



# Second Quarter 2018 Conference Call

July 24, 2018

Relentless Innovation®

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# Forward-Looking Statements

This presentation contains forward-looking statements. Actual results may differ materially from results anticipated in the forward-looking statements due to various known and unknown risks, many of which we are unable to predict or control. These and additional risk factors are described from time to time in the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2017.

# Second Quarter 2018 Highlights

\$M (excl. EPS)	Q2 2018	Q2 2017	% Chg.
Revenue	\$1,009.5	\$880.2	+15%
Segment Oper. Profit	\$124.0	70.9	+75%
Segment Oper. Profit Margin	12.3%	8.1%	+420 b.p.
Net Income*	\$72.8	\$10.1	+621%
EPS	\$0.52	\$0.09	+478%

\*Attributable to ATI

## Revenue growth of 15%

- Strong commercial jet engine market demand continues to outpace company expectations
- Substantial improvements in Oil & Gas, Electrical Energy, and Construction & Mining

## Segment Operating Profit Margin up 420 b.p.

- Ongoing robust expansion of Aerospace & Defense sales
- Continued benefits from improved product mix and increased asset utilization

## Strategic acquisition combines Addaero's additive manufacturing capabilities with ATI's advanced powder metallics operations

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# High Performance Materials & Components



Segment (\$M)	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q2 '18 YOY
Sales	\$510.4	\$526.4	\$512.9	\$517.7	\$560.7	\$591.9	+12%
Operating Profit	\$50.9	\$68.0	\$61.7	\$65.8	\$85.5	\$97.9	+44%
% of Sales	10.0%	12.9%	12.0%	12.7%	15.2%	16.5%	+360 b.p.

## Second Quarter vs. Prior Year

- Revenue increased 12%
  - Commercial Aerospace growth of 14%; next generation jet engine products +39% YOY
  - Continued strong demand for forged & mill products across various end-markets
- Operating margin improved 360 b.p.
  - 8th consecutive quarter of at least 140 b.p. margin improvement vs. prior year
  - Ongoing product mix and asset utilization benefits related to next generation jet engine production ramp

## Second Quarter vs. First Quarter

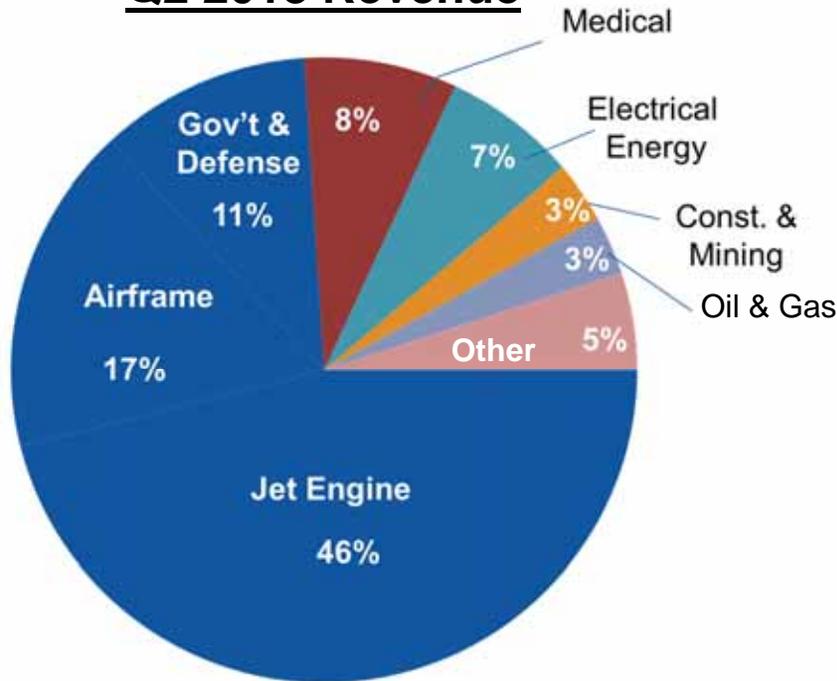
- Revenue growth of 6%; increases in all major markets
  - Commercial jet engine and airframe +3%
  - Electrical Energy, Oil & Gas, and Medical all increased by at least 12%
- Operating margins increased 130 b.p.
  - Continued product mix improvements; benefits from increased asset utilization rates
  - Improvement in ATI Cast Products; near break-even operating profit results

