**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 June 30, 2019**

**OR**

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

**For the transition period from** **to**



**Commission file number: 1-36313**



**TIMKENSTEEL CORPORATION**

**(Exact name of registrant as specified in its charter)**



|  |  |  |
| --- | --- | --- |
|  | **Ohio** | **46-4024951** |
|  | (State or other jurisdiction of | (I.R.S. Employer |
|  | incorporation or organization) | Identification No.) |
|  | **1835 Dueber Avenue SW, Canton, OH** | **44706** |
|  | (Address of principal executive offices) | (Zip Code) |
|  | **330.471.7000** |  |
|  | **(Registrant’s telephone number, including area code)** |  |
|  | Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934: |
| Title of each class | Trading symbol | Name of exchange in which registered |
| Common shares | TMST | NASDAQ |

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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 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” and “smaller reporting company” in Rule 12b-2 of the Exchange Act

|  |  |  |  |
| --- | --- | --- | --- |
| Large accelerated filer | o | Accelerated filer | ☒ |
| Non-accelerated filer | o | Smaller reporting company | o |
|  |  | Emerging growth company | o |

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 reporting 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 ☒

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

|  |  |
| --- | --- |
| Class | Outstanding at July 15, 2019 |
|  |  |  |
| Common Shares, without par value | 44,816,212 |

**TimkenSteel Corporation**

**Table of Contents**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | PAGE |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [**PART I. Financial Information**](#page3) | [3](#page3) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [Item 1.](#page3) | [Financial Statements](#page3) | [3](#page3) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | [Consolidated Statements of Operations (Unaudited)](#page3) | [3](#page3) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | [Consolidated Statements of Comprehensive Income (Loss) (Unaudited)](#page4) | [4](#page4) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | [Consolidated Balance Sheets (Unaudited)](#page5) |  |  | [5](#page5) |  |  |
|  |  |  |  | [Consolidated Statements of Shareholders’ Equity (Unaudited)](#page6) | [6](#page6) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | [Consolidated Statements of Cash Flows (Unaudited)](#page7) |  |  | [7](#page7) |  |  |
|  |  |  |  | [Notes to Unaudited Consolidated Financial Statements](#page8) | [8](#page8) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [Item 2.](#page18) | [Management’s Discussion and Analysis of Financial Condition and Results of Operations](#page18) | [18](#page18) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [Item 3.](#page30) | [Quantitative and Qualitative Disclosures about Market Risk](#page30) | [30](#page30) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [Item 4.](#page30) | [Controls and Procedures](#page30) | [30](#page30) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [**PART II. Other Information**](#page31) | [31](#page31) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [Item 1.](#page31) | [Legal Proceedings](#page31) | [31](#page31) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [Item 1A](#page31). | [Risk Factors](#page31) | [31](#page31) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| [Item 6.](#page32) | [Exhibits](#page32) | [32](#page32) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  | [Signatures](#page33) |  | [33](#page33) |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

2

[Table of Contents](#page2)

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**TimkenSteel Corporation**

**Consolidated Statements of Operations (Unaudited)**

|  |  |  |
| --- | --- | --- |
|  | **Three Months Ended June 30,** | **Six Months Ended June 30,** |
|  |  |  |  |  |  |  |
| **2019** |  |  | **2018** |  | **2019** | **2018** |
|  |  |  |  |  |  |  |  |
| (Dollars in millions, except per share data) |  |  |  |  |  |  |
| Net sales | **$336.7** |  | $413.5 |  | **$707.7** | $794.3 |
|  |  |  |  |  |  |  |  |
| Cost of products sold | **311.3** |  | 381.4 |  | **653.2** | 741.1 |
| **Gross Profit** |  | **25.4** |  | 32.1 |  | **54.5** | 53.2 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Selling, general and administrative expenses | **20.2** |  | 24.9 |  | **43.5** | 49.6 |
|  |  |  |  |  |  |  |  |
| Restructuring charges | **3.6** |  | — | **3.6** | — |
| Impairment charges and loss on asset disposals | **1.8** |  | 0.9 |  | **1.8** | 0.9 |
|  |  |  |  |  |  |  |  |
| Interest expense | **4.2** |  | 3.9 |  | **8.4** | 8.5 |
| Other income (expense), net | **0.2** |  | 6.2 |  | **2.9** | 12.6 |
|  |  |  |  |  |  |  |  |
| **Income (Loss) Before Income Taxes** | **(4.2)** |  | **8.6** |  | **0.1** | **6.8** |
| Provision for income taxes | **0.2** |  | 0.2 |  | **0.3** | 0.3 |
|  |  |  |  |  |  |  |  |
| **Net Income (Loss)** | **($4.4)** |  | $8.4 |  | **($0.2)** | $6.5 |
|  |  |  |  |  |  |  |  |
| **Per Share Data:** |  |  |  |  |  |  |
| **Basic earnings (loss) per share** | **($0.10)** |  | $0.19 |  | **$—** | $0.15 |
|  |  |  |  |  |  |  |  |
| **Diluted earnings (loss) per share** | **($0.10)** |  | $0.19 |  | **$—** | $0.14 |
|  |  |  |  |  |  |  |  |

See accompanying Notes to the unaudited Consolidated Financial Statements.

3

[Table of Contents](#page2)

**TimkenSteel Corporation**

**Consolidated Statement of Comprehensive Income (Loss) (Unaudited)**



|  |  |  |
| --- | --- | --- |
|  | **Three Months Ended June 30,** | **Six Months Ended June 30,** |
|  |  |  |  |  |  |
|  | **2019** | **2018** | **2019** | **2018** |  |
|  |  |  |  |  |  |
| (Dollars in millions) |  |  |  |  |  |
| Net income (loss) | **($4.4)** | $8.4 | **($0.2)** | $6.5 |  |
|  |  |  |  |  |  |
| Other comprehensive income (loss), net of tax: |  |  |  |  |  |
| Foreign currency translation adjustments | **(0.6)** | (1.2) | **(0.2)** | (0.4) |  |
|  |  |  |  |  |  |
| Pension and postretirement liability adjustments | **69.4** | 0.2 | **69.5** | 0.3 |  |
| Other comprehensive income (loss), net of tax | **68.8** | (1.0) | **69.3** | (0.1) |  |
|  |  |  |  |  |  |
| **Comprehensive Income (Loss), net of tax** | **$64.4** | $7.4 | **$69.1** | $6.4 |  |
|  |  |  |  |  |  |

See accompanying Notes to the unaudited Consolidated Financial Statements.

4

[Table of Contents](#page2)

**TimkenSteel Corporation**

**Consolidated Balance Sheets (Unaudited)**



|  |  |  |  |
| --- | --- | --- | --- |
|  | **June 30,** | **December 31,** |  |
|  | **2019** | **2018** |  |
|  |  |  |  |
| (Dollars in millions) |  |  |  |
| **ASSETS** |  |  |  |
|  |  |  |  |
| **Current Assets** |  |  |  |
| Cash and cash equivalents | **$20.9** | $21.6 |  |
|  |  |  |  |
| Accounts receivable, net of allowances (2019 - $1.4 million; 2018 - $1.7 million) | **146.4** | 163.4 |  |
| Inventories, net | **304.8** | 296.8 |  |
|  |  |  |  |
| Deferred charges and prepaid expenses | **2.6** | 3.5 |  |
| Other current assets | **7.6** | 6.1 |  |
|  |  |  |  |
| **Total Current Assets** | **482.3** | 491.4 |  |
|  |  |  |  |
| Property, plant and equipment, net | **649.7** | 674.4 |  |
| Operating lease right-of-use assets | **14.5** | — |  |
|  |  |  |  |
| Pension assets | **13.0** | 10.5 |  |
| Intangible assets, net | **17.4** | 17.8 |  |
|  |  |  |  |
| Other non-current assets | **2.7** | 3.5 |  |
| **Total Assets** | **$1,179.6** | $1,197.6 |  |
|  |  |  |  |
|  |  |  |  |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** |  |  |  |
|  |  |  |  |
| **Current Liabilities** |  |  |  |
| Accounts payable | **$110.3** | $160.6 |  |
|  |  |  |  |
| Salaries, wages and benefits | **15.5** | 36.8 |  |
| Accrued pension and postretirement costs | **3.0** | 3.0 |  |
|  |  |  |  |
| Current operating lease liabilities | **5.7** | — |  |
| Other current liabilities | **20.5** | 20.4 |  |
|  |  |  |  |
| **Total Current Liabilities** | **155.0** | 220.8 |  |
|  |  |  |  |
| Convertible notes, net | **76.3** | 74.1 |  |
| Credit Agreement | **145.0** | 115.0 |  |
|  |  |  |  |
| Non-current operating lease liabilities | **8.8** | — |  |
| Accrued pension and postretirement costs | **176.0** | 240.0 |  |
|  |  |  |  |
| Deferred income taxes | **0.6** | 0.8 |  |
| Other non-current liabilities | **10.6** | 11.7 |  |
|  |  |  |  |
| **Total Liabilities** | **572.3** | 662.4 |  |
|  |  |  |  |
| **Shareholders’ Equity** |  |  |  |
| Preferred shares, without par value; authorized 10.0 million shares, none issued | **—** | — |  |
|  |  |  |  |
| Common shares, without par value; authorized 200.0 million shares; | **—** |  |  |
| issued 2019 and 2018 - 45.7 million shares | — |  |
| Additional paid-in capital | **841.4** | 846.3 |  |
|  |  |  |  |
| Retained deficit | **(269.4)** | (269.2) |  |
| Treasury shares - 2019 - 0.9 million; 2018 - 1.1 million | **(25.1)** | (33.0) |  |
|  |  |  |  |
| Accumulated other comprehensive income (loss) | **60.4** | (8.9) |  |
| **Total Shareholders’ Equity** | **607.3** | 535.2 |  |
|  |  |  |  |
| **Total Liabilities and Shareholders’ Equity** | **$1,179.6** | $1,197.6 |  |
|  |  |  |  |

See accompanying Notes to the unaudited Consolidated Financial Statements.

