

Arconic Inc.
Form 10-K
February 21, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For The Fiscal Year Ended December 31, 2018

OR

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

Commission File Number 1-3610

ARCONIC INC.

(Exact name of registrant as specified in its charter)

Delaware 25-0317820

(State of incorporation) (I.R.S. Employer Identification No.)

390 Park Avenue, New York, New York 10022-4608

(Address of principal executive offices) (Zip code)

Registrant's telephone numbers:

Investor Relations------(212) 836-2758

Office of the Secretary------(212) 836-2732

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	New York Stock Exchange
\$3.75 Cumulative Preferred Stock, par value \$100.00 per share	NYSE American

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No .

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, and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the 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.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$8 billion. As of February 15, 2019, there were 484,940,842 shares of common stock, par value \$1.00 per share, of the registrant outstanding.

Documents incorporated by reference.

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for its 2019 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A (Proxy Statement).

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Note on Incorporation by Reference

In this Form 10-K, selected items of information and data are incorporated by reference to portions of the Proxy Statement. Unless otherwise provided herein, any reference in this report to disclosures in the Proxy Statement shall constitute incorporation by reference of only that specific disclosure into this Form 10-K.

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PART I

Item 1. Business.

General

Arconic Inc. is a Delaware corporation with its principal office in New York, New York and the successor to Arconic Pennsylvania (as defined below) which was formed in 1888 and formerly known as Alcoa Inc. In this report, unless the context otherwise requires, “Arconic” or the “Company” means Arconic Inc., a Delaware corporation, and all subsidiaries consolidated for the purposes of its financial statements.

The Company’s Internet address is <http://www.arconic.com>. Arconic makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). The information on the Company’s Internet site is not a part of, or incorporated by reference in, this annual report on Form 10-K. The SEC maintains an Internet site that contains these reports at <http://www.sec.gov>.

Forward-Looking Statements

This report contains (and oral communications made by Arconic may contain) statements that relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those containing such words as “anticipates,” “believes,” “could,” “estimates,” “expects,” “forecasts,” “goal,” “guidance,” “intends,” “may,” “outlook,” “plans,” “projects,” “should,” “targets,” “will,” “would,” or other words of similar meaning. All statements that reflect Arconic’s expectations, assumptions or projections about the future, other than statements of historical fact, are forward-looking statements, including, without limitation, forecasts relating to the growth of the aerospace, automotive, commercial transportation and other end markets; statements and guidance regarding future financial results or operating performance; statements about Arconic’s strategies, outlook, business and financial prospects; and statements regarding potential share gains. Forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and changes in circumstances that are difficult to predict. Although Arconic believes that the expectations reflected in any forward-looking statements are based on reasonable assumptions, it can give no assurance that these expectations will be attained and it is possible that actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties.

For a discussion of some of the specific factors that may cause Arconic’s actual results to differ materially from those projected in any forward-looking statements, see the following sections of this report: Part I, Item 1A. (Risk Factors), Part II, Item 7. (Management’s Discussion and Analysis of Financial Condition and Results of Operations), including the disclosures under Segment Information and Critical Accounting Policies and Estimates, and Note U to the Consolidated Financial Statements in Part II, Item 8. (Financial Statements and Supplementary Data). Market projections are subject to the risks discussed in this report and other risks in the market. Arconic disclaims any intention or obligation to update publicly any forward-looking statements, whether in response to new information, future events or otherwise, except as required by applicable law.

Overview

Arconic (“Arconic” or the “Company”) is a global leader in lightweight metals engineering and manufacturing. Arconic’s innovative, multi-material products, which include aluminum, titanium, and nickel, are used worldwide in aerospace, automotive, commercial transportation, building and construction, industrial applications, defense, and packaging.

Arconic is a global company operating in 18 countries. Based upon the country where the point of sale occurred, the United States and Europe generated 65% and 24%, respectively, of Arconic’s sales in 2018. In addition, Arconic has operating activities in Brazil, Canada, China, Japan, and Russia, among others. Governmental policies, laws and regulations, and other economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these countries.

Arconic’s operations consist of three worldwide reportable segments: Engineered Products and Solutions, Global Rolled Products and Transportation and Construction Solutions.

