

ALLEGHENY TECHNOLOGIES INC  
Form 10-Q  
April 30, 2019  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2019

OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-12001

ALLEGHENY TECHNOLOGIES INCORPORATED  
(Exact name of registrant as specified in its charter)

Delaware 25-1792394  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1000 Six PPG Place  
Pittsburgh, Pennsylvania 15222-5479  
(Address of Principal Executive Offices) (Zip Code)  
(412) 394-2800  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No ý

At April 19, 2019, the registrant had outstanding 126,034,880 shares of its Common Stock.

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SEC FORM 10-Q  
Quarter Ended March 31, 2019  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Allegheny Technologies Incorporated and Subsidiaries

Consolidated Balance Sheets

(In millions, except share and per share amounts)

(Current period unaudited)

	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$217.0	\$ 382.0
Accounts receivable, net	565.1	527.8
Short-term contract assets	48.7	51.2
Inventories, net	1,254.4	1,211.1
Prepaid expenses and other current assets	92.7	74.6
Total Current Assets	2,177.9	2,246.7
Property, plant and equipment, net	2,470.7	2,475.0
Goodwill	536.8	534.7
Other assets	305.6	245.4
Total Assets	\$5,491.0	\$ 5,501.8
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$455.3	\$ 498.8
Accrued liabilities	220.4	260.1
Short-term contract liabilities	77.9	71.4
Short-term debt and current portion of long-term debt	6.4	6.6
Total Current Liabilities	760.0	836.9
Long-term debt	1,536.2	1,535.5
Accrued postretirement benefits	309.5	318.4
Pension liabilities	701.1	730.0
Deferred income taxes	14.5	12.9
Other long-term liabilities	123.1	76.5
Total Liabilities	3,444.4	3,510.2
Equity:		
ATI Stockholders' Equity:		
Preferred stock, par value \$0.10: authorized-50,000,000 shares; issued-none	—	—
Common stock, par value \$0.10: authorized-500,000,000 shares; issued-126,695,171 shares at March 31, 2019 and December 31, 2018; outstanding-126,034,880 shares at March 31, 2019 and 125,684,396 shares at December 31, 2018	12.7	12.7
Additional paid-in capital	1,599.7	1,615.4
Retained earnings	1,437.0	1,422.0
Treasury stock: 660,291 shares at March 31, 2019 and 1,010,775 shares at December 31, 2018	(19.7 )	(30.6 )
Accumulated other comprehensive loss, net of tax	(1,095.5 )	(1,133.8 )
Total ATI stockholders' equity	1,934.2	1,885.7
Noncontrolling interests	112.4	105.9
Total Equity	2,046.6	1,991.6
Total Liabilities and Equity	\$5,491.0	\$ 5,501.8

The accompanying notes are an integral part of these statements.

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Allegheny Technologies Incorporated and Subsidiaries  
 Consolidated Statements of Income  
 (In millions, except per share amounts)  
 (Unaudited)

	Three months ended March 31,	
	2019	2018
Sales	\$1,004.8	\$979.0
Cost of sales	873.7	830.4
Gross profit	131.1	148.6
Selling and administrative expenses	68.0	67.1
Operating income	63.1	81.5
Nonoperating retirement benefit expense	(18.3 )	(8.3 )
Interest expense, net	(24.8 )	(25.5 )
Other (expense) income, net	(2.9 )	17.8
Income before income taxes	17.1	65.5
Income tax provision	0.8	5.0
Net income	16.3	60.5
Less: Net income attributable to noncontrolling interests	1.3	2.5
Net income attributable to ATI	\$15.0	\$58.0
Basic net income attributable to ATI per common share	\$0.12	\$0.46
Diluted net income attributable to ATI per common share	\$0.12	\$0.42

The accompanying notes are an integral part of these statements.

