[Table of Contents](#page2)



**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**



* **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2020**
* **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 |  | New York Stock Exchange |

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial 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 April 30, 2020 |  |
| Common Shares, without par value |  | 44,965,976 |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |



[Table of Contents](#page2)

**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.](#page16) | [Management’s Discussion and Analysis of Financial Condition and Results of Operations](#page16) | [16](#page16) |  |  |
| [Item 3.](#page23) | [Quantitative and Qualitative Disclosures about Market Risk](#page23) | [23](#page23) |  |  |
| [Item 4.](#page24) | [Controls and Procedures](#page24) | [24](#page24) |  |  |
| [**PART II. Other Information**](#page25) | [25](#page25) |  |  |
| [Item 1.](#page25) | [Legal Proceedings](#page25) | [25](#page25) |  |  |
| [Item 1A.](#page25) | [Risk Factors](#page25) | [25](#page25) |  |  |
| [Item 6.](#page26) | [Exhibits](#page26) | [26](#page26) |  |  |
|  | [Signatures](#page27) | [27](#page27) |  |  |
|  | 2 |  |  |  |  |
|  |  |  |  |  |  |



[Table of Contents](#page2)

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**TimkenSteel Corporation**

**Consolidated Statements of Operations (Unaudited)**

**Three Months Ended March 31,**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |  |
| (Dollars in millions, except per share data) |  |  |  |  |  |
| Net sales | **$** | **259.7** | $ | 371.0 |  |
| Cost of products sold |  | **251.9** |  | 342.6 |  |
| **Gross Profit** |  | **7.8** |  | 28.4 |  |
|  |  |  |  |  |  |
| Selling, general and administrative expenses |  | **23.4** |  | 23.3 |  |
| Restructuring charges |  | **0.6** |  | — |  |
| Loss (gain) on sale or asset disposals |  | **(2.3)** |  | — |  |
| Interest expense |  | **3.2** |  | 4.2 |  |
| Other expense (income), net |  | **2.7** |  | (2.7) |  |
| **Income (Loss) Before Income Taxes** |  | **(19.8)** |  | 3.6 |  |
| Provision (benefit) for income taxes |  | **0.1** |  | 0.1 |  |
| **Net Income (Loss)** | **$** | **(19.9)** | $ | 3.5 |  |
|  |  |  |  |  |  |
| **Per Share Data:** |  |  |  |  |  |
| **Basic earnings (loss) per share** | **$** | **(0.44)** | $ | 0.08 |  |
| **Diluted earnings (loss) per share** | **$** | **(0.44)** | $ | 0.08 |  |
| 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 March 31,**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |  |
| (Dollars in millions) |  |  |  |  |  |
| Net income (loss) | **$** | **(19.9)** | $ | 3.5 |  |
| Other comprehensive income (loss), net of tax: |  |  |  |  |  |
| Foreign currency translation adjustments |  | **(1.8)** |  | 0.4 |  |
| Pension and postretirement liability adjustments |  | **(1.1)** |  | 0.1 |  |
| Other comprehensive income (loss), net of tax |  | **(2.9)** |  | 0.5 |  |
| **Comprehensive Income (Loss), net of tax** | **$** | **(22.8)** | $ | 4.0 |  |
| See accompanying Notes to the unaudited Consolidated Financial Statements. |  |  |  |  |  |
|  | 4 |  |  |  |  |
|  |  |  |  |  |  |