Background

Arconic Inc. Reincorporation

On December 31, 2017 (the “Effective Date”), Arconic Inc., a Pennsylvania corporation (“Arconic Pennsylvania” or, prior to the Reincorporation (as defined below), the “Company”), effected the change of the Company’s jurisdiction of incorporation from Pennsylvania to Delaware (the “Reincorporation”) by merging (the “Reincorporation Merger”) with a direct wholly owned Delaware subsidiary, Arconic (in this section, “Arconic Delaware” or, following the Reincorporation, the “Company”), pursuant to an Agreement and Plan of Merger (the “Reincorporation Merger Agreement”), dated as of October 12, 2017, by and

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between Arconic Pennsylvania and Arconic Delaware. Arconic Pennsylvania shareholders approved the Reincorporation Merger to effect the Reincorporation at a Special Meeting of Shareholders held on November 30, 2017. As a result of the Reincorporation, (i) Arconic Pennsylvania has ceased to exist, (ii) Arconic Delaware automatically inherited the reporting obligations of Arconic Pennsylvania under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and (iii) Arconic Delaware is deemed to be the successor issuer to Arconic Pennsylvania.

The common stock, par value \$1.00 per share, of Arconic Pennsylvania (the “Arconic Pennsylvania Common Stock”) was listed for trading on the New York Stock Exchange and traded under the symbol “ARNC.” As of the Effective Date, this symbol, without interruption, represents shares of common stock, par value \$1.00 per share, of Arconic Delaware (the “Arconic Delaware Common Stock”). There was no change in the Exchange Act File Number assigned by the SEC as a result of the Reincorporation.

As of the Effective Date, the rights of the Company’s stockholders began to be governed by the General Corporation Law of the State of Delaware, the Certificate of Incorporation of Arconic Delaware (the “Delaware Certificate”) and the Bylaws of Arconic Delaware (the “Delaware Bylaws”).

Other than the change in corporate domicile, the Reincorporation did not result in any change in the business, physical location, management, financial condition or number of authorized shares of the Company, nor did it result in any change in location of its current employees, including management. On the Effective Date, (i) the directors and officers of Arconic Pennsylvania prior to the Reincorporation continued as the directors and officers of Arconic Delaware after the Reincorporation, (ii) each outstanding share of Arconic Pennsylvania Common Stock was automatically converted into one share of Arconic Delaware Common Stock, (iii) each outstanding share of Serial Preferred Stock, par value \$100 per share, of Arconic Pennsylvania (the “Arconic Pennsylvania Preferred Stock”) was automatically converted into one share of Serial Preferred Stock, par value \$100 per share, of Arconic Delaware (the “Arconic Delaware Preferred Stock”) and (iv) all of Arconic Pennsylvania’s employee benefit and compensation plans immediately prior to the Reincorporation were continued by Arconic Delaware, and each outstanding equity award and notional share unit relating to shares of Arconic Pennsylvania Common Stock was converted into an equity award or notional share unit, as applicable, relating to an equivalent number of shares of Arconic Delaware Common Stock on the same terms and subject to the same conditions. Beginning at the effective time of the Reincorporation, each certificate representing Arconic Pennsylvania Common Stock or Arconic Pennsylvania Preferred Stock was deemed for all corporate purposes to evidence ownership of Arconic Delaware Common Stock or Arconic Delaware Preferred Stock, as applicable. The Company’s stockholders may, but are not required to, exchange their stock certificates as a result of the Reincorporation.

The foregoing descriptions of the Arconic Delaware Common Stock, the Arconic Delaware Preferred Stock, the Delaware Certificate and the Delaware Bylaws are qualified in their entirety by the full text of the Delaware Certificate and the Delaware Bylaws, which are filed as Exhibits 3(a) and 3(b), respectively, to this report.

Alcoa Corporation Separation Transaction

On November 1, 2016, Alcoa Inc. completed the separation of its business into two independent, publicly traded companies (the “Separation”) – Alcoa Corporation and Arconic Inc. (the new name for Alcoa Inc.). Following the Separation, Alcoa Corporation holds the Alumina and Primary Metals segments, the rolling mill at the Warrick, Indiana operations and the 25.1% stake in the Ma’aden Rolling Company in Saudi Arabia previously held by the Company. The Company retained the Global Rolled Products (other than the rolling mill at the Warrick, Indiana operations and the 25.1% ownership stake in the Ma’aden Rolling Company), Engineered Products and Solutions and Transportation and Construction Solutions segments.

The Separation was effected by a pro rata distribution of 80.1% of the outstanding shares of Alcoa Corporation common stock to the Company’s shareholders (the “Distribution”). The Company’s shareholders of record as of the close of business on October 20, 2016 (the “Record Date”) received one share of Alcoa Corporation common stock for every three shares of the Company’s common stock held as of the Record Date. The Company did not issue fractional shares of Alcoa Corporation common stock in the Distribution. Instead, each shareholder otherwise entitled to receive a fractional share of Alcoa Corporation common stock received cash in lieu of fractional shares.