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Allegheny Technologies Incorporated and Subsidiaries  
 Consolidated Statements of Comprehensive Income  
 (In millions)  
 (Unaudited)

	Three months ended March 31,	
	2019	2018
Net income	\$16.3	\$60.5
Currency translation adjustment		
Unrealized net change arising during the period	11.0	23.6
Derivatives		
Net derivatives gain on hedge transactions	10.5	3.3
Reclassification to net income of net realized loss (gain)	0.9	(3.0 )
Income taxes on derivative transactions	—	—
Total	11.4	0.3
Postretirement benefit plans		
Actuarial loss		
Amortization of net actuarial loss	21.7	19.2
Prior service cost		
Amortization to net income of net prior service credits	(0.6 )	(0.6 )
Income taxes on postretirement benefit plans	—	—
Total	21.1	18.6
Other comprehensive income, net of tax	43.5	42.5
Comprehensive income	59.8	103.0
Less: Comprehensive income attributable to noncontrolling interests	6.5	9.4
Comprehensive income attributable to ATI	\$53.3	\$93.6

The accompanying notes are an integral part of these statements.

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Allegheny Technologies Incorporated and Subsidiaries  
Consolidated Statements of Cash Flows  
(In millions)  
(Unaudited)

	Three months ended March 31, 2019	2018
Operating Activities:		
Net income	\$ 16.3	\$ 60.5
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	38.7	39.8
Deferred taxes	1.6	(0.2 )
Gain on joint venture deconsolidation	—	(15.9 )
Changes in operating assets and liabilities:		
Inventories	(43.3 )	(108.4 )
Accounts receivable	(37.3 )	(61.7 )
Accounts payable	(43.5 )	79.8
Retirement benefits	(18.4 )	0.5
Accrued income taxes	0.5	2.4
Accrued liabilities and other	(44.6 )	(43.9 )
Cash used in operating activities	(130.0 )	(47.1 )
Investing Activities:		
Purchases of property, plant and equipment	(23.5 )	(41.6 )
Asset disposals and other	(0.1 )	0.1
Cash used in investing activities	(23.6 )	(41.5 )
Financing Activities:		
Borrowings on long-term debt	—	6.4
Payments on long-term debt and finance leases	(1.5 )	(1.3 )
Net borrowings under credit facilities	—	50.9
Sales to noncontrolling interests	—	7.4
Shares repurchased for income tax withholding on share-based compensation and other	(9.9 )	(6.5 )
	(11.4 )	56.9



Cash (used in) provided by financing activities				
Decrease in cash and cash equivalents	(165.0	)	(31.7	)
Cash and cash equivalents at beginning of period	382.0		141.6	
Cash and cash equivalents at end of period	\$	217.0	\$	109.9

The accompanying notes are an integral part of these statements.

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Allegheny Technologies Incorporated and Subsidiaries  
 Statements of Changes in Consolidated Equity  
 (In millions, except per share amounts)  
 (Unaudited)

	ATI Stockholders						Total
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interests	Equity
Balance, December 31, 2017	\$12.7	\$1,596.3	\$1,184.3	\$(26.1 )	\$ (1,027.8 )	\$ 105.1	\$1,844.5
Net income	—	—	58.0	—	—	2.5	60.5
Other comprehensive income	—	—	—	—	35.6	6.9	42.5
Cumulative effect of adoption of new accounting standard	—	—	15.5	—	—	—	15.5
Sales of subsidiary shares to noncontrolling interest	—	—	—	—	—	2.7	2.7
Employee stock plans	—	3.2	—	(5.6 )	—	—	(2.4 )
Balance, March 31, 2018	\$12.7	\$1,599.5	\$1,257.8	\$(31.7 )	\$ (992.2 )	\$ 117.2	\$1,963.3
Balance, December 31, 2018	\$12.7	\$1,615.4	\$1,422.0	\$(30.6 )	\$ (1,133.8 )	\$ 105.9	\$1,991.6
Net income	—	—	15.0	—	—	1.3	16.3
Other comprehensive income	—	—	—	—	38.3	5.2	43.5
Employee stock plans	—	(15.7 )	—	10.9	—	—	(4.8 )
Balance, March 31, 2019	\$12.7	\$1,599.7	\$1,437.0	\$(19.7 )	\$ (1,095.5 )	\$ 112.4	\$2,046.6

The accompanying notes are an integral part of these statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Unaudited

## Note 1. Accounting Policies

The interim consolidated financial statements include the accounts of Allegheny Technologies Incorporated and its subsidiaries. Unless the context requires otherwise, “Allegheny Technologies”, “ATI” and “the Company” refer to Allegheny Technologies Incorporated and its subsidiaries.

