

ALLEGHENY TECHNOLOGIES INC
Form 10-Q
May 01, 2018
Table of Contents

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, 2018

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 (Do not check if a smaller reporting company) 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 20, 2018, the registrant had outstanding 125,647,226 shares of its Common Stock.

Table of Contents

ALLEGHENY TECHNOLOGIES INCORPORATED
SEC FORM 10-Q
Quarter Ended March 31, 2018
INDEX

	Page No.
PART I. - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets	<u>1</u>
Consolidated Statements of Income	<u>2</u>
Consolidated Statements of Comprehensive Income	<u>3</u>
Consolidated Statements of Cash Flows	<u>4</u>
Statements of Changes in Consolidated Equity	<u>5</u>
Notes to Consolidated Financial Statements	<u>6</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>26</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>37</u>
Item 4. Controls and Procedures	<u>38</u>
PART II. - OTHER INFORMATION	
Item 1. Legal Proceedings	<u>38</u>
Item 1A. Risk Factors	<u>39</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>39</u>
Item 6. Exhibits	<u>40</u>
SIGNATURES	<u>41</u>

Table of Contents

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, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 109.9	\$ 141.6
Accounts receivable, net	606.4	545.3
Short-term contract assets	38.6	—
Inventories, net	1,210.8	1,176.1
Prepaid expenses and other current assets	86.1	52.7
Total Current Assets	2,051.8	1,915.7
Property, plant and equipment, net	2,490.7	2,495.7
Goodwill	534.2	531.4
Long-term contract assets	16.1	—
Other assets	257.2	242.6
Total Assets	\$5,350.0	\$ 5,185.4
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$424.7	\$ 420.1
Accrued liabilities	205.3	282.4
Short-term contract liabilities	66.2	—
Short-term debt and current portion of long-term debt	63.7	10.1
Total Current Liabilities	759.9	712.6
Long-term debt	1,535.3	1,530.6
Accrued postretirement benefits	311.4	317.8
Pension liabilities	687.2	697.0
Deferred income taxes	10.7	9.7
Long-term contract liabilities	19.7	—
Other long-term liabilities	62.5	73.2
Total Liabilities	3,386.7	3,340.9
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, 2018 and December 31, 2017; outstanding-125,647,226 shares at March 31, 2018 and 125,857,197 shares at December 31, 2017	12.7	12.7
Additional paid-in capital	1,599.5	1,596.3
Retained earnings	1,257.8	1,184.3
Treasury stock: 1,047,945 shares at March 31, 2018 and 837,974 shares at December 31, 2017	(31.7)	(26.1)
Accumulated other comprehensive loss, net of tax	(992.2)	(1,027.8)
Total ATI stockholders' equity	1,846.1	1,739.4
Noncontrolling interests	117.2	105.1
Total Equity	1,963.3	1,844.5

Total Liabilities and Equity	\$5,350.0	\$ 5,185.4
------------------------------	-----------	------------

The accompanying notes are an integral part of these statements.

1

Table of Contents

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

	Three months ended March 31,	
	2018	2017
Sales	\$979.0	\$865.9
Cost of sales	830.4	741.1
Gross profit	148.6	124.8
Selling and administrative expenses	67.1	57.9
Operating income	81.5	66.9
Nonoperating retirement benefit expense	(8.3)	(13.6)
Interest expense, net	(25.5)	(33.5)
Other income, net	17.8	3.3
Income before income taxes	65.5	23.1
Income tax provision	5.0	2.0
Net income	60.5	21.1
Less: Net income attributable to noncontrolling interests	2.5	3.6
Net income attributable to ATI	\$58.0	\$17.5
Basic net income attributable to ATI per common share	\$0.46	\$0.16
Diluted net income attributable to ATI per common share	\$0.42	\$0.16
Dividends declared per common share	\$—	\$—

The accompanying notes are an integral part of these statements.

Table of Contents

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

	Three months ended March 31,	
	2018	2017
Net income	\$60.5	\$21.1
Currency translation adjustment		
Unrealized net change arising during the period	23.6	10.4
Derivatives		
Net derivatives gain (loss) on hedge transactions	3.3	(2.6)
Reclassification to net income of net realized gain	(3.0)	(0.9)
Income taxes on derivative transactions	—	—
Total	0.3	(3.5)
Postretirement benefit plans		
Actuarial loss		
Amortization of net actuarial loss	19.2	17.8
Prior service cost		
Amortization to net income of net prior service credits	(0.6)	(0.4)
Income taxes on postretirement benefit plans	—	—
Total	18.6	17.4
Other comprehensive income, net of tax	42.5	24.3
Comprehensive income	103.0	45.4
Less: Comprehensive income attributable to noncontrolling interests	9.4	5.6
Comprehensive income attributable to ATI	\$93.6	\$39.8

The accompanying notes are an integral part of these statements.

Table of Contents

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

	Three months ended March 31, 2018		2017	
Operating Activities:				
Net income	\$ 60.5		\$ 21.1	
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization	39.8		40.3	
Deferred taxes	(0.2)	)	1.2	
Gain on joint venture deconsolidation	(15.9))	—	
Changes in operating assets and liabilities:				
Inventories	(108.4)	)	(14.9))
Accounts receivable	(61.7)	)	(52.5))
Accounts payable	79.8		47.2	
Retirement benefits (a)	0.5		(128.1))
Accrued income taxes	2.4		(0.3))
Accrued liabilities and other	(43.9)	)	(24.2))
Cash used in operating activities	(47.1)	)	(110.2))
Investing Activities:				
Purchases of property, plant and equipment	(41.6)	)	(24.8))
Asset disposals and other	0.1		2.6	
Cash used in investing activities	(41.5)	)	(22.2))
Financing Activities:				
Borrowings on long-term debt	6.4		—	
Payments on long-term debt and capital leases	(1.3)	)	(0.3))
Net borrowings under credit facilities	50.9		67.7	
Sales to noncontrolling interests	7.4		—	
Shares repurchased for income tax withholding on share-based compensation and other	(6.5)	)	(4.8))
	56.9		62.6	

Cash provided by financing activities				
Decrease in cash and cash equivalents	(31.7	)	(69.8)
Cash and cash equivalents at beginning of period	141.6		229.6	
Cash and cash equivalents at end of period	\$	109.9	\$	159.8

(a) Includes a \$(135) million contribution to the U.S. defined benefit pension plan in 2017.
 The accompanying notes are an integral part of these statements.