The Company distributed 146,159,428 shares of common stock of Alcoa Corporation in the Distribution and retained 36,311,767 shares, or approximately 19.9%, of the common stock of Alcoa Corporation immediately following the Distribution. As a result of the Distribution, Alcoa Corporation became an independent public company trading under the symbol “AA” on the New York Stock Exchange, and the Company trades under the symbol “ARNC” on the New York Stock Exchange.

During 2017, the Company disposed of its retained interest in Alcoa Corporation. In February 2017, the Company sold 23,353,000 shares of Alcoa Corporation stock at \$38.03 per share, which resulted in cash proceeds of \$888 million and a gain of \$351 million. In April and May 2017, the Company acquired a portion of its outstanding notes held by two investment banks (the “Investment Banks”) in exchange for cash and the Company’s remaining 12,958,767 shares (valued at \$35.91 per share) in

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Alcoa Corporation stock (the “Debt-for-Equity Exchange”) and recorded a gain of \$167 million. The gains of \$351 million and \$167 million associated with the disposition of the Alcoa Corporation shares were recorded in Other Income, Net in the accompanying Statement of Consolidated Operations in Part II, Item 8 (Financial Statements and Supplementary Data).

On October 31, 2016, in connection with the Separation and the Distribution, Arconic entered into several agreements with Alcoa Corporation or its subsidiaries that govern the relationship of the parties following the Distribution, including the following: Separation and Distribution Agreement, Transition Services Agreement, Tax Matters Agreement, Employee Matters Agreement, certain Patent, Know-How, Trade Secret License and Trademark License Agreements, Toll Processing and Services Agreement, Master Agreement for the Supply of Primary Aluminum, Massena Lease and Operations Agreement, Fusina Lease and Operations Agreement, and Stockholder and Registration Rights Agreement. The Toll Processing and Services Agreement expired by its terms at the end of 2018.

Recent Developments

On January 22, 2019, the Company announced that its Board of Directors (the Board) had determined to no longer pursue a potential sale of Arconic as part of its strategy and portfolio review. Management and the Board have been conducting a rigorous and comprehensive strategy and portfolio review over the past year and as part of that process had considered a sale of the Company, among other matters. However, the Company did not receive a proposal for a full-Company transaction that management and the Board believed would be in the best interest of Arconic’s shareholders and other stakeholders. Management and the Board remain confident in Arconic’s significant potential and are strongly focused on enhancing value for shareholders, through continued operational improvements and through other potential initiatives which have been previously identified in the strategy and portfolio review. The Company has announced the following key initiatives as part of its ongoing strategy and portfolio review:

• Commenced plans to reduce operating costs by approximately \$200 million on an annual run-rate basis, designed to maximize the impact in 2019;

• Announced the planned separation of its portfolio into Engineered Products and Forgings and Global Rolled Products, with a spin-off of one of the businesses;

• Considering the potential sale of businesses that do not best fit into one of the two segments above;

• Intends to execute its previously authorized \$500 million share repurchase program in the first half of 2019;

• The Board also authorized an additional \$500 million of share repurchases, effective through the end of 2020; and

• Expects to reduce its quarterly common stock dividend from \$0.06 to \$0.02 per share.

On February 6, 2019, the Company announced that the Board appointed John C. Plant, current Chairman of the Board, as Chairman and Chief Executive Officer of the Company, effective February 6, 2019, to succeed Chip Blankenship, who ceased to serve as Chief Executive Officer of the Company and resigned as a member of the Board, in each case as of that date. In addition, the Company announced that the Board appointed Elmer L. Doty, current member of the Board, as President and Chief Operating Officer, a newly created position, effective February 6, 2019. Mr. Doty will remain a member of the Board. The Company also announced that Arthur D. Collins, Jr., current member of the Board, has been appointed interim Lead Independent Director of the Company, effective February 6, 2019.

On February 19, 2019, the Company entered into an accelerated share repurchase (“ASR”) agreement with JPMorgan Chase Bank to repurchase \$700 million of its common stock, pursuant to the share repurchase program previously authorized by the Board. Under the ASR agreement, Arconic will receive initial delivery of approximately 32 million shares on February 21, 2019. The final number of shares to be repurchased will be based on the volume-weighted average price of Arconic’s common stock during the term of the transaction, less a discount. The ASR agreement is expected to be completed during the first half of 2019.

The Company will evaluate its organizational structure in conjunction with the planned separation of its portfolio and changes to its reportable segments are expected in the first half of 2019.