5

[Table of Contents](#page2)

**TimkenSteel Corporation**

**Consolidated Statements of Shareholders’ Equity (Unaudited)**



|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Accumulated Other** |  |
|  | **Common Shares** | **Additional** | **Retained** | **Treasury** | **Comprehensive** |  |
| (Dollars in millions) | **Outstanding** | **Paid-in Capital** | **Deficit** | **Shares** | **Income (Loss)** | **Total** |
|  |  |  |  |  |  |  |
| Balance as of December 31, 2018 | **44,584,668** | **$846.3** | **($269.2)** | **($33.0)** | **($8.9)** | **$535.2** |
| Net income (loss) | **—** | **—** | **4.2** | **—** | **—** | **4.2** |
|  |  |  |  |  |  |  |
| Other comprehensive income (loss) | **—** | **—** | **—** | **—** | **0.5** | **0.5** |
| Stock-based compensation expense | **—** | **2.2** | **—** | **—** | **—** | **2.2** |
|  |  |  |  |  |  |  |
| Stock option activity | **—** | **0.2** | **—** | **—** | **—** | **0.2** |
| Issuance of treasury shares | **261,130** | **(7.5)** | **—** | **7.5** | **—** | **—** |
|  |  |  |  |  |  |  |
| Shares surrendered for taxes | **(79,889)** | **—** | **—** | **(1.0)** | **—** | **(1.0)** |
| Balance at March 31, 2019 | **44,765,909** | **$841.2** | **($265.0)** | **($26.5)** | **($8.4)** | **$541.3** |
|  |  |  |  |  |  |  |
| Net income (loss) | **—** | **—** | **(4.4)** | **—** | **—** | **(4.4)** |
| Other comprehensive income (loss) | **—** | **—** | **—** | **—** | **68.8** | **68.8** |
|  |  |  |  |  |  |  |
| Stock-based compensation expense | **—** | **1.6** | **—** | **—** | **—** | **1.6** |
| Issuance of treasury shares | **50,185** | **(1.4)** | **—** | **1.4** | **—** | **—** |
|  |  |  |  |  |  |  |
| Balance at June 30, 2019 | **44,816,094** | **$841.4** | **($269.4)** | **($25.1)** | **$60.4** | **$607.3** |
|  |  |  |  |  |  |  |
|  |  |  |  |  | **Accumulated Other** |  |
|  | **Common Shares** | **Additional** | **Retained** | **Treasury** | **Comprehensive** |  |
|  | **Outstanding** | **Paid-in Capital** | **Deficit** | **Shares** | **Income (Loss)** | **Total** |
|  |  |  |  |  |  |  |
| Balance at December 31, 2017 | 44,445,747 | $843.7 | ($238.0) | ($37.4) | ($7.6) | $560.7 |
| Net income (loss) | — | — | (1.9) | — | — | (1.9) |
|  |  |  |  |  |  |  |
| Other comprehensive income (loss) | — | — | — | — | 0.9 | 0.9 |
| Revenue recognition accounting standard adoption | — | — | 0.7 | — | — | 0.7 |
|  |  |  |  |  |  |  |
| Stock-based compensation expense | — | 2.2 | — | — | — | 2.2 |
| Stock option activity | — | 0.1 | — | — | — | 0.1 |
|  |  |  |  |  |  |  |
| Issuance of treasury shares | 121,012 | (3.4) | (0.1) | 3.5 | — | — |
| Shares surrendered for taxes | (37,533) | — | — | (0.7) | — | (0.7) |
|  |  |  |  |  |  |  |
| Balance at March 31, 2018 | 44,529,226 | $842.6 | ($239.3) | ($34.6) | ($6.7) | $562.0 |
| Net income (loss) | — | — | 8.4 | — | — | $8.4 |
|  |  |  |  |  |  |  |
| Other comprehensive income (loss) | — | — | — | — | (1.0) | ($1.0) |
| Stock-based compensation expense | — | 1.5 | — | — | — | $1.5 |
|  |  |  |  |  |  |  |
| Stock option activity | — | 0.1 | — | — | — | $0.1 |
| Issuance of treasury shares | 55,442 | (1.5) | (0.1) | 1.6 | — | $— |
|  |  |  |  |  |  |  |
| Balance at June 30, 2018 | 44,584,668 | $842.7 | ($231.0) | ($33.0) | ($7.7) | $571.0 |
|  |  |  |  |  |  |  |

See accompanying Notes to the unaudited Consolidated Financial Statements.

6

[Table of Contents](#page2)

**TimkenSteel Corporation**

**Consolidated Statements of Cash Flows (Unaudited)**

**Six Months Ended June 30,**



|  |  |  |
| --- | --- | --- |
| **2019** |  | **2018** |
|  |  |  |
| (Dollars in millions) |  |  |
| **CASH PROVIDED (USED)** |  |  |
|  |  |  |
| **Operating Activities** |  |  |
| Net income (loss) | **($0.2)** | $6.5 |
|  |  |  |
| Adjustments to reconcile net income (loss) to net cash used by operating activities: |  |  |
| Depreciation and amortization | **35.7** | 36.9 |
|  |  |  |
| Amortization of deferred financing fees and debt discount | **2.5** | 3.0 |
| Impairment charges and loss on sale or disposal of assets | **1.8** | 0.9 |
|  |  |  |
| Deferred income taxes | **(0.2)** | (0.3) |
| Stock-based compensation expense | **3.8** | 3.7 |
|  |  |  |
| Pension and postretirement expense (benefit), net | **6.4** | (2.9) |
| Pension and postretirement contributions and payments | **(3.5)** | (12.9) |
|  |  |  |
| Changes in operating assets and liabilities: |  |  |
| Accounts receivable, net | **17.0** | (23.8) |
|  |  |  |
| Inventories, net | **(8.0)** | (70.5) |
| Accounts payable | **(50.3)** | 42.5 |
|  |  |  |
| Other accrued expenses | **(22.3)** | (12.9) |
| Deferred charges and prepaid expenses | **0.9** | 1.6 |
|  |  |  |
| Other, net | **(1.2)** | (1.9) |
| **Net Cash Used by Operating Activities** | **(17.6)** | (30.1) |
|  |  |  |
|  |  |  |
| **Investing Activities** |  |  |
|  |  |  |
| Capital expenditures | **(12.3)** | (9.0) |
| Proceeds from disposals of property, plant and equipment | **—** | 1.0 |
|  |  |  |
| **Net Cash Used by Investing Activities** | **(12.3)** | (8.0) |
|  |  |  |
| **Financing Activities** |  |  |
| Proceeds from exercise of stock options | **0.2** | 0.2 |
|  |  |  |
| Shares surrendered for employee taxes on stock compensation | **(1.0)** | (0.7) |
| Refunding Bonds repayments | **—** | (30.2) |
|  |  |  |
| Repayments on credit agreements | **(10.0)** | (70.0) |
| Borrowings on credit agreements | **40.0** | 155.0 |
|  |  |  |
| Debt issuance costs | **—** | (1.7) |
| **Net Cash Provided by Financing Activities** | **29.2** | 52.6 |
|  |  |  |
| **Decrease (Increase) in Cash and Cash Equivalents** | **(0.7)** | 14.5 |
| Cash and cash equivalents at beginning of period | **21.6** | 24.5 |
|  |  |  |
| **Cash and Cash Equivalents at End of Period** | **$20.9** | $39.0 |
|  |  |  |



See accompanying Notes to the unaudited Consolidated Financial Statements.

7

[Table of Contents](#page2)

**TimkenSteel Corporation**

**Notes to Unaudited Consolidated Financial Statements**

*(dollars in millions, except per share data)*

**Note 1 - Basis of Presentation**

The accompanying unaudited Consolidated Financial Statements have been prepared by TimkenSteel Corporation (the Company or TimkenSteel) in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures considered necessary for a fair presentation have been included. For further information, refer to TimkenSteel’s audited Consolidated Financial Statements and Notes included in its Annual Report on Form 10-K for the year ended December 31, 2018.

**Note 2 - Recent Accounting Pronouncements**

***Adoption of New Accounting Standards***

The Company adopted the following Accounting Standard Updates (ASU) in the first quarter of 2019, all of which were effective as of January 1, 2019. The adoption of these standards had no impact on the unaudited Consolidated Financial Statements or the related Notes to the unaudited Consolidated Financial Statements.



|  |  |
| --- | --- |
| **Standards Adopted** | **Description** |
|  |  |
| ASU 2018-07, Compensation - Stock Compensation (Topic 718): | The standard provides an expanded scope of Topic 718, to include share-based payment |
| Improvements to Nonemployee Share-Based Payment Accounting | transactions for acquiring goods and services from nonemployees. |
| ASU 2018-02, Reporting Comprehensive Income: Reclassification of Certain | The standard permits entities to reclassify tax effects stranded in accumulated other |
| Tax Effects from Accumulated Other Comprehensive Income | comprehensive income as a result of tax reform to retained earnings. |



ASU 2017-11, Distinguishing Liabilities from Equity; Derivatives and Hedging The standard eliminates the requirement to consider “down round” features when determining whether certain equity-linked financial instruments or embedded features are indexed to an entity’s own stock.



On January 1, 2019, the Company adopted ASU 2016-02, “Leases (Topics 842),” which requires lessees to recognize lease liabilities and right-of-use assets on the balance sheet for not only finance (previously capital) leases but also operating leases. The standard also requires additional quantitative and qualitative disclosures. The Company adopted the standard using the modified retrospective transition approach without adjusting comparative periods.

The Company elected certain of the practical expedients permitted under the transition guidance within the new standard as follows:

* A package of practical expedients to not reassess:
	+ Whether a contract is or contains a lease
	+ Lease classification
	+ Initial direct costs
* A practical expedient to not reassess certain land easements

The Company has implemented internal controls and lease accounting software to enable the quantification of the expected impact on the unaudited Consolidated Balance Sheets and to facilitate the calculations of the related accounting entries and disclosures. Adoption of the lease standard resulted in recognition of right-to-use assets and lease liabilities of $16.0 million as of January 1, 2019. Adoption of the lease standard had no impact on the Company’s debt-covenant compliance under its current agreements. Also, the standard did not materially affect the Company’s results of operations or its cash flows. Refer to “Note 11 - Leases” for additional information.