Table of Contents

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, 2016	\$11.0	\$1,188.8	\$1,277.1	\$(28.0)	\$(1,093.7)	\$ 89.6	\$1,444.8
Net income	—	—	17.5	—	—	3.6	21.1
Other comprehensive income	—	—	—	—	22.3	2.0	24.3
Employee stock plans	—	(1.7)	—	0.9	—	—	(0.8)
Balance, March 31, 2017	\$11.0	\$1,187.1	\$1,294.6	\$(27.1)	\$(1,071.4)	\$ 95.2	\$1,489.4
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

The accompanying notes are an integral part of these statements.

Table of Contents

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. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2017 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, 2017 financial information has been derived from the Company’s audited consolidated financial statements.

New Accounting Pronouncements Adopted

In January 2018, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) related to revenue recognition with customers. See Note 2 for further explanation related to this adoption, including all newly expanded disclosure requirements.

In January 2018, the Company adopted changes issued by the FASB related to changes to the accounting for defined benefit pension and other postretirement benefit expenses. This new guidance requires the disaggregation of the service cost component from the other components of net benefit cost. The service cost component of net benefit cost is to be reported in the same line item on the consolidated statement of income as other compensation costs arising from services rendered by the pertinent employees, while the other components of net benefit cost are to be presented in the consolidated statement of income separately, outside a subtotal of operating income. The amendments also provide explicit guidance to allow only the service cost component of net benefit cost to be eligible for capitalization. With this adoption, the change in presentation of net benefit cost in the consolidated statement of income was applied retrospectively, and the change in capitalization for only service cost was applied prospectively. The Company adopted this new guidance using the practical expedient that permits the use of the amounts disclosed in the retirement benefits footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. This required accounting change did have a material impact to previously-reported operating income in the consolidated statement of income due to the change in presentation of non-service cost expense components. For the first quarter 2017, applying the practical expedient, operating income was \$13.6 million higher with the reclassification of this amount representing the other components of net benefit cost to a newly-created nonoperating retirement benefit expense category. There was no net impact to the reported income before income taxes as a result of this accounting change. This change in presentation of net benefit cost did not affect ATI’s measure of segment operating profit; all defined benefit pension and other postretirement benefit expense attributable to business segment operations remains a component of business segment financial performance. The Company did have a one-time, unfavorable impact of \$5.4 million to pre-tax reported results in the first quarter of 2018 upon adoption, primarily affecting the Flat Rolled Products business segment, due to the change limiting only the service cost component of net benefit cost to be capitalizable into inventory.

In January 2018, the Company early adopted changes issued by the FASB related to changes to its accounting guidance for derivatives and hedging, which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. Some changes resulting from this new guidance include the elimination of the concept of recognizing periodic hedge ineffectiveness for cash flow hedges, changes to the

recognition and presentation of changes in the fair value of the hedging instrument, enhancement of the ability to use the critical-terms-match method for the cash flow hedge of groups of forecasted transactions when the timing of the hedged transactions does not perfectly match the hedging instrument's maturity date, and the addition of new disclosure requirements and amendments to existing ones. The Company applied this new guidance to hedging relationships existing on January 1, 2018, the date of adoption. The adoption of these changes did not have a material impact on the Company's financial statements, and disclosures in Note 7 reflect the requirements of this adoption.

Table of Contents

Pending Accounting Pronouncement

In February 2016, the FASB issued new guidance on the accounting for leases. This new guidance will require that a lessee

recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result

being the recognition of a right of use asset and a lease liability. The new lease accounting requirements are effective for ATI's 2019 fiscal year with a modified retrospective transition approach required. The Company is currently in the process of evaluating its existing lease portfolio, including accumulating all of the necessary information required to properly account for the leases under the new standard. In addition, ATI is implementing a company-wide lease management system to assist in the accounting and is evaluating additional changes to the processes and internal controls to ensure the standard's reporting and disclosure requirements are met. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Note 2. Revenue from Contracts with Customers

Accounting Policy

On January 1, 2018, the Company adopted Accounting Standards Codification Topic 606 (ASC 606), Revenue from Contracts with Customers. This new guidance provides a five-step analysis of transactions to determine when and how revenue is recognized, and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The following is the Company's accounting policy as it relates to the new five-step analysis for revenue recognition:

1. Identify the contract: The Company has determined that the contract with the customer is established when the customer purchase order is accepted or acknowledged. Long-term agreements (LTAs) are used by the Company and certain of its customers for its specialty materials, in the form of mill products, powders, parts and components, to reduce their supply uncertainty, which typically extend multiple years. While these LTAs generally define commercial terms including pricing, termination clauses and other contractual requirements, they do not represent the contract with the customer.

2. Identify the performance obligation in the contract: When the Company accepts or acknowledges the customer purchase order, the type of good or service is defined on a line by line basis. Individual performance obligations are established by virtue of the individual line items identified on the sales order acknowledgment at the time of issuance. Generally, the Company's revenue relates to the sale of goods and contains a single performance obligation for each distinct good. Conversion services that transform customer-owned inventory to a different dimension, product form, and/or changed mechanical properties are classified as "goods".

3. Determine the transaction price: Pricing is also defined on a sales order acknowledgment on a line item basis and includes an estimate of variable consideration when required by the terms of the individual customer contract. Variable consideration is when the selling price of the good is not known, or is subject to adjustment under certain conditions. Types of variable consideration that the Company typically has include volume discounts, customer rebates and surcharges. ATI also provides assurances that goods or services will meet the product specifications contained within the acknowledged customer contract. As such, returns and refunds reserves are estimated based upon past product line history or, at certain locations, on a claim by claim basis.