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management’s opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified in order to conform with fiscal year 2019 presentation. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2018 Annual Report on Form 10-K. The results of operations for these interim periods are not necessarily indicative of the operating results for any future period. The December 31, 2018 financial information has been derived from the Company’s audited consolidated financial statements.

## New Accounting Pronouncements Adopted

In January 2019, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) related to leases. See Note 7 for further explanation related to this adoption, including all newly expanded disclosure requirements.

## Pending Accounting Pronouncements

In August 2018, the FASB issued new disclosure guidance on fair value measurement. This new guidance modifies the disclosure requirements on fair value measurements, including removal and modifications of various current disclosures as well as some additional disclosure requirements for Level 3 fair value measurements. Some of these disclosure changes must be applied prospectively while others retrospectively depending on requirement. This guidance is required to be adopted by the Company beginning in fiscal year 2020 with early adoption permitted. The Company does not plan to early adopt this guidance. The adoption of these changes is not expected to have an impact on the Company’s consolidated financial statements other than disclosures.

## Note 2. Revenue from Contracts with Customers

## Disaggregation of Revenue

The Company operates in two business segments: High Performance Materials & Components (HPMC) and Flat Rolled Products (FRP). Revenue is disaggregated within these two business segments by diversified global markets, primary geographical markets and diversified products. Comparative information of the Company’s overall revenues (in millions) by global and geographical markets for the first quarters ended March 31, 2019 and 2018 were as follows:

(in millions)	First quarter ended					
	March 31, 2019			March 31, 2018		
	HPMC	FRP	Total	HPMC	FRP	Total
Diversified Global Markets:						
Aerospace & Defense	\$465.1	\$60.5	\$525.6	\$426.7	\$35.7	\$462.4
Oil & Gas	16.7	96.1	112.8	15.2	137.5	152.7
Automotive	3.6	73.3	76.9	2.6	76.5	79.1
Construction/Mining	18.5	39.4	57.9	17.6	38.0	55.6
Electrical Energy	27.3	28.4	55.7	30.8	21.4	52.2
Food Equipment & Appliances	0.1	53.1	53.2	0.1	58.8	58.9

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Medical	42.7	3.4	46.1	41.2	3.7	44.9
Electronics/Computers/Communications	1.1	33.0	34.1	1.5	31.4	32.9
Other	26.1	16.4	42.5	25.0	15.3	40.3
Total	\$601.2	\$403.6	\$1,004.8	\$560.7	\$418.3	\$979.0

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(in millions)	First quarter ended					
	March 31, 2019			March 31, 2018		
	HPMCFRP	Total		HPMCFRP	Total	
Primary Geographical Market:						
United States	\$336.0	\$285.1	\$621.1	\$289.8	\$264.5	\$554.3
Europe	178.3	32.7	211.0	197.0	28.5	225.5
Asia	52.8	70.4	123.2	48.3	102.5	150.8
Canada	19.1	7.3	26.4	16.6	10.6	27.2
South America, Middle East and other	15.0	8.1	23.1	9.0	12.2	21.2
Total	\$601.2	\$403.6	\$1,004.8	\$560.7	\$418.3	\$979.0

Comparative information of the Company's major high-value and standard products based on their percentages of sales is included in the following table. FRP conversion services are excluded from this presentation.

	First quarter ended					
	March 31, 2019			March 31, 2018		
	HPMCFRP	Total		HPMCFRP	Total	
Diversified Products and Services:						
High-Value Products						
Nickel-based alloys and specialty alloys	31	%29	%30	%29	%31	%30
Precision forgings, castings and components	32	%—	%19	%38	%—	%21
Titanium and titanium-based alloys	27	%6	%19	%24	%5	%16
Precision and engineered strip	—	%33	%13	%—	%31	%14
Zirconium and related alloys	10	%—	%6	%9	%—	%5
Total High-Value Products	100	%68	%87	100	%67	%86
Standard Products						
Stainless steel sheet	—	%17	%7	%—	%20	%8
Specialty stainless sheet	—	%11	%4	%—	%9	%4
Stainless steel plate and other	—	%4	%2	%—	%4	%2