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Description of the Business

Information describing Arconic’s businesses can be found on the indicated pages of this report:

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Major Product Revenues

Products that contributed 10% or more to consolidated revenues for the years ended December 31, 2018, 2017 and 2016, were:

	For the Year Ended December 31, 2018 2017 2016		
Innovative flat-rolled products	40%	39%	39%
Engines	21%	21%	21%
Engineered structures	13%	13%	14%
Fastening systems	11%	11%	12%

Arconic has no customer that accounts for 10% or more of its consolidated revenues. However, certain of the Company’s businesses are dependent upon a few significant customers. The loss of any such significant customer could have a material adverse effect on such businesses.

Engineered Products and Solutions

Arconic’s Engineered Products and Solutions segment (“EP&S”) develops and manufactures high performance products mainly for the aerospace (commercial and defense), commercial transportation, and power generation end markets. Such products include fastening systems (titanium, steel, and nickel superalloys); seamless rolled rings (nickel superalloys, steel and titanium); investment castings (nickel superalloys, titanium, and aluminum), including airfoils and structural components; forged airframe and jet engine components (nickel superalloys, titanium, aluminum), including bulkheads, disks and shafts; extruded airframe components (aluminum); and various other forged and extruded metallic components for the oil and gas, industrial products, automotive, and land and sea defense end markets.

In January 2018, EP&S announced a change in the organizational structure of the segment, from four business units to three business units, with a focus on aligning its internal structure to core markets and customers and reducing costs.

The three business units are Arconic Engines; Arconic Fastening Systems; and Arconic Engineered Structures.

Arconic Engines (AEN). AEN produces investment cast airfoils, seamless rolled rings and closed-die (including isothermal) forged turbine disks for aero engine and industrial gas turbines, as well as other structural aero engine

components. AEN also provides additive manufacturing technologies, superalloy ingots, open-die forging, machining, performance coatings, and hot isostatic pressing for high performance parts.

Arconic Fastening Systems (AFS). AFS produces aerospace fastening systems, as well as commercial transportation fasteners. The business's high-tech, multi-material fastening systems are found nose to tail on aircraft and aero engines. The

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business's products are also critical components of industrial gas turbines, automobiles, commercial transportation vehicles, and construction and industrial equipment.

Arconic Engineered Structures (AES). AES produces titanium and aluminum ingots and mill products for aerospace and defense applications and is vertically integrated to produce structural investment castings, forgings and extrusions, for airframe, wing, aero-engine, and landing gear components, as well as lightweight drive shafts for the commercial transportation industries. AES also provides multi-material airframe subassemblies and solutions related to advanced technologies and materials, such as 3D printing and titanium aluminides.

For additional discussion of the EP&S segment's business, see "Results of Operations—Segment Information" in Part II, Item 7, (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Note C to the Consolidated Financial Statements in Part II, Item 8. (Financial Statements and Supplementary Data).

In July 2018, Arconic announced a two-year Joint Development Agreement with Lockheed Martin to develop customized lightweight material systems and advanced manufacturing processes, such as metal 3D printing, to advance current and next-generation aerospace and defense solutions - including new structures and systems.

In December 2018, as part of the Company's ongoing strategy and portfolio review, Arconic completed the sale of its Eger, Hungary forgings business that manufactured high volume steel forgings for drivetrain components in the European heavy-duty truck and automotive market to Angstrom Automotive Group LLC.

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Engineered Products and Solutions		Principal Facilities ¹
Country	Facility	Products
Australia	Oakleigh	Fasteners
Canada	Georgetown, Ontario ²	Aerospace Castings
	Laval, Québec	Aerospace Castings and Machining
China	Suzhou ²	Fasteners and Rings
France	Dives-sur-Mer	Aerospace and Industrial Gas Turbine Castings
	Evron	Aerospace and Specialty Castings
	Gennevilliers	Aerospace and Industrial Gas Turbine Castings
	Montbrison	Fasteners
	St. Cosme-en-Vairais ²	Fasteners
	Toulouse	Fasteners
	Us-par-Vigny	Fasteners
Germany	Bestwig	Aerospace Castings
	Erwitte	Aerospace Castings
	Hannover ²	Extrusions
	Hildesheim-Bavenstedt ²	Fasteners
	Kelkheim ²	Fasteners
Hungary	Nemesvámos	Fasteners
	Székesfehérvár	Aerospace and Industrial Gas Turbine Castings and Forgings
Japan	Nomi	Aerospace and Industrial Gas Turbine Castings
Mexico	Ciudad Acuña ²	Aerospace Castings/Fasteners and Rings
Morocco	Casablanca ²	Fasteners