4. Allocate the transaction price to the performance obligation: Since a customer contract generally contains only one performance obligation, this step of the analysis is generally not applicable to the Company.

5. Recognize revenue when or as the performance obligation is satisfied: Performance obligations generally occur at a point in time and are satisfied when control passes to the customer. For most transactions, control passes at the time of shipment in accordance with agreed upon delivery terms. On occasion, shipping and handling charges occur after

the customer obtains control of the good. When this occurs, the shipping and handling services are considered activities to fulfill the promise to transfer the good. This approach is consistent with our revenue recognition approach in prior years.

The Company has several customer agreements involving production of parts and components in the High Performance Materials and Components segment that require revenue to be recognized over time in accordance with the new guidance due to there being no alternative use for the product without significant economic loss and an enforceable right to payment including a normal profit margin from the customer in the event of contract termination.

7

Table of Contents

Over-time recognition was a change from the accounting for these products, which was point-in-time, prior to the adoption of the new standard. The Company uses an input method for determining the amount of revenue, and associated standard cost, to recognize over-time revenue, cost and gross margin for these customer agreements. The input methods used for these agreements include costs incurred and labor hours expended, both of which give an accurate representation of the progress made toward complete satisfaction of that particular performance obligation.

Contract assets are recognized when ATI's conditional right to consideration for goods or services have transferred to the customer. A conditional right indicates that additional performance obligations associated with the contract are yet to be satisfied. Contract assets are assessed separately for impairment purposes. If ATI's right to consideration from the customer is unconditional, this asset is accounted for as a receivable and presented separately from other contract assets. A right is unconditional if nothing other than the passage of time is required before payment of that consideration is due. Performance obligations that are recognized as revenue at a point-in-time and are billed to the customer are recognized as accounts receivable. Payment terms vary from customer to customer depending upon credit worthiness, prior payment history and other credit considerations.

Contract costs are the incremental costs of obtaining and fulfilling a contract (i.e., costs that would not have been incurred if the contract had not been obtained) to provide goods and services to customers. Contract costs for ATI largely consist of design and development costs for molds, dies and other tools that ATI will own and that will be used in producing the products under the supply arrangement. Contract costs are classified as non-current assets and amortized to expense on a systematic and rational basis over a period consistent with the transfer to the customer of the goods or services to which the asset relates.

Contract liabilities are recognized when ATI has received consideration from a customer to transfer goods or services at a future point in time when the Company performs under the contract. Elements of variable consideration discussed above may be recorded as contract liabilities. In addition, progress billings and advance payments from customers for costs incurred to date are also reported as contract liabilities.

Adoption Method and Impact

The Company applied ASC 606 to all contracts not completed at January 1, 2018 and adopted the accounting standard using the modified retrospective method, with the cumulative effect of initially applying ASC 606 recognized at the beginning of the 2018 fiscal year. Comparative information has not been adjusted and continues to be reported under the previous accounting guidance. The Company recognized a \$15.5 million increase to retained earnings at the beginning of the 2018 fiscal year for the cumulative effect of adoption of this standard, representing the favorable impact to prior results had the over-time revenue recognition for several customer agreements, as discussed above, been applied. Contract assets of \$49.7 million were recorded, along with a \$34.2 million reduction to work-in-process inventory as a result of the ASC 606 adoption using the modified retrospective method. A portion of the cumulative effect impact of over-time revenue recognition related to inventory that is valued utilizing the last-in, first-out (LIFO) costing methodology. As such, an \$11.8 million adjustment to the LIFO inventory valuation balance was required, with an equal and offsetting adjustment to net realizable value (NRV) inventory reserves, resulting in no net cumulative effect retained earnings impact for LIFO using the modified retrospective adoption method. See Note 3 for further information on inventory.

In addition, as a result of this over-time recognition of these customer agreements, first quarter 2018 sales and cost of sales on the consolidated statement of income were \$0.8 million higher and \$1.0 million lower, respectively, as compared to what those amounts would have been under the previous revenue recognition guidance. On the consolidated balance sheet, inventories, net, were \$1.0 million higher at March 31, 2018 as compared to what this amount would have been under the previous guidance. Also, \$50.5 million of contract assets were recognized on the consolidated balance sheet at March 31, 2018 (\$34.4 million in short-term contract assets and \$16.1 million in long-term contract assets) related to this over-time revenue recognition.

Also, as of January 1, 2018, amounts related largely to cash in advance from customers and progress billings were reclassified on the consolidated balance sheet to contract assets and liabilities in accordance with the new accounting

guidance. Such reclassification resulted in a \$3.9 million increase in accounts receivable, \$28.8 million increase in inventories, net, \$44.8 million decrease in accrued liabilities, and \$10.7 million decrease in other-long term liabilities on January 1, 2018, with an offsetting increase in contract assets and liabilities (\$3.7 million in short-term contracts assets, \$69.7 million in short-term contract liabilities and \$22.2 million in other long-term liabilities). There was no impact to cash flow from operating activities on the consolidated statement of cash flows as a result of this accounting standard adoption. As of March 31, 2018, accounts receivable were higher by \$4.3 million, inventories were higher by \$23.5 million, accrued liabilities were lower by \$43.6 million, and other long-term liabilities were lower by \$10.3 million due to these reclassifications to contract assets and

Table of Contents

liabilities (\$4.2 million in short-term contract assets, \$66.2 million short-term contract liabilities and \$19.7 million in long-term contract liabilities).