8

[Table of Contents](#page2)

***Accounting Standards Issued But Not Yet Adopted***

The Company has considered the recent ASUs issued by the Financial Accounting Standards Board summarized below:



|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Effective** |  |
| **Standard Pending Adoption** | **Description** | **Date** | **Anticipated Impact** |
|  |  |  |
| ASU 2018-15, Intangibles - Goodwill and | The standard aligns the requirements for capitalizing | January 1, The Company plans on adopting this ASU using the |
| Other - Internal-Use Software (Subtopic | implementation costs in cloud computing software | 2020 | prospective method. The Company does not expect the |
| 350-40) | arrangements with the requirements for capitalizing |  | ASU to have a material impact on its results of |
|  | implementation costs incurred to develop or obtain |  | operations or financial condition. |
|  | internal-use software. |  |  |
|  |  |  |  |

ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)

The standard eliminates, modifies and adds disclosure January 1, The Company is currently evaluating the impact of the

requirements for employers that sponsor defined benefit 2021 adoption of this ASU on its results of operations and

pension or other postretirement plans. financial condition.



ASU 2018-13, Fair Value Measurement (Topic 820)

The standard eliminates, modifies and adds disclosure January 1, The Company does not expect the ASU to have a

requirements for fair value measurements. 2020 material impact on its results of operations or financial

condition.

ASU 2016-13, Measurement of Credit Losses on Financial Instruments

The standard changes how entities will measure credit January 1, The Company does not expect the ASU to have a

losses for most financial assets, including trade and other 2020 material impact on its results of operations or financial

receivables and replaces the current incurred loss condition.

approach with an expected loss model.



**Note 3 - Revenue Recognition**

TimkenSteel recognizes revenue from contracts at a point in time when it has satisfied its performance obligation and the customer obtains control of the goods, at the amount that reflects the consideration the Company expects to receive for those goods. The Company receives and acknowledges purchase orders from its customers which define the quantity, pricing, payment and other applicable terms and conditions. In some cases, the Company receives a blanket purchase order from its customer, which includes pricing, payment and other terms and conditions. Quantities are defined at the time the customer issues periodic releases against the blanket purchase order. Certain contracts contain variable consideration, which primarily consists of rebates that are accounted for in net sales and accrued based on the estimated probability of the requirements being met. Amounts billed to customers related to shipping and handling costs are included in net sales and related costs are included in costs of products sold in the unaudited Consolidated Financial Statements.

The following table provides the major sources of revenue by end-market sector for the three and six months ended June 30, 2019 and 2018:

|  |  |  |
| --- | --- | --- |
|  | **Three Months Ended June 30,** | **Six Months Ended June 30,** |
|  |  |  |  |  |
|  | **2019** | **2018** | **2019** | **2018** |
|  |  |  |  |  |
| Mobile | **$135.3** | $141.6 | **$279.5** | $284.1 |
| Industrial | **124.3** | 166.9 | **271.3** | 314.6 |
|  |  |  |  |  |
| Energy | **54.1** | 68.8 | **114.9** | 117.9 |
| Other(1) | **23.0** | 36.2 | **42.0** | 77.7 |
| Total Net Sales | **$336.7** | $413.5 | **$707.7** | $794.3 |
|  |  |  |  |  |

1. “Other” for sales by end-market sector includes the Company’s scrap and OCTG billet sales. 9

[Table of Contents](#page2)

The following table provides the major sources of revenue by product type for the three and six months ended June 30, 2019 and 2018:

|  |  |  |
| --- | --- | --- |
|  | **Three Months Ended June 30,** | **Six Months Ended June 30,** |
|  |  |  |  |  |
|  | **2019** | **2018** | **2019** | **2018** |
|  |  |  |  |  |
| Bar | **$225.4** | $262.4 | **$465.3** | $496.8 |
| Tube | **40.8** | 70.6 | **90.4** | 134.3 |
|  |  |  |  |  |
| Value-add | **63.1** | 69.2 | **136.8** | 141.9 |
| Other(2) | **7.4** | 11.3 | **15.2** | 21.3 |
| Total Net Sales | **$336.7** | $413.5 | **$707.7** | $794.3 |
|  |  |  |  |  |

1. “Other” for sales by product type includes the Company’s scrap sales.

**Note 4 - Restructuring Charges**

During the second quarter of 2019, TimkenSteel made organizational changes to enhance profitable and sustainable growth. These company-wide actions included the restructuring of its commercial and technology organizations to drive innovation and focus on the key growth areas identified by the Company such as value-added components, energy products and government business. Given these and other restructuring efforts, the Company implemented approximately 55 salaried position eliminations. As a result of the headcount reduction, TimkenSteel recognized restructuring charges of $3.6 million consisting of severance and employee-related benefits. TimkenSteel recorded reserves for such restructuring charges as other current liabilities on the unaudited Consolidated Balance Sheets. The reserve balance at June 30, 2019 is expected to be substantially used in the next twelve months.

The following is a summary of the restructuring reserve for the six months ended June 30, 2019:

|  |  |
| --- | --- |
| Balance at December 31, 2018 | **$—** |
| Expenses | **3.6** |
|  |  |
| Payments | **(0.2)** |
| Balance at June 30, 2019 | **$3.4** |
|  |  |

**Note 5 - Other Income (Expense), net**

The following table provides the components of other income (expense), net for the three and six months ended June 30, 2019 and 2018:

|  |  |
| --- | --- |
| **Three Months Ended June 30,** | **Six Months Ended June 30,** |
|  |  |  |  |  |
| **2019** |  | **2018** | **2019** | **2018** |
|  |  |  |  |  |
| Pension and postretirement non-service benefit income | **$4.5** | $6.2 | **$7.3** | $12.5 |
| Loss from remeasurement of benefit plans | **(4.4)** | — | **(4.4)** | — |
|  |  |  |  |  |
| Foreign currency exchange gain (loss) | **0.2** | (0.1) | **0.1** | — |
| Miscellaneous income (expense) | **(0.1)** | 0.1 | **(0.1)** | 0.1 |
|  |  |  |  |  |
| **Total other income (expense), net** | **$0.2** | $6.2 | **$2.9** | $12.6 |
|  |  |  |  |  |

Non-service benefit income is derived from the Company’s pension and other postretirement plans. The Company’s expected return on assets has exceeded the interest cost component, resulting in income for the three and six months ended June 30, 2019 and 2018. In the second quarter of 2019, the Company amended its postretirement benefit plan. This amendment reduced the postretirement liability and therefore required the Company to perform a full remeasurement of its postretirement obligations and plan assets as of April 30, 2019. The reduction in the Accumulated Postretirement Benefit Obligation (APBO) is recognized in Other Comprehensive Income and subsequently amortized as an offset to postretirement benefit cost. For more details on the remeasurement refer to Note 13 - “Retirement and Postretirement Plans.” Foreign currency exchange gain (loss) is due to exchange-rate fluctuations on the Company’s various foreign-currency denominated transactions.

10

[Table of Contents](#page2)

**Note 6 - Income Tax Provision**

TimkenSteel’s provision for income taxes in interim periods is computed by applying the appropriate estimated annual effective tax rates to income or loss before income taxes for the period. In addition, non-recurring or discrete items, including interest on prior-year tax liabilities, are recorded during the periods in which they occur.

|  |  |  |
| --- | --- | --- |
| **Three Months Ended June 30,** |  | **Six Months Ended June 30,** |
|  |  |  |  |  |
| **2019** | **2018** |  | **2019** | **2018** |
|  |  |  |  |  |
| Provision for incomes taxes | **$0.2** | $0.2 | **$0.3** | $0.3 |
| Effective tax rate | **(6.8)%** | 1.9% | **228.8%** | 4.1% |
|  |  |  |  |  |

In light of TimkenSteel’s recent operating performance in the U.S. and current industry conditions, the Company assessed its U.S. deferred tax assets and concluded, based upon all available evidence, that it was more likely than not that it would not realize the assets. As a result, the Company will maintain a full valuation allowance against its deferred tax assets in the U.S. and applicable foreign countries until sufficient positive evidence exists to conclude that a valuation allowance is not necessary. Going forward, the need to maintain valuation allowances against deferred tax assets in the U.S. and other affected countries will cause variability in the Company’s effective tax rate. The majority of TimkenSteel’s taxes are derived from foreign operations.

**Note 7 - Earnings (Loss) Per Share**

Basic earnings (loss) per share is computed based upon the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed based upon the weighted average number of common shares outstanding plus the dilutive effect of common share equivalents calculated using the treasury stock method or if-converted method. For the Convertible Notes, the Company utilizes the if-converted method to calculate diluted earnings (loss) per share. Under the if-converted method, the Company adjusts net earnings to add back interest expense (including amortization of debt discount) recognized on the Convertible Notes and includes the number of shares potentially issuable related to the Convertible Notes in the weighted average shares outstanding. Treasury stock is excluded from the denominator in calculating both basic and diluted earnings (loss) per share.

Common share equivalents for shares issuable for equity-based awards were excluded from the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2019 because the effect of their inclusion would have been anti-dilutive. Common share equivalents for shares issuable upon the conversion of outstanding convertible notes, were excluded from the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2019 and 2018 because the effect of their inclusion would have been anti-dilutive.

