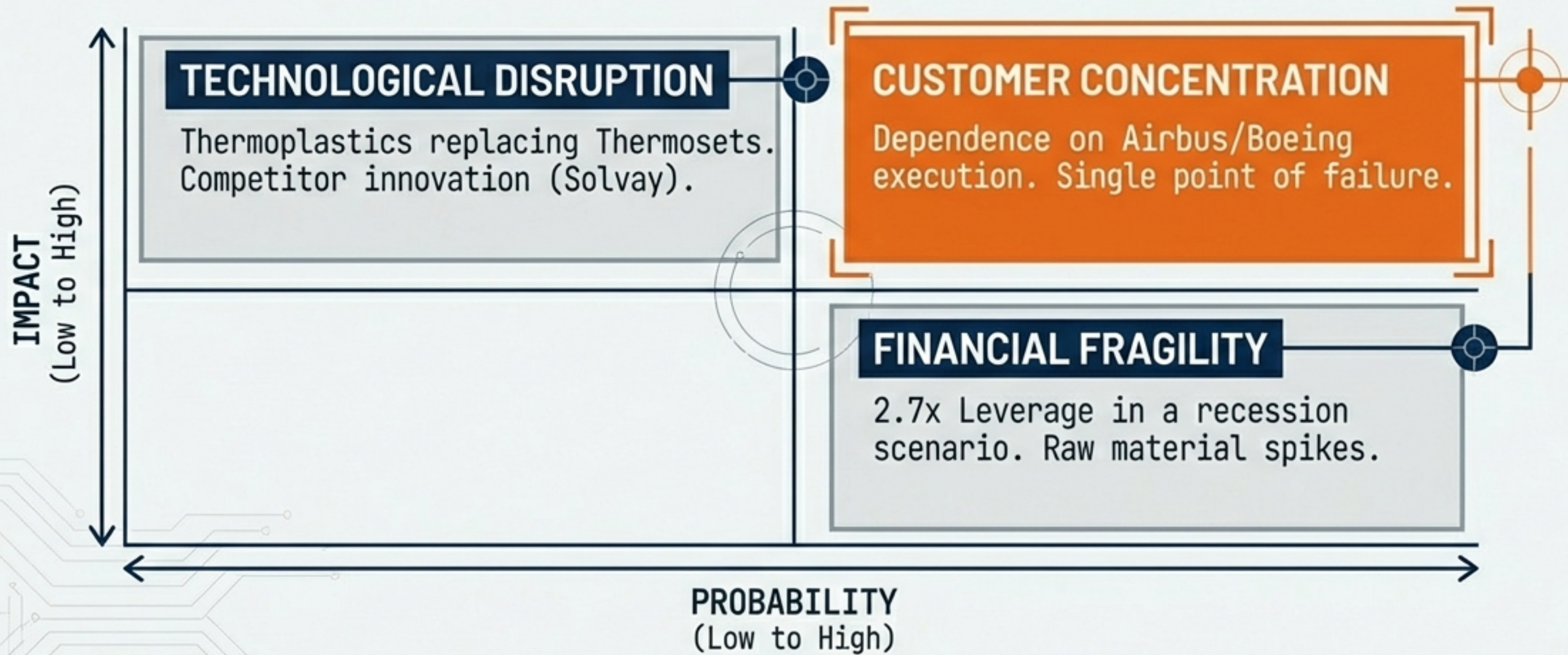
FORWARD P/E MULTIPLES



THE DISCONNECT: Hexcel is priced like a Compounder (Heico) but has the economics of a Cyclical Commodity (Toray).

DCF REALITY: Current price (\$84) implies ~20% margins. Base case (\$55-\$65) assumes ~14% margins.

RISK MATRIX: VULNERABILITY ASSESSMENT



FINAL VERDICT

HEXCEL IS A NARROW MOAT COMPANY PRICED AS A WIDE MOAT LEADER.

1. Technical barriers are high, but economic barriers (pricing power) are broken.
2. Value Destruction persists ($ROIC < WACC$).
3. The 'Supercycle' narrative is doing the heavy lifting for the valuation.

INVESTMENT RECOMMENDATION: AVOID.

Wait for valuation compression or objective margin recovery $>14\%$.