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 quarters ended March 31, 2018 and 2017 were as follows:

(in millions)	First quarter ended					
	March 31, 2018			March 31, 2017		
	HPMCFRP	Total	HPMCFRP	Total	HPMCFRP	Total
Diversified Global Markets:						
Aerospace & Defense	\$426.7	\$35.7	\$462.4	\$381.4	\$35.8	\$417.2
Oil & Gas	15.2	137.5	152.7	16.5	76.3	92.8
Automotive	2.6	76.5	79.1	2.0	73.9	75.9
Electrical Energy	30.8	21.4	52.2	29.6	22.0	51.6
Medical	41.2	3.7	44.9	47.1	3.1	50.2
Total Key Markets	516.5	274.8	791.3	476.6	211.1	687.7
Food Equipment & Appliances	0.1	58.8	58.9	0.3	58.7	59.0
Construction/Mining	17.6	38.0	55.6	11.5	38.5	50.0
Electronics/Computers/Communications	1.5	31.4	32.9	1.2	33.3	34.5
Other	25.0	15.3	40.3	20.8	13.9	34.7
Total	\$560.7	\$418.3	\$979.0	\$510.4	\$355.5	\$865.9
(in millions)	First quarter ended					
	March 31, 2018			March 31, 2017		
	HPMCFRP	Total	HPMCFRP	Total	HPMCFRP	Total
Primary Geographical Market:						
United States	\$289.8	\$264.5	\$554.3	\$275.2	\$249.8	\$525.0
Europe	197.0	28.5	225.5	161.0	25.4	186.4
Asia	48.3	102.5	150.8	42.1	60.6	102.7
Canada	16.6	10.6	27.2	17.1	6.8	23.9
South America, Middle East and other	9.0	12.2	21.2	15.0	12.9	27.9
Total	\$560.7	\$418.3	\$979.0	\$510.4	\$355.5	\$865.9

Table of Contents

Comparative information of the Company's major high-value and standard products based on their percentages of total sales is as follows:

	First quarter ended							
	March 31, 2018				March 31, 2017			
	HPM	CFRP	Total	%	HPM	CFRP	Total	%
Diversified Products and Services:								
High-Value Products								
Nickel-based alloys and specialty alloys	29	%31	%29	%	30	%20	%26	%
Precision forgings, castings and components	38	%—	%21	%	31	%—	%18	%
Titanium and titanium-based alloys	24	%5	%16	%	28	%4	%18	%
Precision and engineered strip	—	%31	%13	%	—	%35	%14	%
Zirconium and related alloys	9	%—	%5	%	11	%—	%6	%
Total High-Value Products	100	%67	%84	%	100	%59	%82	%
Standard Products								
Stainless steel sheet	—	%20	%9	%	—	%24	%10	%
Specialty stainless sheet	—	%9	%4	%	—	%12	%5	%
Stainless steel plate and other	—	%4	%3	%	—	%5	%3	%
Total Standard Products	—	%33	%16	%	—	%41	%18	%
Total	100	%100	%100	%	100	%100	%100	%

The Company maintains a backlog of confirmed orders totaling \$2.05 billion and \$1.84 billion at March 31, 2018 and 2017, respectively. Due to the structure of the Company's LTAs, 77% of this backlog represents booked orders with performance obligations that will be satisfied within the next twelve months. The backlog does not reflect any elements of variable consideration.

Contract balances

As of March 31, 2018 and December 31, 2017, accounts receivable with customers were \$611.6 million and \$550.9 million, respectively. The following represents the rollforward of accounts receivable - reserve for doubtful accounts and contract assets and liabilities for the first quarter ended March 31, 2018:

(in millions)

Accounts Receivable - Reserve for Doubtful Accounts

Balance as of January 1, 2018	\$5.9
Expense to increase the reserve	(0.3)
Write-off of uncollectible accounts	0.3
Balance as of March 31, 2018	\$5.9

(in millions)

Contract Assets

Short-term

Balance as of January 1, 2018	\$36.5
Recognized in current year	23.4
Reclassified to accounts receivable	(22.1)
Impairment	—
Reclassification to/from long-term	0.8
Balance as of March 31, 2018	\$38.6

Long-term

Balance as of January 1, 2018	\$16.9
Recognized in current year	—
Reclassified to accounts receivable	—
Impairment	—

Reclassification to/from short-term (0.8)
Balance as of March 31, 2018 \$ 16.1

10

Table of Contents

(in millions)

Contract Liabilities

Short-term

Balance as of January 1, 2018	\$69.7
Recognized in current year	8.4
Amounts in beginning balance reclassified to revenue	(14.1)
Current year amounts reclassified to revenue	(0.3)
Other	—
Reclassification to/from long-term	2.5
Balance as of March 31, 2018	\$66.2

Long-term

Balance as of January 1, 2018	\$22.2
Recognized in current year	0.2
Amounts in beginning balance reclassified to revenue	(0.2)
Current year amounts reclassified to revenue	—
Other	—
Reclassification to/from short-term	(2.5)
Balance as of March 31, 2018	\$19.7

Contract costs for obtaining and fulfilling a contract were \$5.4 million as of March 31, 2018, which are reported in other long-term assets on the consolidated balance sheet. Amortization expense for the first quarter ended March 31, 2018 of these contract costs was \$0.3 million.

Note 3. Inventories

Inventories at March 31, 2018 and December 31, 2017 were as follows (in millions):

	March 31, December 31,	
	2018	2017
Raw materials and supplies	\$175.7	\$162.8
Work-in-process	931.8	955.5
Finished goods	181.2	165.0
Total inventories at current cost	1,288.7	1,283.3
Adjustment from current cost to LIFO cost basis	23.1	43.1
Inventory valuation reserves	(101.0)	(121.5)
Progress payments	—	(28.8)
Total inventories, net	\$1,210.8	\$1,176.1

Inventories are stated at the lower of cost (LIFO, first-in, first-out (FIFO), and average cost methods) or market, less progress payments. Most of the Company's inventory is valued utilizing the LIFO costing methodology. Inventory of the Company's non-U.S. operations is valued using average cost or FIFO methods. Due to deflationary impacts primarily related to raw materials, the carrying value of the Company's inventory as valued on LIFO exceeds current replacement cost, and based on a lower of cost or market value analysis, a NRV inventory reserve is required. Impacts to cost of sales for changes in the LIFO costing methodology and associated NRV inventory reserves were as follows (in millions):

	Three months ended March 31,	
	2018	2017
LIFO benefit (charge)	\$(8.2)	\$(8.1)
NRV benefit (charge)	8.2	8.1
Net cost of sales impact	\$—	\$—

As a result of the adoption of ASC 606 on revenue recognition on January 1, 2018, progress payments were reclassified on the consolidated balance sheet from inventories to contract liabilities. In addition, a cumulative effect adjustment for the ASC 606 adoption relating to contracts requiring over-time revenue recognition resulted in a \$34.2 million reduction to work-in-process inventory at the January 1 adoption date. A portion of that inventory is valued utilizing the LIFO costing methodology. As

Table of Contents

such, an \$11.8 million reduction to the LIFO valuation balance was required, with an offsetting \$11.8 million adjustment to the NRV reserve, resulting in no retained earnings impact. See Note 2 for further explanation of the ASC 606 adoption.