|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| [Table of Contents](#page2) |  |  |  |  |  |  |
| **TimkenSteel Corporation** |  |  |  |  |  |  |
| **Consolidated Balance Sheets (Unaudited)** |  |  |  |  |  |  |
|  |  | **March 31,** |  | **December 31,** |  |  |
|  |  | **2020** |  | **2019** |  |  |
| (Dollars in millions) |  |  |  |  |  |  |
| **ASSETS** |  |  |  |  |  |  |
| **Current Assets** |  |  |  |  |  |  |
| Cash and cash equivalents | **$** | **65.6** | $ | 27.1 |  |  |
| Accounts receivable, net of allowances (2020 - $2.8 million; 2019 - $1.5 million) |  | **94.9** |  | 77.5 |  |  |
| Inventories, net |  | **240.5** |  | 281.9 |  |  |
| Deferred charges and prepaid expenses |  | **3.6** |  | 3.3 |  |  |
| Assets held for sale |  | **2.2** |  | 4.1 |  |  |
| Other current assets |  | **5.3** |  | 7.8 |  |  |
| **Total Current Assets** |  | **412.1** |  | 401.7 |  |  |
|  |  |  |  |  |  |  |
| Property, plant and equipment, net |  | **608.7** |  | 626.4 |  |  |
| Operating lease right-of-use assets |  | **16.3** |  | 14.3 |  |  |
| Pension assets |  | **17.2** |  | 25.2 |  |  |
| Intangible assets, net |  | **12.4** |  | 14.3 |  |  |
| Other non-current assets |  | **3.3** |  | 3.3 |  |  |
| **Total Assets** | **$** | **1,070.0** | $ | 1,085.2 |  |  |
|  |  |  |  |  |  |  |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** |  |  |  |  |  |  |
| **Current Liabilities** |  |  |  |  |  |  |
| Accounts payable | **$** | **96.0** | $ | 69.3 |  |  |
| Salaries, wages and benefits |  | **21.3** |  | 13.9 |  |  |
| Accrued pension and postretirement costs |  | **3.0** |  | 3.0 |  |  |
| Current operating lease liabilities |  | **6.6** |  | 6.2 |  |  |
| Other current liabilities |  | **16.5** |  | 19.9 |  |  |
| **Total Current Liabilities** |  | **143.4** |  | 112.3 |  |  |
|  |  |  |  |  |  |  |
| Convertible notes, net |  | **79.8** |  | 78.6 |  |  |
| Credit Agreement |  | **60.0** |  | 90.0 |  |  |
| Non-current operating lease liabilities |  | **9.7** |  | 8.2 |  |  |
| Accrued pension and postretirement costs |  | **222.3** |  | 222.1 |  |  |
| Deferred income taxes |  | **0.9** |  | 0.9 |  |  |
| Other non-current liabilities |  | **11.8** |  | 10.0 |  |  |
| **Total Liabilities** |  | **527.9** |  | 522.1 |  |  |
|  |  |  |  |  |  |  |
| **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 2020 and 2019 - 45.7 million shares |  |  | — |  |  |
| Additional paid-in capital |  | **841.1** |  | 844.8 |  |  |
| Retained deficit |  | **(321.4)** |  | (301.5) |  |  |
| Treasury shares - 2020 - 0.8 million; 2019 - 0.9 million |  | **(19.4)** |  | (24.9) |  |  |
| Accumulated other comprehensive income (loss) |  | **41.8** |  | 44.7 |  |  |
| **Total Shareholders’ Equity** |  | **542.1** |  | 563.1 |  |  |
| **Total Liabilities and Shareholders’ Equity** | **$** | **1,070.0** | $ | 1,085.2 |  |  |
| See accompanying Notes to the unaudited Consolidated Financial Statements. |  |  |  |  |  |  |
| 5 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |



[Table of Contents](#page2)

**TimkenSteel Corporation**

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  | **Accumulated** |  |  |  |
|  | **Common** |  | **Additional** |  |  |  |  |  | **Other** |  |  |  |
|  | **Shares** |  | **Paid-in** |  | **Retained** |  | **Treasury** | **Comprehensive** |  |  |  |
| **(Dollars in millions)** | **Outstanding** |  | **Capital** |  | **Deficit** |  | **Shares** | **Income (Loss)** |  | **Total** |  |
| **Balance at December 31, 2019** | **44,820,153** | **$** | **844.8** | **$** | **(301.5)** | **$** | **(24.9)** | **$** | **44.7** | **$** | **563.1** |  |
| Net income (loss) | **—** |  | **—** |  | **(19.9)** |  | **—** |  | **—** |  | **(19.9)** |  |
| Other comprehensive income (loss) | **—** |  | **—** |  | **—** |  | **—** |  | **(2.9)** |  | **(2.9)** |  |
| Stock-based compensation expense | **—** |  | **2.0** |  | **—** |  | **—** |  | **—** |  | **2.0** |  |
| Issuance of treasury shares | **215,708** |  | **(5.7)** |  | **—** |  | **5.7** |  | **—** |  | **—** |  |
| Shares surrendered for taxes | **(70,033)** |  | **—** |  | **—** |  | **(0.2)** |  | **—** |  | **(0.2)** |  |
| **Balance at March 31, 2020** | **44,965,828** | **$** | **841.1** | **$** | **(321.4)** | **$** | **(19.4)** | **$** | **41.8** | **$** | **542.1** |  |
|  |  |  |  |  |  |  |  | **Accumulated** |  |  |  |
|  | **Common** |  | **Additional** |  |  |  |  |  | **Other** |  |  |  |
|  | **Shares** |  | **Paid-in** |  | **Retained** |  | **Treasury** | **Comprehensive** |  |  |  |
|  | **Outstanding** |  | **Capital** |  | **Deficit** |  | **Shares** | **Income (Loss)** |  | **Total** |  |
| **Balance at December 31, 2018** | 44,584,668 | $ | 846.3 | $ | (191.5) | $ | (33.0) | $ | (8.9) | $ | 612.9 |  |
| Net income (loss) | — |  | — |  | 3.5 |  | — |  | — |  | 3.5 |  |
| 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 | $ | (188.0) | $ | (26.5) | $ | (8.4) | $ | 618.3 |  |
| See accompanying Notes to the unaudited Consolidated Financial Statements. |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | 6 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |



[Table of Contents](#page2)