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# High Performance Materials & Components

## Revenue by Market

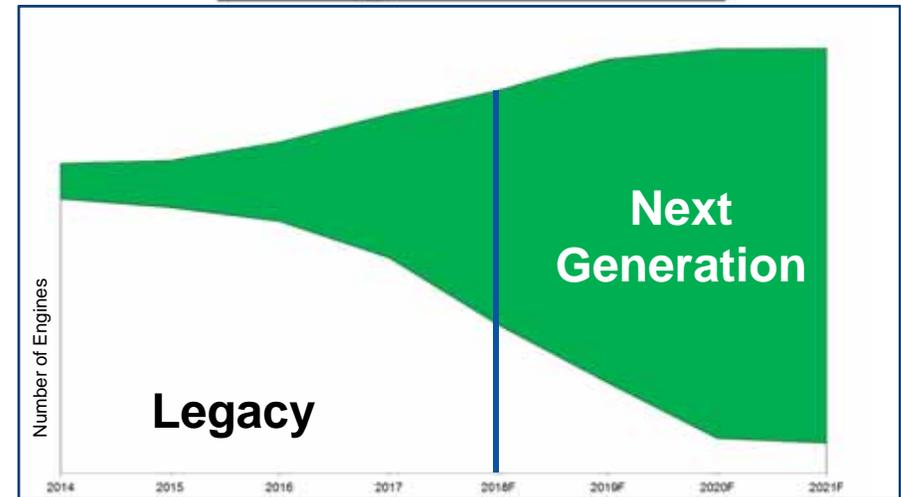
### Q2 2018 Revenue



### Q2'18 YOY Revenue Change by Market

Jet Engine	+16%
Airframe	+7%
Gov't & Defense	-8%
Aerospace & Defense	+10%
Medical	+1%
Electrical Energy	+67%
Construction & Mining	+52%
Oil & Gas	-3%
<b>HPMC Segment</b>	<b>+12%</b>

### Jet Engine Production



Source: ATI Market Outlook, Airline Monitor, Forecast International

### Jet Engine

- Next generation products represented 49% of total commercial jet engine product sales
- Forgings & castings revenue +21% YOY

### Airframe

- OEM customer growth; successful conversion to new customer supply chain system

### Government & Defense

- Decline in naval nuclear YOY partially offset by growth in aerospace products

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# Flat Rolled Products

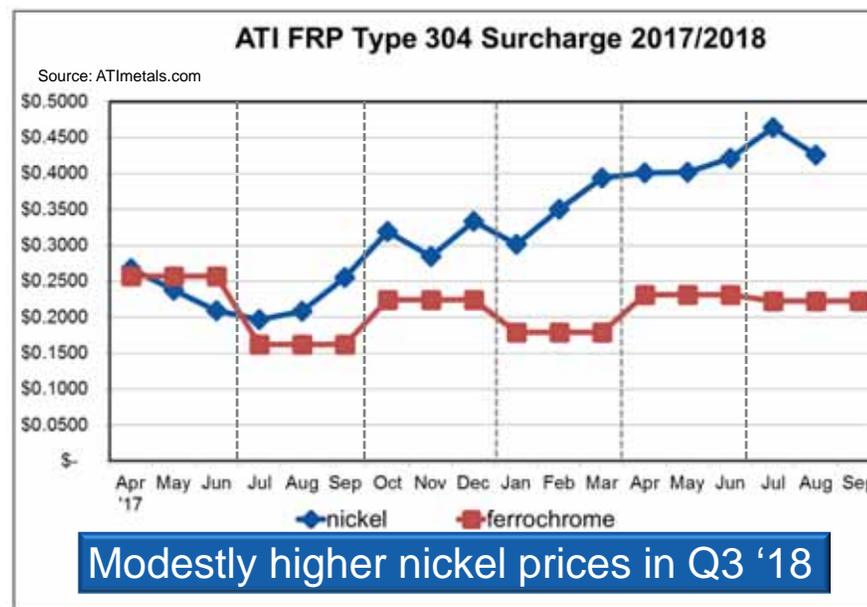
Segment (\$M)	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q2'18 vs. Q1'18
Sales	\$355.5	\$353.8	\$356.2	\$392.2	\$418.3	\$417.6	n/c
Operating Profit/(Loss)	\$19.0	\$2.9	\$(7.3)	\$22.4	\$10.9	\$26.1	+139%
% of Sales	5.3%	0.8%	(2.0)%	5.7%	2.6%	6.3%	+370 b.p.