Note 4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2018 and December 31, 2017 was as follows (in millions):

	March 31, December 31,	
	2018	2017
Land	\$ 31.9	\$ 31.7
Buildings	849.1	844.5
Equipment and leasehold improvements	3,618.1	3,597.6
	4,499.1	4,473.8
Accumulated depreciation and amortization (2,008.4)	(1,978.1)
Total property, plant and equipment, net	\$ 2,490.7	\$ 2,495.7

The construction in progress portion of property, plant and equipment at March 31, 2018 was \$111.7 million.

Note 5. Joint Ventures

The financial results of majority-owned joint ventures are consolidated into the Company's operating results and financial position, with the minority ownership interest recognized in the consolidated statement of income as net income attributable to noncontrolling interests, and as equity attributable to the noncontrolling interests within total stockholders' equity. Investments in which the Company exercises significant influence, but which it does not control (generally a 20% to 50% ownership interest) are accounted for under the equity method of accounting.

Majority-Owned Joint Ventures

The Company has a 60% interest in the Chinese joint venture known as Shanghai STAL Precision Stainless Steel Company Limited (STAL). The remaining 40% interest in STAL is owned by China Baowu Steel Group Corporation Limited, a state authorized investment company whose equity securities are publicly traded in the People's Republic of China. STAL is part of ATI's Flat Rolled Products segment, and manufactures Precision Rolled Strip stainless products mainly for the electronics, communication equipment, computers and automotive markets located in Asia. Cash and cash equivalents held by STAL as of March 31, 2018 were \$40.8 million.

During 2017, the Company formed Next Gen Alloys LLC, a joint venture with GE Aviation for the development of a new meltless titanium alloy powder manufacturing technology. ATI owns a 51% interest in this joint venture. The titanium alloy powders are being developed for use in additive manufacturing applications, including 3D printing. Cash and cash equivalents held by this joint venture as of March 31, 2018 were \$12.0 million. During the first quarter of 2018, the Company received \$2.7 million for the sale of noncontrolling interest related to Next Gen Alloys LLC which is reported as a financing activity on the consolidated statements of cash flows.

Equity Method Joint Ventures

On March 1, 2018, the Company announced the formation of the Allegheny & Tsingshan Stainless (A&T Stainless) joint venture with an affiliate company of Tsingshan Group (Tsingshan) to produce 60-inch wide stainless sheet products for sale in North America. Tsingshan purchased a 50% joint venture interest in A&T Stainless for \$17.5 million, of which \$5.0 million was received in the first quarter of 2018 and reported as a financing activity on the consolidated statements of cash flows. The remaining \$12.5 million will be paid in installments during the remainder of 2018. The A&T Stainless operations include the Company's previously-idled direct roll and pickle (DRAP) facility in Midland, PA. ATI provides hot-rolling conversion services to A&T Stainless using the FRP segment's Hot-Rolling and Processing Facility. As a result of this sale of a 50% noncontrolling interest and the subsequent deconsolidation of the A&T Stainless entity, the Company recognized a \$15.9 million gain during the first quarter of 2018 under deconsolidation and derecognition accounting guidance covering the loss of control of a subsidiary determined to be a business. The gain, including ATI's retained 50% share, was based on the fair value of the joint venture, as determined by the cash purchase price for the noncontrolling interest, and is reported in other income, net on the consolidated statement of income, and is excluded from FRP segment results. Following this deconsolidation, ATI accounts for the A&T Stainless joint venture under the equity method of accounting. ATI's share of the A&T Stainless joint

Table of Contents

venture results was a \$0.6 million loss for the three months ended March 31, 2018, which is included in the FRP segment's operating results, and within other income, net on the consolidated statements of income.

ATI has a 50% interest in the industrial titanium joint venture known as Uniti LLC (Uniti), with the remaining 50% interest

held by VSMPO, a Russian producer of titanium, aluminum, and specialty steel products. Uniti is accounted for under the

equity method of accounting. ATI's share of Uniti's income was \$0.5 million and \$0.2 million for the three months ended March 31, 2018 and 2017, respectively, which is included in the FRP segment's operating results, and within other income, net in the three months ended March 31, 2018 on the consolidated statements of income. This equity income was previously classified in cost of sales for the three months ended March 31, 2017 on the consolidated statements of income.

Note 6. Debt

Debt at March 31, 2018 and December 31, 2017 was as follows (in millions):

	March 31, December 31,	
	2018	2017
Allegheny Technologies 5.875% Notes due 2023 (a)	\$500.0	\$ 500.0
Allegheny Technologies 5.95% Notes due 2021	500.0	500.0
Allegheny Technologies 4.75% Convertible Senior Notes due 2022	287.5	287.5
Allegheny Ludlum 6.95% debentures due 2025	150.0	150.0
Term Loan due 2022	100.0	100.0
U.S. revolving credit facility	50.0	—
Foreign credit facilities	7.4	6.3
Other	16.6	10.0
Debt issuance costs	(12.5)	(13.1)
Total debt	1,599.0	1,540.7
Short-term debt and current portion of long-term debt	63.7	10.1
Total long-term debt	\$1,535.3	\$ 1,530.6

(a) Bearing interest at 7.875% effective February 15, 2016.