**TimkenSteel Corporation**

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

**Three Months Ended March 31,**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |  |
| (Dollars in millions) |  |  |  |  |  |
| **CASH PROVIDED (USED)** |  |  |  |  |  |
| **Operating Activities** |  |  |  |  |  |
| Net income (loss) | **$** | **(19.9)** | $ | 3.5 |  |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: |  |  |  |  |  |
| Depreciation and amortization |  | **18.6** |  | 17.8 |  |
| Amortization of deferred financing fees and debt discount |  | **1.3** |  | 1.3 |  |
| Loss (gain) on sale or disposal of assets |  | **(2.3)** |  | — |  |
| Deferred income taxes |  | **0.2** |  | (0.2) |  |
| Stock-based compensation expense |  | **2.0** |  | 2.2 |  |
| Pension and postretirement expense (benefit), net |  | **8.1** |  | 1.8 |  |
| Pension and postretirement contributions and payments |  | **(2.5)** |  | (2.4) |  |
| Changes in operating assets and liabilities: |  |  |  |  |  |
| Accounts receivable, net |  | **(16.3)** |  | 12.1 |  |
| Inventories, net |  | **41.2** |  | (26.8) |  |
| Accounts payable |  | **26.7** |  | (30.7) |  |
| Other accrued expenses |  | **5.7** |  | (11.4) |  |
| Deferred charges and prepaid expenses |  | **(0.3)** |  | 0.1 |  |
| Other, net |  | **1.3** |  | (0.9) |  |
| **Net Cash Provided (Used) by Operating Activities** |  | **63.8** |  | (33.6) |  |
|  |  |  |  |  |  |
| **Investing Activities** |  |  |  |  |  |
| Capital expenditures |  | **(2.9)** |  | (4.4) |  |
| Proceeds from disposals of property, plant and equipment |  | **7.8** |  | — |  |
| **Net Cash Provided (Used) by Investing Activities** |  | **4.9** |  | (4.4) |  |
|  |  |  |  |  |  |
| **Financing Activities** |  |  |  |  |  |
| Proceeds from exercise of stock options |  | **—** |  | 0.2 |  |
| Shares surrendered for employee taxes on stock compensation |  | **(0.2)** |  | (1.0) |  |
| Repayments on credit agreements |  | **(30.0)** |  | (5.0) |  |
| Borrowings on credit agreements |  | **—** |  | 30.0 |  |
| **Net Cash Provided (Used) by Financing Activities** |  | **(30.2)** |  | 24.2 |  |
| **Increase (Decrease) in Cash and Cash Equivalents** |  | **38.5** |  | (13.8) |  |
| Cash and cash equivalents at beginning of period |  | **27.1** |  | 21.6 |  |
| **Cash and Cash Equivalents at End of Period** | **$** | **65.6** | $ | 7.8 |  |
| 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, 2019.

Certain items previously reported in specific financial statement captions have been reclassified to conform with the current year presentation. ***Customer Receivables***

The Company’s accounts receivables arise from sales to customers across all end markets. Historically, TimkenSteel’s allowance for doubtful accounts write-offs have been immaterial. The allowance for doubtful account reserve has been established using qualitative and quantitative methods. In general, account balances greater than one year of age or sent to third party collection are fully reserved. Account balances for customers that are viewed as higher risk are also analyzed for a reserve. In addition to these methods, for the first quarter of 2020 the allowance for doubtful accounts was adjusted for forward looking uncollectible balances, primarily in the energy and automotive end markets. The amount recorded was based on the Company’s assessment of the risk presented to customers in these end markets as a result of the COVID-19 pandemic as well as geo-political factors facing the energy end market. At this time, the full impact of COVID-19 is difficult to predict with the current uncertainty surrounding the pandemic and the timeline for economic activities to recover.

***Change in Accounting Principle***

During the fourth quarter of 2019, TimkenSteel elected to change its method for valuing its inventories that previously used the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The Company believes that the FIFO method is preferable as it improves comparability with our peers, more closely resembles the physical flow of our inventory and aligns with how the Company internally manages the business. The effects of the change in accounting principle from LIFO to FIFO were retrospectively applied. As a result of the retrospective application of the change in accounting principle, certain financial statement line items in the Company’s consolidated balance sheets as of March 31, 2019 and the consolidated statements of operations, comprehensive income (loss), shareholders’ equity and cash flows for the three months ended March 31, 2019 were adjusted as necessary. 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, 2019.