## Second Quarter vs. Prior Year

- Revenue increased 18%
  - Increased demand & strong product mix
  - Strong growth in Oil & Gas and Automotive
- Significant operating profit growth
  - Improved demand levels across markets
  - Benefits from increased asset utilization
  - Raw material favorability

## Second Quarter vs. First Quarter

- Revenues flat sequentially
  - Growth in Aerospace & Defense and Electrical Energy offset by Oil & Gas decline primarily due to completion of significant pipeline project in Q1 2018
- Operating profit increased by nearly 150%
  - Continued strong market demand and asset utilization; favorable raw material impacts
  - Non-recurring Q1 unfavorable retirement benefits accounting adjustment and foreign currency impacts (~\$8M)



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# Flat Rolled Products

## *Strategic Actions Update*

### A&T Stainless Joint Venture

- The U.S. government's review of our exclusion request is ongoing; we continue to believe that the facts support the JV's request for the exclusion
- The JV continues to produce finished products
- Operating performance in Q2 confirmed the validity of the JV's operating model; exclusion required to be financially viable during periods of applicable tariffs

### STAL Joint Venture

- **First production coil produced at newly-expanded facility in July 2018;** commercial ramp-up on schedule
- Continued strong Chinese domestic market demand to drive growth
- Expansion fully-funded by joint venture cash flow

### HRPF Conversion Agreements

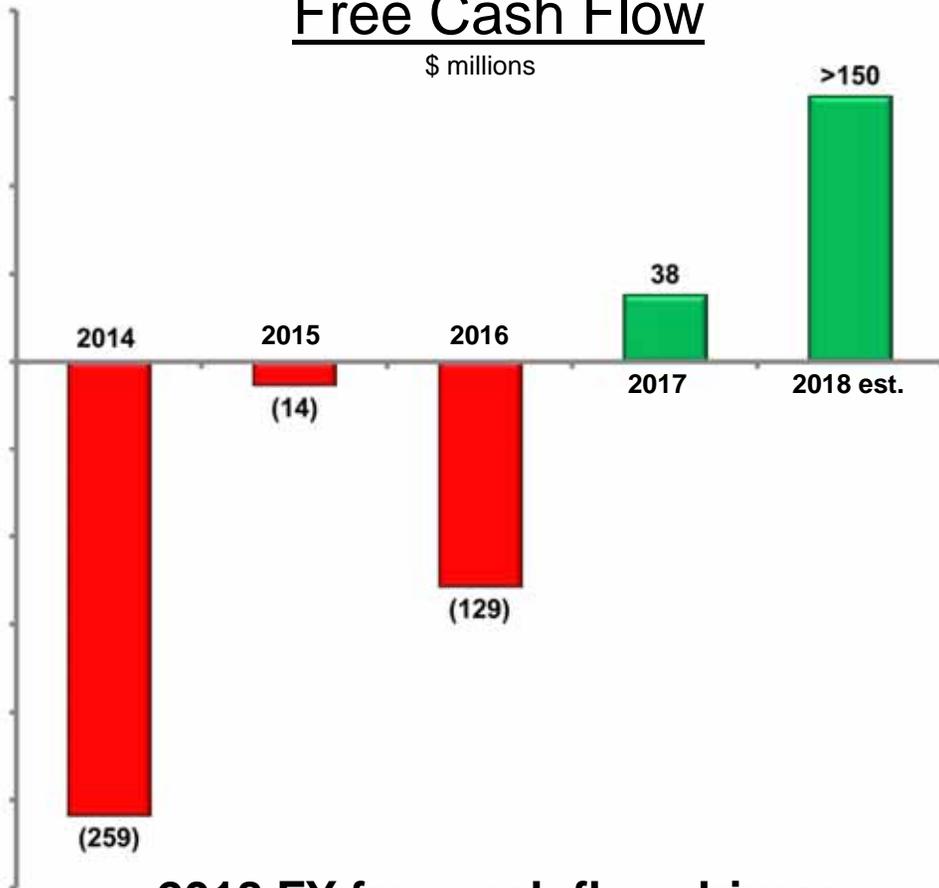
- Ongoing product trials **actively progressing toward commercial agreements**
- Section 232 tariffs & related exclusion process causing marketplace uncertainty
- Potential carbon steel conversion partners value HRPF's unique product capabilities and overall value proposition; enables new products at market competitive prices