Revolving Credit Facility

The Company has a \$500 million Asset Based Lending (ABL) Credit Facility, which is collateralized by the accounts receivable and inventory of the Company's domestic operations. The ABL facility, which matures in February 2022, includes a \$400 million revolving credit facility, a letter of credit sub-facility of up to \$200 million, and a \$100.0 million term loan (Term Loan). The Term Loan has an interest rate of 3.0% plus a LIBOR spread and can be prepaid in increments of \$50 million if certain minimum liquidity conditions are satisfied.

The applicable interest rate for revolving credit borrowings under the ABL facility includes interest rate spreads based on available borrowing capacity that range between 1.75% and 2.25% for LIBOR-based borrowings and between 1.0% and 1.5% for base rate borrowings. The ABL facility contains a financial covenant whereby the Company must maintain a fixed charge coverage ratio of not less than 1.00:1.00 after an event of default has occurred and is continuing or if the undrawn availability under the ABL revolving credit portion of the facility is less than the greater of (i) 10% of the then applicable maximum borrowing amount under the revolving credit portion of the ABL and any outstanding Term Loan balance, or (ii) \$40.0 million. The Company was in compliance with the fixed charge coverage ratio covenant at March 31, 2018. Additionally, the Company must demonstrate liquidity, as calculated in accordance with the terms of the ABL facility, of at least \$700 million on the date that is 91 days prior to January 15, 2021, the maturity date of the 5.95% Senior Notes due 2021, and that such liquidity is available at all times thereafter until the 5.95% Senior Notes due 2021 are paid in full or refinanced. As of March 31, 2018, there were \$50.0 million of outstanding borrowings under the revolving portion of the ABL facility, and \$42.3 million was utilized to support the issuance of letters of credit. Average revolving credit borrowings under the ABL facility for the first quarters of

2018 and 2017 were \$53 million and \$4 million, respectively, bearing an average annual interest rate of 3.50% and 3.43%, respectively.

13

Table of Contents

Note 7. Derivative Financial Instruments and Hedging

As part of its risk management strategy, the Company, from time-to-time, utilizes derivative financial instruments to manage its exposure to changes in raw material prices, energy costs, foreign currencies, and interest rates. In accordance with applicable accounting standards, the Company accounts for most of these contracts as hedges. In January 2018, the Company early adopted changes issued by the FASB related to accounting guidance for derivatives and hedging, which includes, among other things, the elimination of the concept of recognizing periodic hedge ineffectiveness for cash flow hedges.

The Company sometimes uses futures and swap contracts to manage exposure to changes in prices for forecasted purchases of raw materials, such as nickel, and natural gas. Under these contracts, which are generally accounted for as cash flow hedges, the price of the item being hedged is fixed at the time that the contract is entered into, and the Company is obligated to make or receive a payment equal to the net change between this fixed price and the market price at the date the contract matures.

The majority of ATI's products are sold utilizing raw material surcharges and index mechanisms. However, as of March 31, 2018, the Company had entered into financial hedging arrangements, primarily at the request of its customers, related to firm orders, for an aggregate notional amount of approximately 15 million pounds of nickel with hedge dates through 2021. The aggregate notional amount hedged is approximately 15% of a single year's estimated nickel raw material purchase requirements.

At March 31, 2018, the outstanding financial derivatives used to hedge the Company's exposure to energy cost volatility included natural gas cost hedges. At March 31, 2018, the Company hedged approximately 35% of the Company's forecasted domestic requirements for natural gas for the remainder of 2018, approximately 35% for 2019, and approximately 15% for 2020.

While the majority of the Company's direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk, primarily euros. At March 31, 2018, the Company held euro forward sales contracts designated as cash flow hedges with a notional value of approximately 21 million euros with maturity dates through December 2018. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

The Company may enter into derivative interest rate contracts to maintain a reasonable balance between fixed- and floating-rate debt. There were no unsettled derivative financial instruments related to debt balances for the periods presented.

There are no credit risk-related contingent features in the Company's derivative contracts, and the contracts contained no provisions under which the Company has posted, or would be required to post, collateral. The counterparties to the Company's derivative contracts are substantial and creditworthy commercial banks that are recognized market makers. The Company controls its credit exposure by diversifying across multiple counterparties and by monitoring credit ratings and credit default swap spreads of its counterparties. The Company also enters into master netting agreements with counterparties when possible.

The fair values of the Company's derivative financial instruments are presented below, representing the gross amounts recognized which are not offset by counterparty or by type of item hedged. All fair values for these derivatives were measured using Level 2 information as defined by the accounting standard hierarchy, which includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs derived principally from or corroborated by observable market data.

Table of Contents

(In millions)	Balance sheet location	March 31, 2018	December 31, 2017
Asset derivatives			
Derivatives designated as hedging instruments:			
Natural gas contracts	Prepaid expenses and other current assets	0.2	0.1
Nickel and other raw material contracts	Prepaid expenses and other current assets	10.2	10.5
Natural gas contracts	Other assets	0.1	0.3
Nickel and other raw material contracts	Other assets	5.1	5.5
Total derivatives designated as hedging instruments		15.6	16.4
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Prepaid expenses and other current assets	—	0.1
Total derivatives not designated as hedging instruments		—	0.1
Total asset derivatives		\$ 15.6	\$ 16.5
Liability derivatives			
Derivatives designated as hedging instruments:			
Natural gas contracts	Accrued liabilities	\$ 0.2	\$ 0.9
Nickel and other raw material contracts	Accrued liabilities	1.5	2.1
Foreign exchange contracts	Accrued liabilities	0.6	—
Natural gas contracts	Other long-term liabilities	0.4	0.3
Nickel and other raw material contracts	Other long-term liabilities	1.6	2.2
Total derivatives designated as hedging instruments		4.3	5.5
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accrued Liabilities	0.2	—
Total derivatives not designated as hedging instruments		0.2	—
Total liability derivatives		\$ 4.5	\$ 5.5

For derivative financial instruments that are designated as cash flow hedges, the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged item affects earnings. For derivative financial instruments that are designated as fair value hedges, changes in the fair value of these derivatives are recognized in current period results and are reported as changes within accrued liabilities and other on the consolidated statements of cash flows. There were no outstanding fair value hedges as of March 31, 2018. The Company did not use net investment hedges for the periods presented. The effects of derivative instruments in the tables below are presented net of related income taxes, excluding any impacts of changes to income tax valuation allowances effecting results of operations or other comprehensive income, when applicable (see Note 14 for further explanation).