The following tables reflect the impact to the financial statement line items as a result of the change in accounting principle for the prior periods presented in the accompanying financial statements (dollars in millions, except per share data):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Three Months Ended** |  |  |  |
| **Consolidated Statement of Operations** |  |  |  |  |  |  | **March 31, 2019** |  |  |  |
|  |  |  |  | **As** |  |  |  |  |  |  | **As** |  |
|  |  |  |  | **Reported** |  |  |  | **Adjustments** |  | **Adjusted** |  |
| Cost of products sold |  |  | $ | 341.9 |  |  | $ | 0.7 |  | **$** | **342.6** |  |
| Gross profit |  |  |  | 29.1 |  |  |  | (0.7) |  |  | **28.4** |  |
| Income (loss) before income taxes |  |  |  | 4.3 |  |  |  | (0.7) |  |  | **3.6** |  |
| Net income (loss) |  |  |  | 4.2 |  |  |  | (0.7) |  |  | **3.5** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Per Share Data:** |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic earnings (loss) per share |  |  |  | 0.09 |  |  |  | (0.01) |  |  | **0.08** |  |
| Diluted earnings (loss) per share |  |  |  | 0.09 |  |  |  | (0.01) |  |  | **0.08** |  |
|  |  |  |  |  | **Three Months Ended** |  |  |  |
| **Consolidated Statement of Comprehensive Income (Loss)** |  |  |  |  |  |  | **March 31, 2019** |  |  |  |
|  |  |  |  | **As** |  |  |  |  |  |  | **As** |  |
|  |  |  |  | **Reported** |  |  |  | **Adjustments** |  | **Adjusted** |  |
| Net income (loss) |  |  | $ | 4.2 |  |  | $ | (0.7) |  | **$** | **3.5** |  |
| Comprehensive income (loss), net of tax |  |  |  | 4.7 |  |  |  | (0.7) |  |  | **4.0** |  |
|  | 8 |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |



|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| [Table of Contents](#page2) |  |  |  |  |  |  |  |  |
|  |  |  | **Three Months Ended** |  |  |
| **Consolidated Statement of Cash Flows** |  |  |  | **March 31, 2019** |  |  |
|  |  |  | **As** |  |  |  |  |  | **As** |
|  |  |  | **Reported** |  |  | **Adjustments** |  | **Adjusted** |
| Net income (loss) |  | $ | 4.2 |  | $ | (0.7) |  | **$** | **3.5** |
| Changes in operating assets and liabilities: |  |  |  |  |  |  |  |  |
| Inventories, net |  | (27.5) |  |  | 0.7 |  |  | **(26.8)** |

**Note 2 - Recent Accounting Pronouncements**

***Adoption of New Accounting Standards***

The Company adopted the following Accounting Standard Updates (ASU) in the first quarter of 2020, all of which were effective as of January 1, 2020, except ASU 2020-04, which became effective upon issuance on March 12, 2020. The adoption of these standards did not have a material impact on the unaudited Consolidated Financial Statements or the related Notes to the unaudited Consolidated Financial Statements.

|  |  |
| --- | --- |
| **Standards Adopted** | **Description** |
| ASU 2020-04, Reference Rate Reform (Topic 848) | The standard provides optional expedients and exceptions for applying generally |
|  | accepted accounting principles (GAAP) to contracts, hedging relationships and |
|  | other transactions affected by reference rate reform if certain criteria are met. |
| ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use | The standard aligns the requirements for capitalizing implementation costs in cloud |
| Software (Subtopic 350-40) | computing software arrangements with the requirements for capitalizing |
|  | implementation costs incurred to develop or obtain internal-use software. |
| ASU 2018-13, Fair Value Measurement (Topic 820) | The standard eliminates, modifies and adds disclosure requirements for fair value |
|  | measurements. |

ASU 2016-13, Measurement of Credit Losses on Financial Instruments The standard changes how entities will measure credit losses for most financial

|  |  |
| --- | --- |
| (Topic 326) | assets, including trade and other receivables, and replaces the current incurred loss |
|  | approach with an expected loss model. |

***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 2019-12, Income Taxes (Topic | The standard simplifies the accounting for income | January 1, The Company is currently evaluating the impact |  |
| 740) | taxes by removing various exceptions. |  | 2021 | of the adoption of this ASU on its results of |  |
|  |  |  |  |  |  | operations and financial condition. |  |
| ASU 2018-14, Compensation - | The standard eliminates, modifies and adds | January 1, The Company is currently evaluating the impact |  |
| Retirement Benefits - Defined Benefit | disclosure requirements for employers that sponsor | 2021 | of the adoption of this ASU on its results of |  |
| Plans - General (Subtopic 715-20) | defined benefit pension or other postretirement |  | operations and financial condition. |  |
|  | plans. |  |  |  |  |  |  |
| ASU 2020-03, Codification | The standard clarifies or improves the | January 1, The Company is currently evaluating the impact |  |
| Improvements to Financial Instruments | Codification. The amendments make the | 2021 | of the adoption of this ASU on its results of |  |
|  | Codification easier to understand and apply by |  | operations and financial condition. |  |
|  | eliminating | inconsistencies | and | providing |  |  |  |
|  | clarifications. |  |  |  |  |  |  |
|  |  |  | 9 |  |  |  |  |
|  |  |  |  |  |  |  |  |



[Table of Contents](#page2)

**Note 3 - Revenue Recognition**

The following table provides the major sources of revenue by end-market sector for the three months ended March 31, 2020 and 2019:

**Three Months Ended March 31,**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |
| Mobile | **$** | **97.7** | $ | 144.2 |
| Industrial |  | **113.3** |  | 147.0 |
| Energy |  | **25.2** |  | 60.8 |
| Other(1) |  | **23.5** |  | 19.0 |
| **Total Net Sales** | **$** | **259.7** | $ | 371.0 |

1. *“Other” for sales by end-market sector includes the Company’s scrap and oil country tubular goods (OCTG) billet sales.*

The following table provides the major sources of revenue by product type for the three months ended March 31, 2020 and 2019:

**Three Months Ended March 31,**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |
| Bar | **$** | **168.1** | $ | 239.9 |
| Tube |  | **30.4** |  | 49.6 |
| Value-add |  | **55.5** |  | 73.7 |
| Other(2) |  | **5.7** |  | 7.8 |
| **Total Net Sales** | **$** | **259.7** | $ | 371.0 |

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

**Note 4 - Restructuring Charges**

During 2019 and into the first quarter of 2020, TimkenSteel made organizational changes to enhance profitable and sustainable growth. These company-wide actions included the restructuring of its business support functions, the reduction of management layers throughout the organization, the closure of the TimkenSteel Material Services (TMS) facility in Houston, Texas and other actions to further improve the Company’s overall cost structure. Through these restructuring efforts, to date the Company has eliminated approximately 160 salaried positions and recognized restructuring charges of $9.1 million, consisting of severance and employee-related benefits. Approximately 10 of these positions were eliminated in the first quarter of 2020. TimkenSteel recorded reserves for such restructuring charges as other current liabilities on the Consolidated Balance Sheets. The reserve balance at March 31, 2020 is expected to be substantially used in the next twelve months.

The following is a summary of the restructuring reserve for the three months ended March 31, 2020:

|  |  |  |
| --- | --- | --- |
| Balance at December 31, 2019 | $ | 6.0 |
| Expenses |  | **0.6** |
| Payments |  | **(4.0)** |
| **Balance at March 31, 2020** | **$** | **2.6** |

There was no reserve for restructuring at March 31, 2019.

**Note 5 - Disposition of Non-Core Assets**

During the fourth quarter of 2019, management entered into an agreement to dispose of the Company’s scrap processing facility in Akron, Ohio for cash consideration of approximately $4.0 million. An impairment charge of $7.3 million was recognized in the fourth quarter of 2019 in connection with the sale. The sale was completed, and the Company received all cash consideration in the first quarter of 2020. An additional loss on disposal of $0.2 million was recognized in the first quarter as the sale was completed.

Additionally, during the first quarter of 2020, management completed its previously announced plan to close the Company’s TMS facility in Houston, and initiated a plan to market and sell the assets at the facility. Accelerated depreciation and amortization of $1.6 million was recorded in the first quarter to reduce the net book value of the machinery and equipment to its expected fair value. Subsequent to the closure, certain assets were sold and a gain on sale of $3.2 million was recognized. At March 31, 2020, the remaining associated machinery and equipment, with a net book value of $2.2 million, was classified as held for sale on the Consolidated Balance Sheet. The land and buildings associated with TMS were not classified as held for sale, as they were not considered available for immediate sale in their present condition. The Company began selling the inventory associated with TMS in the first quarter of 2020 at prices that were in line with the net realizable value of the inventory that was established in the fourth quarter of 2019.

10



[Table of Contents](#page2)

**Note 6 – Other Expense (Income), net**

The following table provides the components of other expense (income), net for the three months ended March 31, 2020 and 2019:

**Three Months Ended March 31,**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |
| Pension and postretirement non-service benefit loss (income) | **$** | **(6.6)** | $ | (2.8) |
| Loss from remeasurement of benefit plan |  | **9.5** |  | — |
| Foreign currency exchange loss (gain) |  | **—** |  | 0.1 |
| Miscellaneous expense (income) |  | **(0.2)** |  | — |
| **Total other expense (income), net** | **$** | **2.7** | $ | (2.7) |

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 months ended March 31, 2020 and 2019.

The TimkenSteel Corporation Retirement Plan (Salaried Plan) has a provision that permits employees to elect to receive their pension benefits in a lump sum. In the first quarter of 2020, the cumulative cost of all lump sum payments was projected to exceed the sum of the service cost and interest cost components of net periodic pension cost for the Salaried Plan. The Company completed a full remeasurement of its pension obligations and plan assets associated with the Salaried Plan as of March 31, 2020, which resulted in a non-cash loss from remeasurement of $9.5 million. For more details on the remeasurement, refer to “Note 11 - Retirement and Postretirement Plans.”