The following table sets forth the reconciliation of the numerator and the denominator of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2019 and 2018:

|  |  |
| --- | --- |
| **Three Months Ended June 30,** | **Six Months Ended June 30,** |
|  |  |  |  |  |
| **2019** |  | **2018** | **2019** | **2018** |
|  |  |  |  |  |
| **Numerator:** |  |  |  |  |
| Net income (loss) | **($4.4)** | $8.4 | **($0.2)** | $6.5 |
|  |  |  |  |  |
|  |  |  |  |  |
| **Denominator:** |  |  |  |  |
|  |  |  |  |  |
| Weighted average shares outstanding, basic | **44.8** | 44.6 | **44.7** | 44.5 |
| Dilutive effect of stock-based awards | **—** | 0.6 | **—** | 0.7 |
|  |  |  |  |  |
| Weighted average shares outstanding, diluted | **44.8** | 45.2 | **44.7** | 45.2 |
|  |  |  |  |  |
| **Basic earnings (loss) per share** | **($0.10)** | $0.19 | **$—** | $0.15 |
| **Diluted earnings (loss) per share** | **($0.10)** | $0.19 | **$—** | $0.14 |
|  |  |  |  |  |
|  | 11 |  |  |  |

[Table of Contents](#page2)

**Note 8 - Inventories**

The components of inventories, net of reserves as of June 30, 2019 and December 31, 2018 were as follows:

|  |  |  |
| --- | --- | --- |
|  | **June 30,** | **December 31,** |
|  | **2019** | **2018** |
|  |  |  |
| Manufacturing supplies | **$56.0** | $46.9 |
| Raw materials | **40.5** | 35.2 |
|  |  |  |
| Work in process | **154.9** | 155.7 |
| Finished products | **125.8** | 142.8 |
|  |  |  |
| Gross inventory | **377.2** | 380.6 |
| Allowance for surplus and obsolete inventory | **(5.2)** | (5.1) |
|  |  |  |
| LIFO reserve | **(67.2)** | (78.7) |
| Total Inventories, net | **$304.8** | $296.8 |
|  |  |  |

Inventories are valued at the lower of cost or market, with approximately 74% valued by the last in, first out (LIFO) method, and the remaining inventories, including manufacturing supplies inventory as well as international (outside the United States) inventories, valued by the first-in, first-out, average cost or specific identification methods.

An actual valuation of the inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management’s estimates of expected year-end inventory levels and costs. Because these calculations are subject to many factors beyond management’s control, annual results may differ from interim results as they are subject to the final year-end LIFO inventory valuation.

TimkenSteel projects its LIFO reserve will decrease for the year ending December 31, 2019 due to lower anticipated raw material costs, manufacturing costs and quantities.

**Note 9 - Property, Plant and Equipment**

The components of property, plant and equipment, net as of June 30, 2019 and December 31, 2018 were as follows:

|  |  |  |
| --- | --- | --- |
|  | **June 30,** | **December 31,** |
|  | **2019** | **2018** |
|  |  |  |
| Land | **$14.1** | $14.1 |
| Buildings and improvements | **426.4** | 424.4 |
|  |  |  |
| Machinery and equipment | **1,413.2** | 1,404.2 |
| Construction in progress | **21.7** | 28.5 |
|  |  |  |
| Subtotal | **1,875.4** | 1,871.2 |
| Less allowances for depreciation | **(1,225.7)** | (1,196.8) |
|  |  |  |
| Property, Plant and Equipment, net | **$649.7** | $674.4 |
|  |  |  |

Total depreciation expense was $16.5 million and $17.0 million for the three months ended June 30, 2019 and 2018, respectively. Total depreciation expense was $32.9 million and $34.0 million for the six months ended June 30, 2019 and 2018, respectively. During the three and six months ended June 30, 2019, TimkenSteel recorded a loss on disposal of assets of $1.7 million, primarily related to the abandonment of certain equipment. During the three and six months ended June 30, 2018, TimkenSteel recorded approximately $0.5 million of impairment charges and loss on sale or disposals related to the discontinued use of certain assets.

12

[Table of Contents](#page2)

**Note 10 - Intangible Assets**

The components of intangible assets, net as of June 30, 2019 and December 31, 2018 were as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2019** |  |  | **December 31, 2018** |  |
|  | **Gross Carrying** | **Accumulated** | **Net Carrying** | **Gross Carrying** | **Accumulated** | **Net Carrying** |
|  | **Amount** | **Amortization** | **Amount** | **Amount** | **Amortization** | **Amount** |
| Customer relationships | **$6.3** | **$4.7** | **$1.6** | $6.3 | $4.6 | $1.7 |
| Technology use | **9.0** | **6.8** | **2.2** | 9.0 | 6.5 | 2.5 |
|  |  |  |  |  |  |  |
| Capitalized software | **62.2** | **48.6** | **13.6** | 61.6 | 48.0 | 13.6 |
| Total Intangible Assets | **$77.5** | **$60.1** | **$17.4** | $76.9 | $59.1 | $17.8 |
|  |  |  |  |  |  |  |

Intangible assets subject to amortization are amortized on a straight-line method over their legal or estimated useful lives. Amortization expense for intangible assets for the three months ended June 30, 2019 and 2018 was $1.4 million for both periods. Amortization expense for intangible assets for the six months ended June 30, 2019 and 2018 was $2.8 million and $2.9 million, respectively. During the three and six months ended June 30, 2019, TimkenSteel recorded a loss on disposal of intangibles of $0.1 million. During the three and six months ended June 30, 2018, TimkenSteel recorded approximately $0.4 million of impairment charges due to the discontinued use of certain capitalized software.

**Note 11 - Leases**

The Company has operating leases for office space, warehouses, land, machinery and equipment, vehicles and certain information technology equipment. These leases have remaining lease terms of less than one year to six years, some of which may include options to extend the leases for one or more years. Certain leases also include options to purchase the leased property. As of June 30, 2019, the Company has no financing leases. The weighted average remaining lease term for our operating leases as of June 30, 2019 was 2.9 years.

Leases with an initial term of 12 months or less (short-term leases) are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. For lease agreements entered into after the adoption of ASC 842, the Company combines lease and non-lease components. The Company’s lease agreements do not contain material residual value guarantees or material restrictive covenants.

The Company recorded lease cost for the three and six months ended June 30, 2019 as follows:

|  |  |  |
| --- | --- | --- |
|  | **Three Months Ended June** | **Six Months Ended** |
|  | **30, 2019** | **June 30, 2019** |
|  |  |  |
| Operating lease cost | **$1.8** | **$3.6** |
| Short-term lease cost | **0.5** | **1.0** |
|  |  |  |
| Total lease cost | **$2.3** | **$4.6** |
|  |  |  |

When available, the rate implicit in the lease is used to discount lease payments to present value; however, the Company’s leases generally do not provide a readily determinable implicit rate. Therefore, the incremental borrowing rate to discount the lease payments is estimated using market-based information available at lease commencement. The weighted average discount rate used to measure our operating lease liabilities as of June 30, 2019 was 4.7%.

Supplemental cash flow information related to leases was as follows:

|  |  |
| --- | --- |
|  | **Six Months Ended** |
|  | **June 30, 2019** |
|  |  |
| Cash paid for amounts included in the measurement of operating lease liabilities | **$3.6** |
| Right-of-use assets obtained in exchange for operating lease obligations | **$1.7** |
|  |  |
|  | 13 |

|  |  |
| --- | --- |
| [Table of Contents](#page2) |  |
|  |  |  |
| Future minimum lease payments under non-cancellable leases as of June 30, 2019 were as follows: |  |
|  |  |  |
| 2019 (excluding the six months ended June 30, 2019) | **$3.2** |
| 2020 |  | **5.8** |
|  |  |  |
| 2021 |  | **3.9** |
| 2022 |  | **1.6** |
|  |  |  |
| 2023 |  | **0.9** |
| After 2023 | **0.1** |
|  |  |  |
| Total future minimum lease payments | **15.5** |
| Less amount of lease payment representing interest | **(1.0)** |
|  |  |  |
| Total present value of lease payments | **$14.5** |
| Future minimum lease payments under non-cancellable leases as of December 31, 2018 were as follows: |  |
|  |  |  |
| 2019 |  | **$6.3** |
| 2020 |  | **5.2** |
|  |  |  |
| 2021 |  | **3.3** |
| 2022 |  | **1.0** |
|  |  |  |
| 2023 |  | **0.6** |
| After 2023 | **—** |
|  |  |  |
| Total future minimum lease payments | **$16.4** |
|  |  |  |

As of June 30, 2019, we have additional operating leases that have not yet commenced for which the present value of lease payments over the respective lease terms totals approximately $3.0 million. Accordingly, these leases are not recorded on the unaudited Consolidated Balance Sheet at June 30, 2019. These operating leases will commence between 2019 and 2022 with lease terms of three to four years.

**Note 12 - Financing Arrangements**

For a detailed discussion of the Company's long-term debt and credit arrangements, refer to “Note 6 - Financing Arrangements” in the Company’s

|  |  |  |
| --- | --- | --- |
| Annual Report on Form 10-K for the fiscal year ended December 31, 2018. |  |  |
| ***Convertible Notes*** |  |  |
| The components of the Convertible Notes as of June 30, 2019 and December 31, 2018 were as follows: |  |  |
|  | **June 30,** | **December 31,** |
|  | **2019** | **2018** |
|  |  |  |
| Principal | **$86.3** | $86.3 |
| Less: Debt issuance costs, net of amortization | **(1.0)** | (1.2) |
|  |  |  |
| Less: Debt discount, net of amortization | **(9.0)** | (11.0) |
| Convertible notes, net | **$76.3** | $74.1 |
|  |  |  |

The initial value of the principal amount recorded as a liability at the date of issuance was $66.9 million, using an effective interest rate of 12.0%. The remaining $19.4 million of principal amount was allocated to the conversion feature and recorded as a component of shareholders’ equity at the date of issuance. This amount represents a discount to the debt to be amortized through interest expense using the effective interest method through the maturity of the Convertible Notes.

Transaction costs were allocated to the liability and equity components based on their relative values. Transaction costs attributable to the liability component of $2.4 million are amortized to interest expense over the term of the Convertible Notes, and transaction costs attributable to the equity component of $0.7 million are included in shareholders’ equity.

14

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| [Table of Contents](#page2) |  |  |  |  |
|  |  |  |  |  |
| The following table sets forth total interest expense recognized related to the Convertible Notes: |  |  |  |
|  |  | **Three Months Ended June 30,** | **Six Months Ended June 30,** |
|  |  |  |  |  |  |
|  |  | **2019** | **2018** | **2019** | **2018** |
|  |  |  |  |  |  |
| Contractual interest expense | **$1.3** | $1.3 | **$2.6** | $2.6 |
| Amortization of debt issuance costs | **0.1** | 0.1 | **0.2** | 0.2 |
|  |  |  |  |  |  |
| Amortization of debt discount | **1.0** | 0.8 | **2.0** | 1.7 |
| Total | **$2.4** | $2.2 | **$4.8** | $4.5 |
|  |  |  |  |  |  |

***Credit Agreement***

On January 26, 2018, the Company, as borrower, and certain domestic subsidiaries, as subsidiary guarantors, entered into the Second Amended and Restated Credit Agreement (Credit Agreement), with JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, and the other lenders party thereto, which amended and restated the Company’s Credit Agreement. The interest rate under the Credit Agreement was 4.6% as of June 30, 2019. The amount available under the Credit Agreement as of June 30, 2019 was $152.4 million. As of June 30, 2019, the Company was in compliance with all covenants.