Assuming market prices remain constant with those at March 31, 2018, a pre-tax gain of \$8.1 million is expected to be recognized over the next 12 months.

Table of Contents

Activity with regard to derivatives designated as cash flow hedges for the three month periods ended March 31, 2018 and 2017 was as follows (in millions):

	Amount of Gain (Loss) Recognized in OCI on Derivatives		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (a)	
	Three months ended March 31,		Three months ended March 31,	
	2018	2017	2018	2017
Derivatives in Cash Flow Hedging Relationships				
Nickel and other raw material contracts	\$ 3.1	\$ 0.2	\$ 2.8	\$ (0.6)
Natural gas contracts	0.2	(1.6)	(0.3)	(1.4)
Foreign exchange contracts	(0.8)	(0.1)	(0.2)	2.6
Total	\$ 2.5	\$ (1.5)	\$ 2.3	\$ 0.6

(a) The gains (losses) reclassified from accumulated OCI into income related to the derivatives are presented in cost of sales in the same period or periods in which the hedged item affects earnings.

The disclosures of gains or losses presented above for nickel and other raw material contracts and foreign currency contracts do not take into account the anticipated underlying transactions. Since these derivative contracts represent hedges, the net effect of any gain or loss on results of operations may be fully or partially offset.

The Company has 10 million euro notional value outstanding as of March 31, 2018 of foreign currency forward contracts not designated as hedges, with maturity dates into the fourth quarter of 2018. These derivatives that are not designated as hedging instruments were as follows:

(In millions)	Amount of Gain (Loss) Recognized in Income on Derivatives Three months ended March 31,	
	2018	2017
Derivatives Not Designated as Hedging Instruments		
Foreign exchange contracts	\$(0.2)	\$(0.1)

Changes in the fair value of foreign exchange contract derivatives not designated as hedging instruments are recorded in cost of sales and are reported as changes within accrued liabilities and other on the consolidated statements of cash flows.

Note 8. Fair Value of Financial Instruments

The estimated fair value of financial instruments at March 31, 2018 was as follows:

(In millions)	Fair Value Measurements at Reporting Date Using			
	Total Carrying Amount	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets(Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	\$ 109.9	\$ 109.9	\$ 109.9	\$ —
Derivative financial instruments:				
Assets	15.6	15.6	—	15.6
Liabilities	4.5	4.5	—	4.5
Debt (a)	1,611.5	1,908.8	1,734.8	174.0

Table of Contents

The estimated fair value of financial instruments at December 31, 2017 was as follows:

(In millions)	Fair Value Measurements at Reporting Date Using			
	Total Carrying Amount	Total Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	\$ 141.6	\$ 141.6	\$ 141.6	\$ —
Derivative financial instruments:				
Assets	16.5	16.5	—	16.5
Liabilities	5.5	5.5	—	5.5
Debt (a)	1,553.8	1,853.2	1,736.9	116.3

(a) The total carrying amount for debt excludes debt issuance costs related to the recognized debt liability which is presented in the consolidated balance sheet as a direct reduction from the carrying amount of the debt liability.

In accordance with accounting standards, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards established three levels of a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. No transfers between levels were reported in 2018 or 2017.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: Fair value was determined using Level 1 information.

Derivative financial instruments: Fair values for derivatives were measured using exchange-traded prices for the hedged items. The fair value was determined using Level 2 information, including consideration of counterparty risk and the Company's credit risk.

Short-term and long-term debt: The fair values of the Company's publicly traded debt were based on Level 1 information. The fair values of the other short-term and long-term debt were determined using Level 2 information.

Note 9. Retirement Benefits

The Company has defined contribution retirement plans or defined benefit pension plans covering substantially all employees. Company contributions to defined contribution retirement plans are generally based on a percentage of eligible pay or based on hours worked. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the U.S. pension plans in accordance with the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

The Company also sponsors several postretirement plans covering certain collectively-bargained salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In most retiree health care

plans, Company contributions towards premiums are capped based on the cost as of a certain date, thereby creating a defined contribution.

17

Table of Contents

For the three month periods ended March 31, 2018 and 2017, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

	Pension Benefits		Other Postretirement Benefits	
	Three months ended March 31, 2018		Three months ended March 31, 2017	
Service cost - benefits earned during the year	\$4.2	\$3.5	\$ 0.6	\$ 0.6
Interest cost on benefits earned in prior years	26.1	29.2	3.1	3.7
Expected return on plan assets	(39.5)	(36.7)	—	—
Amortization of prior service cost (credit)	0.1	0.3	(0.7)	(0.7)
Amortization of net actuarial loss	16.5	15.6	2.7	2.2
Total retirement benefit expense	\$7.4	\$11.9	\$ 5.7	\$ 5.8

In March 2017, the Company made a \$135 million cash contribution to the ATI Pension Plan, its U.S. qualified defined benefit pension plan, completing the Company's funding requirements for 2017.