**Note 7 - 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 March 31,**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |
| Provision (benefit) for incomes taxes | **$** | **0.1** | $ | 0.1 |
| Effective tax rate |  | **(0.5)%** |  | 1.3% |

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 maintains 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 income taxes are derived from foreign operations.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, an economic stimulus package intended to provide support, principally in the form of tax benefits, to companies and individuals negatively impacted by the COVID-19 pandemic. Although the majority of the provisions included in the CARES Act will not immediately benefit the Company from a cash tax perspective due to its significant net operating losses, the Company has taken advantage of the deferral of the employer share (6.2% of employee wages) of Social Security payroll taxes that would otherwise have been owed from the date of enactment of the legislation through December 31, 2020, as afforded by the Act. The Company expects this to result in deferred cash payments of approximately $7 million to $10 million for the remainder of 2020, to be paid in two equal installments at December 31, 2021 and December 31, 2022.

**Note 8 - 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.

11



[Table of Contents](#page2)

Common share equivalents for shares issuable for equity-based awards were excluded from the computation of diluted earnings (loss) per share for the three months ended March 31, 2020 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 months ended March 31, 2020 and 2019 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 months ended March 31, 2020 and 2019:

**Three Months Ended March 31,**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |
| **Numerator:** |  |  |  |  |
| Net income (loss) | **$** | **(19.9)** | $ | 3.5 |
|  |  |  |  |  |
| **Denominator:** |  |  |  |  |
| Weighted average shares outstanding, basic |  | **44.9** |  | 44.7 |
| Dilutive effect of stock-based awards |  | **—** |  | 0.5 |
| Weighted average shares outstanding, diluted |  | **44.9** |  | 45.2 |
|  |  |  |  |  |
| **Basic earnings (loss) per share** | **$** | **(0.44)** | $ | 0.08 |
| **Diluted earnings (loss) per share** | **$** | **(0.44)** | $ | 0.08 |

**Note 9 - Inventories**

The components of inventories, net of reserves as of March 31, 2020 and December 31, 2019 were as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **March 31,** |  | **December 31,** |
|  |  | **2020** |  | **2019** |
| Manufacturing supplies | **$** | **43.5** | $ | 49.8 |
| Raw materials |  | **16.2** |  | 26.0 |
| Work in process |  | **111.6** |  | 123.7 |
| Finished products |  | **79.5** |  | 93.1 |
| Gross inventory |  | **250.8** |  | 292.6 |
| Allowance for inventory reserves |  | **(10.3)** |  | (10.7) |
| **Total Inventories, net** | **$** | **240.5** | $ | 281.9 |

**Note 10 - Financing Arrangements**

For a detailed discussion of the Company's long-term debt and credit arrangements, refer to “Note 14 - Financing Arrangements” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

***Convertible Notes***

The components of the Convertible Notes as of March 31, 2020 and December 31, 2019 were as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **March 31,** |  |  | **December 31,** |
|  | **2020** |  |  | **2019** |
| Principal | **$** | **86.3** | $ | 86.3 |
| Less: Debt issuance costs, net of amortization |  | **(0.6)** |  | (0.7) |
| Less: Debt discount, net of amortization |  | **(5.9)** |  | (7.0) |
| **Convertible notes, net** | **$** | **79.8** | $ | 78.6 |

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.

12



[Table of Contents](#page2)

The following table sets forth total interest expense recognized related to the Convertible Notes:

**Three Months Ended March 31,**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |
| Contractual interest expense | **$** | **1.3** | $ | 1.3 |
| Amortization of debt issuance costs |  | **0.1** |  | 0.1 |
| Amortization of debt discount |  | **1.1** |  | 1.0 |
| **Total** | **$** | **2.5** | $ | 2.4 |

***Amended Credit Agreement***

On October 15, 2019, the Company, as borrower, and certain domestic subsidiaries of the Company, as subsidiary guarantors, entered into a Third Amended and Restated Credit Agreement (the Amended Credit Agreement), with JP Morgan Chase Bank, N.A., as administrative agent (the Administrative Agent), Bank of America, N.A., as syndication agent, and the other lenders party thereto (collectively, the Lenders), which further amended and restated the Company’s Second Amended and Restated Credit Agreement dated as of January 26, 2018. The interest rate under the Amended Credit Agreement was 2.2% as of March 31, 2020. The amount available for borrowings under the credit agreement as of March 31, 2020 was $224.4 million. As of March 31, 2020, the Company was in compliance with all covenants.

***Fair Value Measurement***

The fair value of the Convertible Notes was approximately $69.0 million as of March 31, 2020. 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 March 2020.

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 three months ended March 31, 2020 and 2019 was $0.8 million and $1.5 million, respectively.