***Refunding Bonds***

In connection with amending the Credit Agreement, on January 23, 2018, the Company redeemed in full $12.2 million of Ohio Water Development Revenue Refunding Bonds (originally due on November 1, 2025), $9.5 million of Ohio Air Quality Development Revenue Refunding Bonds (originally due on November 1, 2025) and $8.5 million of Ohio Pollution Control Revenue Refunding Bonds (originally due on June 1, 2033).

***Fair Value Measurement***

The fair value of the Convertible Notes was approximately $86.5 million as of June 30, 2019. The fair value of the Convertible Notes, which falls within Level 1 of the fair value hierarchy as defined by Accounting Standards Codification (ASC) 820, Fair Value Measurements, is based on the last price traded in June 2019.

TimkenSteel’s Credit Agreement is variable-rate debt. As such, the carrying value is a reasonable estimate of fair value as interest rates on these borrowings approximate current market rates. This valuation falls within Level 2 of the fair value hierarchy and is based on quoted prices for similar assets and liabilities in active markets that are observable either directly or indirectly.

***Interest Paid***

The total cash interest paid for the six months ended June 30, 2019 and 2018 was $6.1 million and $5.2 million, respectively.

15

[Table of Contents](#page2)

**Note 13 - Retirement and Postretirement Plans**

The components of net periodic benefit cost (income) for the three and six months ended June 30, 2019 and 2018 were as follows:

|  |  |  |
| --- | --- | --- |
|  | **Three Months Ended** | **Three Months Ended** |
|  | **June 30, 2019** | **June 30, 2018** |
|  |  |  |  |  |
|  | **Pension** | **Postretirement** | **Pension** | **Postretirement** |
|  |  |  |  |  |
| Service cost | **$4.4** | **$0.3** | $4.3 | $0.5 |
| Interest cost | **12.3** | **1.5** | 11.4 | 1.9 |
|  |  |  |  |  |
| Expected return on plan assets | **(16.4)** | **(1.0)** | (18.5) | (1.2) |
| Amortization of prior service cost | **0.1** | **(1.0)** | 0.1 | — |
|  |  |  |  |  |
| Net remeasurement losses (gains) | **—** | **4.4** | — | — |
| **Net Periodic Benefit Cost (Income)** | **$0.4** | **$4.2** | ($2.7) | $1.2 |
|  |  |  |
|  | **Six Months Ended** | **Six Months Ended** |
|  | **June 30, 2019** | **June 30, 2018** |
|  |  |  |  |  |
|  | **Pension** | **Postretirement** | **Pension** | **Postretirement** |
|  |  |  |  |  |
| Service cost | **$8.7** | **$0.6** | $8.6 | $0.9 |
| Interest cost | **24.5** | **3.5** | 22.8 | 3.8 |
|  |  |  |  |  |
| Expected return on plan assets | **(32.6)** | **(1.9)** | (36.9) | (2.4) |
| Amortization of prior service cost | **0.2** | **(1.0)** | 0.2 | 0.1 |
|  |  |  |  |  |
| Net remeasurement losses (gains) | **—** | **4.4** | — | — |
| **Net Periodic Benefit Cost (Income)** | **$0.8** | **$5.6** | ($5.3) | $2.4 |
|  |  |  |  |  |

In the second quarter of 2019, the Company amended its postretirement benefit plan relating to moving Medicare-eligible union retirees to an individual plan on a Medicare healthcare exchange. This amendment reduced the postretirement liability by $70.2 million. This amendment required the Company to perform a full remeasurement of its postretirement obligations and plan assets as of April 30, 2019. The $70.2 million reduction in the APBO is recognized in Other Comprehensive Income (Loss) and subsequently amortized as an offset to postretirement benefit cost over a period of 12 years (average remaining service period). In addition to the reduction of the APBO, the Company recognized a net remeasurement loss of $4.4 million.

16

[Table of Contents](#page2)

**Note 14 - Accumulated Other Comprehensive Income (Loss)**

Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2019 and 2018 by component were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Foreign** | **Pension and** |  |
|  | **Currency** | **Postretirement** |  |
|  | **Translation** | **Liability** |  |
|  | **Adjustments** | **Adjustments** | **Total** |
|  |  |  |  |
| **Balance as of December 31, 2018** | **($7.3)** | **($1.6)** | **($8.9)** |
| Other comprehensive income before reclassifications, before income tax | **(0.2)** | **—** | **(0.2)** |
|  |  |  |  |
| Amounts reclassified from accumulated other comprehensive income (loss), before income tax | **—** | **(0.7)** | **(0.7)** |
| Amounts deferred to accumulated other comprehensive income (loss), before income tax | **—** | **70.2** | **70.2** |
|  |  |  |  |
| Income tax | **—** | **—** | **—** |
| Net current period other comprehensive income, net of income taxes | **(0.2)** | **69.5** | **69.3** |
|  |  |  |  |
| **Balance as of June 30, 2019** | **($7.5)** | **$67.9** | **$60.4** |
|  | **Foreign** | **Pension and** |  |
|  | **Currency** | **Postretirement** |  |
|  | **Translation** | **Liability** |  |
|  | **Adjustments** | **Adjustments** | **Total** |
|  |  |  |  |
| **Balance at December 31, 2017** | ($5.9) | ($1.7) | ($7.6) |
|  |  |  |  |
| Other comprehensive income before reclassifications, before income tax | (0.4) | — | (0.4) |
| Amounts reclassified from accumulated other comprehensive loss, before income tax | — | 0.3 | 0.3 |
|  |  |  |  |
| Income tax | — | — | — |
| Net current period other comprehensive income, net of income taxes | (0.4) | 0.3 | (0.1) |
|  |  |  |  |
| **Balance as of June 30, 2018** | ($6.3) | ($1.4) | ($7.7) |
|  |  |  |  |

The amount reclassified from accumulated other comprehensive income (loss) for the pension and postretirement liability adjustment was included in other income (expense), net in the unaudited Consolidated Statements of Operations. The amount deferred to accumulated other comprehensive income in the six months ended June 30, 2019, was a result of a plan amendment to the Company’s postretirement benefit plan. These accumulated other comprehensive income (loss) components are components of net periodic benefit cost. See “Note 13 - Retirement and Postretirement Plans” for additional information.

**Note 15 - Contingencies**

TimkenSteel has a number of loss exposures incurred in the ordinary course of business, such as environmental claims, product warranty claims, and litigation. Establishing loss reserves for these matters requires management’s estimate and judgment regarding risk exposure and ultimate liability or realization. These loss reserves are reviewed periodically and adjustments are made to reflect the most recent facts and circumstances. Accruals related to environmental claims represent management’s best estimate of the fees and costs associated with these claims. Although it is not possible to predict with certainty the outcome of such claims, management believes that their ultimate dispositions should not have a material adverse effect on our financial position, cash flows or results of operations. As of June 30, 2019 and December 31, 2018, TimkenSteel had a $1.5 million contingency reserve for both periods, related to loss exposures incurred in the ordinary course of business.

17

[Table of Contents](#page2)

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*(dollars in millions, except per share data)*

**Business Overview**

TimkenSteel Corporation (we, us, our, the Company or Timkensteel) manufactures alloy steel, as well as carbon and micro-alloy steel, with an annual melt capacity of approximately 2 million tons and shipment capacity of 1.5 million tons. Our portfolio includes special bar quality (SBQ) bars, seamless mechanical tubing (tubes), value-add solutions such as precision steel components, and billets. In addition, we supply machining and thermal treatment services and manage raw material recycling programs, which are used as a feeder system for our melt operations. Our products and services are used in a diverse range of demanding applications in the following market categories: oil and gas; oil country tubular goods (OCTG); automotive; industrial equipment; mining; construction; rail; aerospace and defense; heavy truck; agriculture; and power generation.

Based on our knowledge of the steel industry, we believe we are the only focused SBQ steel producer in North America and have the largest SBQ steel large bar (6-inch diameter and greater) production capacity among North American steel producers. In addition, we are the only steel manufacturer able to produce rolled SBQ steel large bars up to 16-inches in diameter. SBQ steel is made to restrictive chemical compositions and high internal purity levels and is used in critical mechanical applications. We make these products from nearly all recycled steel, using our expertise in raw materials to create custom steel products. We focus on creating tailored products and services for our customers’ most demanding applications. Our engineers are experts in both materials and applications, so we can work closely with each customer to deliver flexible solutions related to our products as well as to their applications and supply chains. We believe our unique operating model and production assets give us a competitive advantage in our industry.

The SBQ bar, tube, and billet production processes take place at our Canton, Ohio manufacturing location. This location accounts for all of the SBQ bars, seamless mechanical tubes and billets we produce and includes three manufacturing facilities: the Faircrest, Harrison, and Gambrinus facilities. Our value-add solutions production processes take place at three downstream manufacturing facilities: TimkenSteel Material Services (Houston, Texas), Tryon Peak (Columbus, North Carolina), and St. Clair (Eaton, Ohio). Many of the production processes are integrated, and the manufacturing facilities produce products that are sold in all of our market sectors. As a result, investments in our facilities and resource allocation decisions affecting our operations are designed to benefit the overall business, not any specific aspect of the business.

We conduct our business activities and report financial results as one business segment. The presentation of financial results as one reportable segment is consistent with the way we operate our business and is consistent with the manner in which the Chief Operating Decision Maker (CODM) evaluates performance and makes resource and operating decisions for the business as described above. Furthermore, the Company notes that monitoring financial results as one reportable segment helps the CODM manage costs on a consolidated basis, consistent with the integrated nature of our operations.

**Impact of Raw Material Prices and LIFO**

In the ordinary course of business, we are exposed to the volatility of the costs of our raw materials. Whenever possible, we manage our exposure to commodity risks primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain inputs that are used in our manufacturing process. We utilize a raw material surcharge mechanism when pricing products to our customers which is designed to mitigate the impact of increases or decreases in raw material costs, although generally with a lag effect. This timing effect can result in raw material spread whereby costs can be over- or under-recovered in certain periods. While the surcharge generally protects gross profit, it has the effect of diluting gross margin as a percent of sales.