Note 10. Income Taxes

The Company maintains income tax valuation allowances on its U.S. Federal and state deferred tax assets due to a three year cumulative loss condition, which limits the ability to consider other positive subjective evidence, such as projections of future results, to assess the realizability of deferred tax assets. Results in both 2018 and 2017 include impacts from income taxes that differ from applicable standard tax rates, primarily related to the income tax valuation allowance. First quarter 2018 results included a provision for income taxes of \$5.0 million, or 7.6% of income before income taxes, primarily related to income taxes on non-U.S. operations. The first quarter 2017 provision for income taxes was \$2.0 million, or 8.7% of income before income taxes, which included \$1.3 million of discrete tax benefits. The Company continues to account for impacts of the Tax Cuts and Jobs Act (Tax Act) as estimated amounts, pending further information and analysis, which includes final tax return filings, analysis of foreign earnings and profits, and interpretive Internal Revenue Service guidance. At this time, the Company has not made any material adjustments to the provisional Tax Act impacts recorded in its 2017 financial statements, and the Company continues to expect to finalize these provisional amounts by the fourth quarter of 2018.

Note 11. Business Segments

The Company operates in two business segments: High Performance Materials & Components (HPMC) and Flat Rolled Products (FRP). The measure of segment operating profit, which is used to analyze the performance and results of the business segments, excludes all effects of LIFO inventory accounting and any related changes in net realizable value inventory reserves which offset the Company's aggregate net debit LIFO valuation balance, income taxes, corporate expenses, net interest expense, closed operations and other expenses, restructuring and asset impairment charges, and non-operating gains and losses. Management believes segment operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level. Following is certain financial information with respect to the Company's business segments for the periods indicated (in millions):

	Three months ended March 31, 2018		2017	
Total sales:				
High Performance Materials & Components	\$579.4	\$523.7		
Flat Rolled Products	439.1	373.0		
	1,018.5	896.7		
Intersegment sales:				
High Performance Materials & Components	18.7	13.3		

Edgar Filing: ALLEGHENY TECHNOLOGIES INC - Form 10-Q

Flat Rolled Products	20.8	17.5
	39.5	30.8
Sales to external customers:		
High Performance Materials & Components	560.7	510.4
Flat Rolled Products	418.3	355.5
	\$979.0	\$865.9

18

Table of Contents

	Three months ended March 31,	
	2018	2017
Operating profit:		
High Performance Materials & Components	\$85.5	\$50.9
Flat Rolled Products	10.9	19.0
Total operating profit	96.4	69.9
LIFO and net realizable value reserves	—	—
Corporate expenses	(13.2)	(10.3)
Closed operations and other expenses	(8.1)	(3.0)
Gain on joint venture deconsolidation (See Note 5)	15.9	—
Interest expense, net	(25.5)	(33.5)
Income before income taxes	\$65.5	\$23.1

Closed operations and other expenses were higher in the first quarter 2018, compared to the prior year period, primarily due to higher environmental costs, higher real estate costs at closed operations, primarily for the idled Rowley, UT titanium sponge operations, and negative foreign currency remeasurement impacts primarily related to our European Treasury Center. In addition, the first quarter 2017 benefited from certain non-routine items involving property tax adjustments, changes to facility closure reserves, and non-operating royalty income.

The reduction in interest expense compared to the prior year period is due to the redemption of the 2019 Senior Notes in the fourth quarter of 2017.

Note 12. Per Share Information

The following table sets forth the computation of basic and diluted income per common share:

(In millions, except per share amounts)	Three months ended March 31, 2018 2017	
Numerator:		
Numerator for basic income per common share –		
Net income attributable to ATI	\$58.0	\$17.5
Effect of dilutive securities:		
4.75% Convertible Senior Notes due 2022	3.2	3.0
Numerator for diluted income per common share –		
Net income attributable to ATI after assumed conversions	\$61.2	\$20.5
Denominator:		
Denominator for basic net income per common share – weighted average shares	125.0	107.5
Effect of dilutive securities:		
Share-based compensation	0.6	0.8
4.75% Convertible Senior Notes due 2022	19.9	19.9
Denominator for diluted net income per common share – adjusted weighted average shares and assumed conversions	145.5	128.2
Basic net income attributable to ATI per common share	\$0.46	\$0.16
Diluted net income attributable to ATI per common share	\$0.42	\$0.16
Common stock that would be issuable upon the assumed conversion of the 4.75% Convertible Senior Notes due 2022 and other option equivalents and contingently issuable shares are excluded from the computation of contingently		

issuable shares, and therefore, from the denominator for diluted earnings per share, if the effect of inclusion is anti-dilutive. There were no anti-dilutive shares for the three month periods ended March 31, 2018 and 2017.

Table of Contents

Note 13. Financial Information for Subsidiary and Guarantor Parent

The payment obligations under the \$150 million 6.95% debentures due 2025 issued by Allegheny Ludlum, LLC (the “Subsidiary”) are fully and unconditionally guaranteed by Allegheny Technologies Incorporated (the “Guarantor Parent”). In accordance with positions established by the Securities and Exchange Commission, the following financial information sets forth separately financial information with respect to the Subsidiary, the non-guarantor subsidiaries and the Guarantor Parent. The principal elimination entries eliminate investments in subsidiaries and certain intercompany balances and transactions.

ATI is the plan sponsor for the ATI Pension Plan, the Company’s U.S. qualified defined benefit pension plan (the “Plan”) which covers certain current and former employees of the Subsidiary and the non-guarantor subsidiaries. As a result, the balance sheets presented for the Subsidiary and the non-guarantor subsidiaries do not include any Plan assets or liabilities, or the related deferred taxes and valuation allowances. The Plan assets, liabilities and related deferred taxes and pension income or expense are recognized by the Guarantor Parent. Management and royalty fees charged to the Subsidiary and to the non-guarantor subsidiaries by the Guarantor Parent have been excluded solely for purposes of this presentation. The effects of income tax valuation allowances on U.S. Federal and State deferred tax assets are excluded from the Subsidiary’s financial results, and are reported by the Guarantor Parent or the non-guarantor subsidiaries, as applicable.

Allegheny Technologies Incorporated

Financial Information for Subsidiary and Guarantor Parent

Balance Sheets

March 31, 2018

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets:					
Cash and cash equivalents	\$ 1.6	\$ 5.2	\$ 103.1	\$	—\$ 109.9
Accounts receivable, net	0.6	164.5	441.3	—	