Capital efficient asset utilization gains resulting in improved financial results

# Financial Update

## Free Cash Flow

\$ millions



### 2018 FY free cash flow drivers

- Improved earnings
- Lower interest expense
- Capital spending below depreciation & amort.
- Inc. managed working capital to support growth

## Balance Sheet and Cash Flow

- Cash and liquidity at 6/30/2018
  - \$122 million cash on hand
  - ~\$355 million available on ABL
  - No outstanding borrowings on ABL revolver
- Q2 2018 capital spending of \$29 million
  - 2018 YTD: \$71 million
- Continue to analyze impact of potential aerospace production rate increases on 2018-2021 capital spending cadence
- Managed working capital increase to support higher business volumes
  - YOY decline in managed working capital as a % of sales
- ATI Pension Plan now completely closed to new entrants; strategic ongoing actions continue to reduce costs

note: see appendix for reconciliation of non-GAAP financial measures

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# Summary & Outlook

## High Performance Materials & Components Segment

### **FY 2018 Financial Guidance**

- Increased targets due to strong demand for next-generation jet engine materials
  - Revenue growth of 10% to 12% year-over-year
    - Prior guidance anticipated a high-single digit percentage growth rate
  - Operating margin expansion of 300 basis points vs. prior year
    - Prior guidance expected a 200 basis point margin expansion

### **Q2 2018 financial results exceeded expectations**

- Continued to build on strong customer demand and product mix from Q1 2018
- Modest demand pull forward due to anticipated Q3 European customer shutdowns and ATI planned maintenance outages

### **Q3 2018 outlook**

- Lower sequential revenue driven by normal seasonal declines in Europe
- Decreased operating profits and margins versus Q2 2018:
  - Planned maintenance outages at ATI production facilities
  - Lower customer volumes in Europe due to normal seasonal patterns
  - Negative impact from delivery delays in directed source powder billet to ATI forging operations

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# Summary & Outlook

## Flat Rolled Products Segment

### **FY 2018 Financial Guidance**

- Increased financial targets due to strong end-market demand and improved raw material surcharge impacts year-to-date
  - 14% to 16% revenue growth year-over-year
    - Prior guidance anticipated a high-single digit percentage growth rate
  - 150 to 300 basis points operating margin growth vs. prior year
    - Prior guidance expected a 100 - 300 basis point margin expansion

### **Strong second quarter financial results**

- Continued strong end-market demand and favorable raw material surcharges
- 2018 YTD segment operating profit equals FY 2017 results

### **Q3 2018 outlook**

- Revenue inline with prior quarter reflecting ongoing strong demand environment
- Lower sequential operating profit due to:
  - Less favorable impact from raw material surcharges
  - Planned facility downtime for annual maintenance program
- Initial production ramp-up at recent STAL expansion; government response expected on A&T Stainless JV exclusion request
- Managed working capital improvement in Q3/Q4 2018

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# Second Quarter 2018 Conference Call

Q&A

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# Additional Materials Appendix

# Non-GAAP Financial Measures

The Company reports its financial results in accordance with accounting principles generally accepted in the United States of America ("GAAP"). However, management believes that certain non-GAAP financial measures, used in managing the business, may provide users of this financial information with additional meaningful comparisons between current results and results in prior periods. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP.

## Free Cash Flow

	For the Years Ended December 31,			
	2014	2015	2016	2017
Cash provided by (used in) operating activities	55.9	(131.4)	(43.7)	22.4
Cash used in investing activities	(316.2)	(145.1)	(200.0)	(119.6)
Add back: cash contributions to ATI Pension Plan	1.1	0.3	115.0	135.0
Free Cash Flow as defined	\$ (259.2)	\$ (276.2)	\$ (128.7)	\$ 37.8

Free cash flow as defined by ATI includes the total of cash provided by (used in) operating activities and investing activities as presented on the consolidated statements of cash flows, adjusted to exclude cash contributions to the ATI Pension Plan, the Company's U.S. qualified defined benefit pension plan.