We value a majority of our inventory utilizing the LIFO inventory valuation method. Changes in the cost of raw materials and production activities are recognized in cost of products sold in the current period even though these materials and other costs may have been incurred in different periods at significantly different values due to the length of time of our production cycle. In periods of rising inventories and deflating raw material prices, the likely result will be a positive impact to net income. Conversely, in periods of rising inventories and increasing raw materials prices, the likely result will be a negative impact to net income.

18

[Table of Contents](#page2)

**Results of Operations**

**Net Sales**

The charts below present net sales and shipments for the three months ended June 30, 2019 and 2018.



Net sales for the three months ended June 30, 2019 were $336.7 million, a decrease of $76.8 million, or 18.6%, compared with the three months ended June 30, 2018. The decrease was due to a reduction in volume of approximately 62 thousand ship tons, resulting in a decrease of $65.7 million of net sales, and lower surcharges of $25.9 million. The primary driver in the decrease in volume was lower shipments in the industrial end markets and the reduction of OCTG billet shipments. The decrease in surcharges was primarily due to lower volumes. These decreases were partially offset by favorable price/mix of $13.7 million, as we realized the benefit of price increases and continue focused efforts to sell our higher value products. This resulted in net sales per ton increasing 1.6% from 2018. Excluding surcharges, net sales decreased $50.9 million, or 16.4%.

19

[Table of Contents](#page2)

The charts below present net sales and shipments for the six months ended June 30, 2019 and 2018.



Net sales for the six months ended June 30, 2019 were $707.7 million, a decrease of $86.6 million, or 10.9%, compared with the six months ended June 30, 2018. The decrease was due to lower volumes of approximately 100 thousand ship tons, resulting in a decrease of $104.1 million of net sales, and lower surcharges of $26.5 million. The primary driver in the decrease in volume was lower shipments in the industrial end markets and the reduction of OCTG billet shipments. The decrease in surcharges was primarily due to lower volumes. These decreases were partially offset by favorable price/mix of $43.2 million, driven by increased pricing in first half 2019, compared with the same period 2018, and continued focused efforts to sell our higher value products. This resulted in net sales per ton increasing 6.7% from 2018. Excluding surcharges, net sales decreased $59.7 million, or 10.0%

20

[Table of Contents](#page2)

**Gross Profit**

The charts below present the drivers of the gross profit variance from the three months ended June 30, 2018 to June 30, 2019.



Gross profit for the three months ended June 30, 2019 decreased $6.7 million, or 20.9%, compared with the three months ended June 30, 2018. The decrease was driven primarily by unfavorable manufacturing cost, raw material spread, and lower volumes. Higher manufacturing costs in second-quarter 2019 were primarily driven by accelerating annual maintenance for two of our plants, in order to free up capacity later in 2019, combined with lower melt utilization, resulting in lower fixed-cost leverage. Raw material spread was a headwind due to a decline in the No.1 busheling scrap index and lower volumes during second quarter of 2019. Lower volumes were a result of reduced shipments to the industrial end markets and reductions in OCTG billet sales. These decreases were partially offset by a favorable LIFO adjustment and higher price/mix. LIFO benefited from declining scrap prices and inventory quantities in the second quarter of 2019 as compared to amounts in inventory at December 31, 2018. Price/mix was favorable due to increased pricing in second quarter of 2019, compared with the same period in 2018, and continued focused efforts to sell our higher value products.

21

[Table of Contents](#page2)

The charts below present the drivers of the gross profit variance from the six months ended June 30, 2018 to June 30, 2019.



Gross profit for the six months ended June 30, 2019 increased $1.3 million, or 2.4%, compared with the six months ended June 30, 2018. The increase was driven primarily by favorable price/mix and a favorable LIFO adjustment. Price/mix was favorable due to increased pricing in first half of 2019, compared with the same period in 2018, and continued focused efforts to sell our higher value products. LIFO benefited from declining scrap prices and inventory quantities in the first half of 2019 as compared to amounts in inventory at December 31, 2018. These increases were partially offset by unfavorable manufacturing costs, raw material spread, and lower volumes. Manufacturing costs were unfavorable due to accelerated annual plant maintenance for two of our plants, in order to free up capacity later in 2019, combined with lower melt utilization, resulting in lower fixed-cost leverage during the first half of 2019. Raw material spread was a headwind due to a decline in the No.1 busheling scrap index and lower volume during the first half of 2019. Lower volumes were a result of reduced shipments to the industrial end markets and reductions in OCTG billet sales.

22

[Table of Contents](#page2)

**Selling, General and Administrative Expenses**

The charts below present selling, general and administrative (SG&A) expense for the three and six months ended June 30, 2019 and 2018.



Selling, general and administrative (SG&A) expense for the three months and six months ended June 30, 2019 decreased by $4.7 million, or 18.9%, and $6.1 million, or 12.3%, respectively, compared with the same periods in 2018. The decline in both periods was primarily due to lower variable compensation.

**Restructuring Charges**

During the second quarter of 2019, TimkenSteel made organizational changes to enhance profitable and sustainable growth. These company-wide actions included the restructuring of its commercial and technology organizations to drive innovation and focus on the key growth areas identified by the Company such as value-added components, energy products and government business. Given these and other restructuring efforts, the Company implemented approximately 55 salaried position eliminations. As a result of the headcount reduction, TimkenSteel recognized restructuring charges of $3.6 million consisting of severance and employee-related benefits. The Company expects savings of approximately $2 million in fiscal 2019 with annual savings of approximately $7 million beginning in fiscal 2020. Refer to “Note 4 - Restructuring Charges” in the Notes to the unaudited Consolidated Financial Statements for additional information.

**Interest Expense**



**Three Months Ended June 30,**



|  |  |  |  |
| --- | --- | --- | --- |
| **2019** | **2018** |  | **$ Change** |
|  |  |  |  |
| Cash interest paid | **$4.3** | $4.3 | $— |
| Accrued interest | **(1.3)** | (1.6) | 0.3 |
|  |  |  |  |
| Amortization of convertible notes discount and deferred financing | **1.2** | 1.2 | — |
| Total interest expense | **$4.2** | $3.9 | $0.3 |
|  |  |
|  |  |
|  | **Six Months Ended June 30,** |
|  |  |  |  |
| **2019** | **2018** |  | **$ Change** |
|  |  |  |  |
| Cash interest paid | **$6.1** | $5.2 | $0.9 |
| Accrued interest | **(0.2)** | 0.3 | (0.5) |
|  |  |  |  |
| Amortization of convertible notes discount and deferred financing | **2.5** | 3.0 | (0.5) |
| Total interest expense | **$8.4** | $8.5 | ($0.1) |
|  |  |  |  |
| 23 |  |  |  |

[Table of Contents](#page2)

Interest expense for the three months ended June 30, 2019 was $4.2 million, an increase of $0.3 million, compared with the three months ended June 30, 2018. The increase is due to higher interest rates in second-quarter of 2019. Interest expense was relatively flat for the six months ended June 30, 2019 compared with the same period in 2018. This is due to higher interest rates in the second quarter of 2019, offset by higher deferred financing fee write-offs for the first quarter of 2018. Refer to “Note 12 - Financing Arrangements” in the Notes to the unaudited Consolidated Financial Statements for additional information.

**Other Income (Expense), net**



**Three Months Ended June 30,**



|  |  |  |  |
| --- | --- | --- | --- |
| **2019** |  | **2018** | **$ Change** |
|  |  |  |  |  |
| Pension and postretirement non-service benefit income | **$4.5** | $6.2 | ($1.7) |
| Loss from remeasurement of benefit plans | **(4.4)** | — | (4.4) |
|  |  |  |  |  |
| Foreign currency exchange gain (loss) | **0.2** | (0.1) | 0.3 |
| Miscellaneous income (expense) | **(0.1)** | 0.1 | (0.2) |
|  |  |  |  |  |
| Total other income (expense), net | **$0.2** | $6.2 | ($6.0) |
|  |  |  |
|  |  | **Six Months Ended June 30,** |
|  |  |  |  |  |
| **2019** |  | **2018** | **$ Change** |
|  |  |  |  |  |
|  | Pension and postretirement non-service benefit income | **$7.3** | $12.5 | ($5.2) |
|  | Loss from remeasurement of benefit plans | **(4.4)** | — | (4.4) |
|  |  |  |  |  |
|  | Foreign currency exchange gain (loss) | **0.1** | — | 0.1 |
|  | Miscellaneous income (expense) | **(0.1)** | 0.1 | (0.2) |
|  |  |  |  |  |
|  | Total other income (expense), net | **$2.9** | $12.6 | ($9.7) |
|  |  |  |  |  |

Non-service benefit income is derived from our pension and other postretirement plans. Expected return on assets has exceeded the interest cost component, resulting in income for the three and six months ended June 30, 2019 and 2018. In the second quarter of 2019, we amended the postretirement benefit plan. This amendment reduced the postretirement liability and therefore required us to perform a full remeasurement of the postretirement obligations and plan assets as of April 30, 2019. The reduction in the Accumulated Postretirement Benefit Obligation (APBO) is recognized in Other Comprehensive Income (Loss) and subsequently amortized as an offset to postretirement benefit cost. For more details on the remeasurement refer to Note 13 - “Retirement and Postretirement Plans” in the Notes to unaudited Consolidated Financial Statements. Foreign currency exchange loss (gain) is due to exchange-rate fluctuations on our various foreign-currency denominated transactions.

**Provision for Income Taxes**



**Three Months Ended June 30,**



|  |  |  |  |
| --- | --- | --- | --- |
|  | **2019** | **2018** | **$ Change** |
|  |  |  |  |
| Provision for income taxes | **$0.2** | $0.2 | $— |
| Effective tax rate | **(6.8)%** | 1.9% | NM |
|  |  |  |
|  |  |  |
|  | **Six Months Ended June 30,** |  |
|  |  |  |  |
|  | **2019** | **2018** | **$ Change** |
|  |  |  |  |
| Provision for income taxes | **$0.3** | $0.3 | $— |
| Effective tax rate | **228.8%** | 4.1% | NM |
|  |  |  |  |

The majority of our tax expense is derived from foreign operations. We remain in a full valuation for the U.S. jurisdiction for the three and six months ended June 30, 2019.