**Note 11 - Retirement and Postretirement Plans**

The components of net periodic benefit cost (income) for the three months ended March 31, 2020 and 2019 were as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** |  |  | **Three Months Ended** |  |
|  |  | **March 31, 2020** |  |  | **March 31, 2019** |  |
|  |  | **Pension** | **Postretirement** |  | **Pension** | **Postretirement** |
| Service cost | **$** | **4.9** | **$** | **0.3** | $ | 4.3 | $ | 0.3 |
| Interest cost |  | **10.9** |  | **1.0** |  | 12.2 |  | 2.0 |
| Expected return on plan assets |  | **(16.2)** |  | **(0.9)** |  | (16.2) |  | (0.9) |
| Amortization of prior service cost |  | **0.1** |  | **(1.5)** |  | 0.1 |  | — |
| Net remeasurement losses |  | **9.5** |  | **—** |  | — |  | — |
| **Net Periodic Benefit Cost (Income)** | **$** | **9.2** | **$** | **(1.1)** | $ | 0.4 | $ | 1.4 |

The Salaried Plan has a provision that permits employees to elect to receive their pension benefits in a lump sum. In the first quarter of 2020, the cumulative cost of all lump sum payments was projected to exceed the sum of the service cost and interest cost components of net periodic pension cost for the Salaried Plan. The Company completed a full remeasurement of its pension obligations and plan assets associated with the Salaried Plan as of March 31, 2020, which resulted in a non-cash loss from remeasurement of $9.5 million, included in other expense (income), net on the Unaudited Consolidated Statements of Operation. As of March 31, 2019, the cumulative cost of the 2019 settlements did not exceed the sum of the service cost and interest cost components of net periodic pension cost for the Salaried Plan.

**Note 12 – Stock-Based Compensation**

During the first quarter of 2020 the Board of Directors granted 598,919 time-vested restricted stock units, 143,280 performance-vested restricted stock units, and 511,020 stock options.

13



[Table of Contents](#page2)

Time-vested restricted stock units are issued with the fair value equal to the closing market price of TimkenSteel common shares on the date of grant. These restricted stock units do not have any performance conditions for vesting. Expense is recognized over the service period, adjusted for any forfeitures that should occur during the vesting period. The weighted average fair value of the restricted stock units granted during the three months ended March 31, 2020 was $5.26 per share.

Performance-vested restricted stock units issued in the first quarter of 2020 vest based on achievement of a total shareholder return (TSR) metric. The TSR metric is considered a market condition, which requires TimkenSteel to reflect it in the fair value on grant date using an advanced option-pricing model. The fair value of each performance share was therefore determined using a Monte Carlo valuation model, a generally accepted lattice pricing model under ASC 718 – Stock-based Compensation. The Monte Carlo valuation model, among other factors, uses commonly-accepted economic theory underlying all valuation models, estimates fair value using simulations of future share prices based on stock price behavior and considers the correlation of peer company returns in determining fair value. The weighted average fair value of the performance-vested restricted stock units granted during the three months ended March 31, 2020 was $5.23 per share.

Stock options are issued with an exercise price equal to the closing market price of TimkenSteel common shares on the date of grant. The fair value of stock options is determined using a Black-Scholes option pricing model, which incorporates assumptions regarding the expected volatility, the expected option life, the risk-free interest rate and the expected dividend yield. The weighted average exercise price and weighted average fair value of the stock option grants during the three months ended March 31, 2020 were $5.26 per share and $2.23 per share, respectively.

TimkenSteel recognized stock-based compensation expense of $2.0 million and $2.1 million during the three months ended March 31, 2020 and 2019, respectively. Future stock-based compensation expense regarding the unvested portion of all awards is approximately $9.9 million. The future expense is expected to be recognized over the remaining vesting periods through 2024.

14



[Table of Contents](#page2)

**Note 13 - Accumulated Other Comprehensive Income (Loss)**

Changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2020 and 2019 by component were as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Foreign Currency** |  | **Pension and** |  |  |  |
|  |  | **Translation** |  | **Postretirement** |  |  |  |
|  |  | **Adjustments** | **Liability Adjustments** |  | **Total** |  |
| **Balance as of December 31, 2019** | **$** | **(6.8)** | **$** | **51.5** | **$** | **44.7** |  |
| Other comprehensive income before reclassifications, before income tax |  | **(1.8)** |  | **—** |  | **(1.8)** |  |
| Amounts reclassified from accumulated other comprehensive income (loss), |  | **—** |  | **(1.4)** |  | **(1.4)** |  |
| before income tax |  |  |  |  |
| Amounts deferred to accumulated other comprehensive income (loss), before |  | **—** |  | **0.3** |  | **0.3** |  |
| income tax |  |  |  |  |
| Tax effect |  | **—** |  | **—** |  | **—** |  |
| Net current period other comprehensive income, net of income taxes |  | **(1.8)** |  | **(1.1)** |  | **(2.9)** |  |
| **Balance as of March 31, 2020** | **$** | **(8.6)** | **$** | **50.4** | **$** | **41.8** |  |
|  | **Foreign Currency** |  | **Pension and** |  |  |  |
|  |  | **Translation** |  | **Postretirement** |  |  |  |
|  |  | **Adjustments** | **Liability Adjustments** |  | **Total** |  |
| **Balance at December 31, 2018** | $ | (7.3) | $ | (1.6) | $ | (8.9) |  |
| Other comprehensive income before reclassifications, before income tax |  | 0.4 |  | — |  | 0.4 |  |
| Amounts reclassified from accumulated other comprehensive loss, |  |  |  |  |  |  |  |
| before income tax |  | — |  | 0.1 |  | 0.1 |  |
| Tax effect |  | — |  | — |  | — |  |
| Net current period other comprehensive income, net of income taxes |  | 0.4 |  | 0.1 |  | 0.5 |  |
| **Balance as of March 31, 2019** | $ | (6.9) | $ | (1.5) | $ | (8.4) |  |