24

[Table of Contents](#page2)

**NON-GAAP FINANCIAL MEASURES**

**Net Sales, Excluding Surcharges**

The table below presents net sales by end market sector, adjusted to exclude raw material surcharges, which represents a financial measure that has not been determined in accordance with accounting principles generally accepted in the United States (U.S. GAAP). We believe presenting net sales by end market sector adjusted to exclude raw material surcharges provides additional insight into key drivers of net sales such as base price and product mix.

**Net Sales adjusted to exclude surcharges**

***(dollars in millions, tons in thousands)***



|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Three Months Ended June 30, 2019** |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  | **Mobile** | **Industrial** | **Energy** | **Other** | **Total** |
|  |  |  |  |  |  |  |  |  |
| Tons | **110.3** | **86.4** | **31.0** | **20.4** | **248.1** |  |
|  |  |  |  |  |  |  |  |  |
| Net Sales | **$135.3** | **$124.3** | **$54.1** | **$23.0** | **$336.7** |  |
| Less: Surcharges | **32.1** | **27.4** | **12.0** | **6.4** | **77.9** |  |
|  |  |  |  |  |  |  |  |  |
| Base Sales | **$103.2** | **$96.9** | **$42.1** | **$16.6** | **$258.8** |  |
|  |  |  |  |  |  |  |  |  |
| Net Sales / Ton | **$1,227** | **$1,439** | **$1,745** | **$1,127** | **$1,357** |  |
| Base Sales / Ton | **$936** | **$1,122** | **$1,358** | **$814** | **$1,043** |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  | **Three Months Ended June 30, 2018** |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  | **Mobile** | **Industrial** | **Energy** | **Other** | **Total** |
|  |  |  |  |  |  |  |  |  |
| Tons | 111.9 | 123.0 | 40.5 | 34.3 | 309.7 |  |
|  |  |  |  |  |  |  |  |  |
| Net Sales | $141.6 | $166.9 | $68.8 | $36.2 | $413.5 |  |
| Less: Surcharges | 34.9 | 42.9 | 15.1 | 10.9 | 103.8 |  |
|  |  |  |  |  |  |  |  |  |
| Base Sales | $106.7 | $124.0 | $53.7 | $25.3 | $309.7 |  |
|  |  |  |  |  |  |  |  |  |
| Net Sales / Ton | $1,265 | $1,357 | $1,699 | $1,055 | $1,335 |  |
| Base Sales / Ton | $954 | $1,008 | $1,326 | $738 | $1,000 |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  | **Six Months Ended June 30, 2019** |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  | **Mobile** | **Industrial** | **Energy** | **Other** | **Total** |
|  |  |  |  |  |  |  |  |  |
|  | Tons | **223.1** | **188.9** | **62.4** | **34.6** | **509.0** |  |
|  |  |  |  |  |  |  |  |  |
|  | Net Sales | **$279.5** | **$271.3** | **$114.9** | **$42.0** | **$707.7** |  |
|  | Less: Surcharges | **69.6** | **62.5** | **24.5** | **11.0** | **167.6** |  |
|  |  |  |  |  |  |  |  |  |
|  | Base Sales | **$209.9** | **$208.8** | **$90.4** | **$31.0** | **$540.1** |  |
|  |  |  |  |  |  |  |  |  |
|  | Net Sales / Ton | **$1,253** | **$1,436** | **$1,841** | **$1,214** | **$1,390** |  |
|  | Base Sales / Ton | **$941** | **$1,105** | **$1,449** | **$896** | **$1,061** |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  | **Six Months Ended June 30, 2018** |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  | **Mobile** | **Industrial** | **Energy** | **Other** | **Total** |
|  |  |  |  |  |  |  |  |  |
|  | Tons | 222.3 | 236.7 | 69.5 | 80.9 | 609.4 |  |
|  |  |  |  |  |  |  |  |  |
|  | Net Sales | $284.1 | $314.6 | $117.9 | $77.7 | $794.3 |  |
|  | Less: Surcharges | 66.2 | 78.1 | 26.1 | 24.1 | 194.5 |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | $ |  |  |
|  | Base Sales | $217.9 | $236.5 | $91.8 | $53.6 — | $599.8 |  |
|  |  |  |  |  |  |  |  |  |
|  | Net Sales / Ton | $1,278 | $1,329 | $1,696 | $960 | $1,303 |  |
|  | Base Sales / Ton | $980 | $999 | $1,321 | $663 | $984 |  |
|  |  |  |  |  |  |  |  |  |

25

[Table of Contents](#page2)

**LIQUIDITY AND CAPITAL RESOURCES**

**Convertible Notes**

In May 2016, we issued $75.0 million aggregate principal amount of Convertible Notes, plus an additional $11.3 million principal amount to cover over-allotments. The Convertible Notes bear cash interest at a rate of 6.0% per year, payable semiannually on June 1 and December 1, beginning on December 1, 2016. The Convertible Notes will mature on June 1, 2021, unless earlier repurchased or converted. The net proceeds received from the offering were $83.2 million, after deducting the initial underwriters’ discount and fees and paying the offering expenses. We used the net proceeds to repay a portion of the amounts outstanding under our Credit Agreement.

**Credit Agreement**

On January 26, 2018, we as borrower, and certain domestic subsidiaries, as subsidiary guarantors, entered into the Second Amended and Restated Credit Agreement (Credit Agreement), with JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, and the other lenders party thereto, which amended and restated the Company’s existing Credit Agreement. The Credit Agreement matures on January 26, 2023. Prior to the maturity date, amounts outstanding are required to be repaid (without reduction of the commitments thereunder) from mandatory prepayment events from the proceeds of certain asset sales, equity or debt issuances or casualty events.

**Refunding Bonds**

In connection with amending the Credit Agreement, on January 23, 2018, we redeemed in full $12.2 million of Ohio Water Development Revenue Refunding Bonds (originally due on November 1, 2025), $9.5 million of Ohio Air Quality Development Revenue Refunding Bonds (originally due on November 1, 2025) and $8.5 million of Ohio Pollution Control Revenue Refunding Bonds (originally due on June 1, 2033).

**Additional Liquidity Considerations**

The following represents a summary of key liquidity measures under the Credit Agreement as of June 30, 2019 and December 31, 2018:



|  |  |  |
| --- | --- | --- |
|  | **June 30,** | **December 31,** |
|  | **2019** | **2018** |
|  |  |  |
| Cash and cash equivalents | **$20.9** | $21.6 |
|  |  |  |
| **Credit Agreement:** |  |  |
| Maximum availability | **$300.0** | $300.0 |
|  |  |  |
| Amount borrowed | **145.0** | 115.0 |
| Letter of credit obligations | **2.6** | 2.6 |
|  |  |  |
| Availability not borrowed | **152.4** | 182.4 |
|  |  |  |
| Total liquidity | **$173.3** | $204.0 |
|  |  |  |

Our principal sources of liquidity are cash and cash equivalents, cash flows from operations and available borrowing capacity under our Credit Agreement. We currently expect that our cash and cash equivalents on hand, expected cash flows from operations and borrowings available under the Credit Agreement will be sufficient to meet liquidity needs; however, these plans rely on certain underlying assumptions and estimates that may differ from actual results. Such assumptions include stable market demand, lower operating costs and continued working capital management.

As of June 30, 2019, taking into account the foregoing, as well as our view of industrial, energy, and automotive market demands for our products, our 2019 operating plan and our long-range plan, we believe that our cash balance as of June 30, 2019, projected cash generated from operations, and borrowings available under the Credit Agreement, will be sufficient to satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations, including servicing our debt obligations, for at least the next twelve months and through the maturity date of our Credit Agreement.

26

[Table of Contents](#page2)

To the extent our liquidity needs prove to be greater than expected or cash generated from operations is less than anticipated, and cash on hand or credit availability is insufficient, we would seek additional financing to provide additional liquidity. We regularly evaluate our potential access to the equity and debt capital markets as sources of liquidity and we believe additional financing would likely be available if necessary, although we can make no assurance as to the form or terms of any such financing. We would also consider additional cost reductions and further reductions of capital expenditures. Regardless, we will continue to evaluate additional financing or may seek to refinance outstanding borrowings under the Credit Agreement to provide us with additional flexibility and liquidity. Any additional financing beyond that incurred to refinance existing debt would increase our overall debt and could increase interest expense.

For additional details regarding the Credit Agreement and the Convertible Notes, please refer to “Note 12 - Financing Arrangements” in the Notes to the unaudited Consolidated Financial Statements and for our discussion regarding risk factors related to our business and our debt, see Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018.

**Cash Flows**

The following table reflects the major categories of cash flows for the six months ended June 30, 2019 and 2018. For additional details, please refer to the unaudited Consolidated Statements of Cash Flows included in this quarterly report.



**Six Months Ended June 30,**



|  |  |  |
| --- | --- | --- |
| **2019** |  | **2018** |
|  |  |  |
| Net cash used by operating activities | **($17.6)** | ($30.1) |
| Net cash used by investing activities | **(12.3)** | (8.0) |
|  |  |  |
| Net cash provided by financing activities | **29.2** | 52.6 |
| **(Decrease) Increase in Cash and Cash Equivalents** | **($0.7)** | $14.5 |
|  |  |  |

*Operating activities*

Net cash used by operating activities for the six months ended June 30, 2019 was $17.6 million compared to $30.1 million for the six months ended June 30, 2018. The decrease in cash used of $12.5 million was primarily due to lower cash used for working capital and lower payments related to pension and postretirement plans. These sources of cash were partially offset by lower accrued liabilities, primarily due to lower variable compensation.

The improvement in cash used for working capital between periods was due to inventories and accounts receivable, partially offset by accounts payable. The decrease in cash used for inventory was driven by the impact of declining scrap prices during the first half of 2019 as compared to the impact of increasing scrap prices during the same period in the prior year, combined with the buildup of inventory quantities in the first half of 2018. The decrease in cash used for accounts receivable was primarily due to lower sales in the first six months of 2019 as compared to the same period in the prior year. The increase in cash used for accounts payable was driven by lower scrap spend as a result of declining scrap prices during the first half of 2019 as compared to the impact of increasing scrap prices during the same period in the prior year. Refer to the unaudited Consolidated Statements of Cash Flows for additional information.

*Investing activities*

Net cash used by investing activities for the six months ended June 30, 2019 and 2018 was $12.3 million and $8.0 million, respectively. Cash used for investing activities primarily relates to capital investments in our manufacturing facilities.

Our business requires capital investments to maintain our plants and equipment to remain competitive and ensure we can implement strategic initiatives. Our construction in progress balance of $21.7 million as of June 30, 2019 includes: (a) $3.7 million relating to growth initiatives (e.g. new product offerings, additional capacity and new capabilities) and continuous improvement projects; and (b) $18 million relating primarily to routine capital costs to maintain the reliability, integrity and safety of our manufacturing equipment and facilities. In the next one to three years, we expect to spend approximately $47 million to complete existing ongoing projects (made up of approximately $37 million relating to additional growth initiatives and approximately $10 million related to continuous improvement).

27

[Table of Contents](#page2)

*Financing activities*

Net cash provided by financing activities for the six months ended June 30, 2019 was $29.2 million compared to $52.6 million for the six months ended June 30, 2018. The change was mainly due to net borrowings on the Credit Agreement during the six months ended June 30, 2019 of $30.0 million as compared to $54.8 million during the six months ended June 30, 2018.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our financial statements are prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We review our critical accounting policies throughout the year.

On January 1, 2019, TimkenSteel adopted ASU 2016-02 “Leases” and ASU 2018-11 “Leases - Targeted Improvements”. Refer to Note 2 - Recent Accounting Pronouncements and Note 11 - Leases for additional information.

On January 1, 2018, TimkenSteel adopted ASU 2014-09 “Revenue from Contracts with Customers.” Refer to Note 2 - Recent Accounting Pronouncements and Note 3 - Revenue Recognition for additional information.

**New Accounting Guidance**

See Note 2 - Recent Accounting Pronouncements in the Notes to the unaudited Consolidated Financial Statements.

28

[Table of Contents](#page2)

**FORWARD-LOOKING STATEMENTS**

Certain statements set forth in this Quarterly Report on Form 10-Q (including our forecasts, beliefs and expectations) that are not historical in nature are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, Management’s Discussion and Analysis of Financial Condition and Results of Operations contains numerous forward-looking statements. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “outlook,” “intend,” “may,” “plan,” “possible,” “potential,” “predict,” “project,” “seek,” “should,” “target,” “will,” “would,” or other similar words, phrases or expressions that convey the uncertainty of future events or outcomes. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Form 10-K. We caution readers that actual results may differ materially from those expressed or implied in forward-looking statements made by or on behalf of us due to a variety of factors, such as:

* deterioration in world economic conditions, or in economic conditions in any of the geographic regions in which we conduct business, including additional adverse effects from global economic slowdown, terrorism or hostilities. This includes: political risks associated with the potential instability of governments and legal systems in countries in which we or our customers conduct business, and changes in currency valuations;
* the effects of fluctuations in customer demand on sales, product mix and prices in the industries in which we operate. This includes: our ability to respond to rapid changes in customer demand; the effects of customer bankruptcies or liquidations; the impact of changes in industrial business cycles; and whether conditions of fair trade exist in the U.S. markets;
* competitive factors, including changes in market penetration; increasing price competition by existing or new foreign and domestic competitors; the introduction of new products by existing and new competitors; and new technology that may impact the way our products are sold or distributed;
* changes in operating costs, including the effect of changes in our manufacturing processes; changes in costs associated with varying levels of operations and manufacturing capacity; availability of raw materials and energy; our ability to mitigate the impact of fluctuations in raw materials and energy costs and the effectiveness of our surcharge mechanism; changes in the expected costs associated with product warranty claims; changes resulting from inventory management, cost reduction initiatives and different levels of customer demands; the effects of unplanned work stoppages; and changes in the cost of labor and benefits;
* the success of our operating plans, announced programs, initiatives and capital investments; the ability to integrate acquired companies; the ability of acquired companies to achieve satisfactory operating results, including results being accretive to earnings; and our ability to maintain appropriate relations with unions that represent our associates in certain locations in order to avoid disruptions of business;
* unanticipated litigation, claims or assessments, including claims or problems related to intellectual property, product liability or warranty, and environmental issues and taxes, among other matters;
* the availability of financing and interest rates, which affect our cost of funds and/or ability to raise capital; our pension obligations and investment performance; and/or customer demand and the ability of customers to obtain financing to purchase our products or equipment that contain our products; and the amount of any dividend declared by our Board of Directors on our common shares;
* The overall impact of the pension and postretirement mark-to-market accounting; and
* Those items identified under the caption Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018.

You are cautioned that it is not possible to predict or identify all of the risks, uncertainties and other factors that may affect future results, and that the above list should not be considered to be a complete list. Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

29

[Table of Contents](#page2)

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest Rate Risk**

Our borrowings include both fixed and variable-rate debt. The variable debt consists principally of borrowings under our Credit Agreement. We are exposed to the risk of rising interest rates to the extent we fund our operations with these variable-rate borrowings. As of June 30, 2019, we have $221.3 million of aggregate debt outstanding, of which $145.0 million consists of debt with variable interest rates. Based on the amount of debt with variable-rate interest outstanding, a 1% rise in interest rates would result in an increase in interest expense of $1.4 million annually.

**Foreign Currency Exchange Rate Risk**

Fluctuations in the value of the U.S. dollar compared to foreign currencies may impact our earnings. Geographically, our sales are primarily made to customers in the United States. Currency fluctuations could impact us to the extent they impact the currency or the price of raw materials in foreign countries in which our competitors operate or have significant sales.

**Commodity Price Risk**

In the ordinary course of business, we are exposed to market risk with respect to commodity price fluctuations, primarily related to our purchases of raw materials and energy, principally scrap steel, other ferrous and non-ferrous metals, alloys, natural gas and electricity. Whenever possible, we manage our exposure to commodity risks primarily through the use of supplier pricing agreements that enable us to establish the purchase prices for certain inputs that are used in our manufacturing business. We utilize a raw material surcharge as a component of pricing steel to pass through the cost increases of scrap, alloys and other raw materials, as well as natural gas. From time to time, we may use financial instruments to hedge a portion of our exposure to price risk related to natural gas and electricity purchases. In periods of stable demand for our products, the surcharge mechanism has worked effectively to reduce the normal time lag in passing through higher raw material costs so that we can maintain our gross margins. When demand and cost of raw materials are lower, however, the surcharge impacts sales prices to a lesser extent.

**ITEM 4. CONTROLS AND PROCEDURES**

(a) Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

(b) Changes in Internal Control Over Financial Reporting

During the Company’s most recent fiscal quarter, there have been no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

30

[Table of Contents](#page2)

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

*Canton, Ohio U.S. Environmental Protection Agency Notice of Violation.*

The U.S. Environmental Protection Agency (EPA) issued two related Notices of Violation (NOV) to TimkenSteel on August 5, 2014 and November 2, 2015. The EPA alleges violations under the Clean Air Act based on alleged violations of permitted emission limits and engineering requirements at TimkenSteel’s Faircrest and Harrison Steel Plants in Canton, Ohio. TimkenSteel disputes many of EPA’s allegations but is working cooperatively with EPA and the U.S. Department of Justice to resolve the government’s claims. Negotiations to resolve the NOVs are ongoing, but it is not anticipated that the ultimate resolution of the NOVs will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**ITEM 1A. RISK FACTORS**

We are subject to various risks and uncertainties in the course of our business. The discussion of such risks and uncertainties may be found under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC. There have been no material changes to such risk factors.

31

[Table of Contents](#page2)

**ITEM 6. EXHIBITS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Exhibit** |  |  |  |  |  |  |
| **Number** |  | **Exhibit Description** |
|  |  |  |  |  |  |  |  |
| 31.1\* |  |  | Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Exchange Act, as adopted, pursuant to Section 302 of the |  |
|  |  |  | Sarbanes-Oxley Act of 2002. |
|  |  |  |  |  |  |  |
| 31.2\* |  |  | Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Exchange Act, as adopted, pursuant to Section 302 of the |
|  |  |  | Sarbanes-Oxley Act of 2002. |  |
|  |  |  |  |  |  |
| 32.1\*\* |  |  | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the |
|  |  |  | Sarbanes-Oxley Act of 2002. |  |
| 101.INS\* |  | XBRL Instance Document. |  |
| 101.SCH\* |  | XBRL Taxonomy Extension Schema Document. |
| 101.PRE\* |  | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.CAL\* |  | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB\* |  | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.DEF\* |  | XBRL Taxonomy Extension Definition Linkbase Document. |

\* Filed herewith.

\*\* Furnished herewith.

32

[Table of Contents](#page2)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TIMKENSTEEL CORPORATION

Date: August 1, 2019 /s/ Kristopher R. Westbrooks



Kristopher R. Westbrooks

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

33

**Exhibit 31.1**

**CERTIFICATION**

I, Ward J. Timken, Jr., certify that:

I have reviewed this quarterly report on Form 10-Q of TimkenSteel Corporation;

1. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
2. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
3. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
	1. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
	2. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
	3. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
	4. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
4. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
	1. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
	2. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 1, 2019 /s/ Ward J. Timken, Jr.



Ward J. Timken, Jr.

Chairman, Chief Executive Officer and President

(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**

I, Kristopher R. Westbrooks, certify that:

I have reviewed this quarterly report on Form 10-Q of TimkenSteel Corporation;

1. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
2. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
3. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
	1. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
	2. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
	3. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
	4. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
4. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
	1. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
	2. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 1, 2019 /s/ Kristopher R. Westbrooks



Kristopher R. Westbrooks

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION**

**Pursuant to 18 U.S.C. Section 1350,**

**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of TimkenSteel Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: August 1, 2019 /s/ Ward J. Timken, Jr.



Ward J. Timken, Jr.

Chairman, Chief Executive Officer and President

(Principal Executive Officer)

/s/ Kristopher R. Westbrooks

Date: August 1, 2019



Kristopher R. Westbrooks

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)