The amount reclassified from accumulated other comprehensive income (loss) in the three months ended March 31, 2020 for the pension and postretirement liability adjustment was included in other income, net in the unaudited Consolidated Statements of Operations.

**Note 14 – 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 March 31, 2020 and December 31, 2019, TimkenSteel had a $1.0 million and a $1.5 million contingency reserve, respectively, related to loss exposures incurred in the ordinary course of business.

15



[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**

We manufacture 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-added 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 sectors: automotive; oil and gas; industrial equipment; mining; construction; rail; defense; heavy truck; agriculture; power generation; and oil country tubular goods (OCTG).

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 100% 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.

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-added solutions production processes take place at two downstream manufacturing facilities: 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.

In the first quarter of 2020, we closed our TimkenSteel Material Services facility in Houston, Texas. See “Note 5 - Disposition of Non-Core Assets” in the Notes to the unaudited Consolidated Financial Statements for additional information.

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 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 COVID-19 Pandemic**

We continue to closely monitor the impact of the COVID-19 pandemic on our Company, customers, employees and supply chain. The full extent to which the COVID-19 pandemic will impact our operations and financial results is uncertain and ultimately will depend on, among many other factors, the duration of the pandemic, further Federal and State government actions and the speed of economic recovery. We estimate the impact on our first quarter of 2020 results was lost sales of approximately $10 million. The negative impact on our second quarter, remainder of the year and beyond remains unknown but at a minimum, we expect customer demand in the COVID-19 environment to be sharply lower in the second quarter of 2020, resulting in periodic production outages as the Company continues to balance production schedules with demand.

In response to the significant reduction in customer demand resulting from the COVID-19 crisis, the company has taken additional actions to further reduce operating expenses, conserve cash and maximize liquidity, such as:

* Reduced interim CEO and senior executives’ base salaries by 20 percent and other executives’ base salaries by 10 percent, effective May 1;
* Reduced cash retainer for its board of directors by 20 percent beginning with the second-quarter 2020, and reduced the value of the board’s annual equity grant by 20 percent;
* Suspended company’s 401(k) plan matching contributions for salaried employees, effective June 1;
* Implemented unpaid rolling furloughs for approximately 80 percent of salaried employees, beginning in early April;
* Aggressively reduced production schedules at all plants to align operations with customer demand, resulting in the temporary layoff of manufacturing employees;
* Reduced planned 2020 capital expenditures to a maximum of $25 million, a $5 million reduction from previously stated guidance; and
* Deferred Social Security payroll tax remittance as permitted by the CARES Act.

16



[Table of Contents](#page2)

**Impact of Raw Material Prices**

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.

**Results of Operations**

**Net Sales**

The charts below present net sales and shipments for the three months ended March 31, 2020 and 2019.



Net sales for the three months ended March 31, 2020 were $259.7 million, a decrease of $111.3 million, or 30.0%, compared with the three months ended March 31, 2019. The decrease was due to a reduction in volume of approximately 47.5 thousand ship tons, resulting in a decrease of $54.1 million of net sales, lower surcharges of $43.6 million, and change in mix of $9.3 million. The primary driver in the decrease in volume was lower customer demand across all end markets, partially offset by an increase in OCTG billet shipments. The decrease in surcharges was primarily due to a 38% decline in the average surcharge per ton due to lower market prices for scrap and alloys. Unfavorable mix was primarily driven by increased billet shipments. We estimate the impact of the COVID-19 pandemic on our net sales was a reduction of approximately $10.0 million. Excluding surcharges, net sales decreased $67.5 million, or 24.0%.

17



[Table of Contents](#page2)

**Gross Profit**

The chart below presents the drivers of the gross profit variance from the three months ended March 31, 2019 to March 31, 2020.



Gross profit for the three months ended March 31, 2020 decreased $20.6 million, or 72.5%, compared with the three months ended March 31, 2019. The decrease was driven primarily by lower volumes, unfavorable price/mix, and unfavorable manufacturing costs. The primary driver in the decrease in volume was lower customer demand across all end markets, partially offset by an increase in OCTG billet shipments. Unfavorable price/mix was driven by lower pricing, primarily in the industrial end market, and unfavorable mix, primarily due to increased billet shipments. Unfavorable manufacturing costs in 2020 were primarily due to a decline in melt utilization, resulting in lower fixed cost leverage, as well as the impact of accelerated depreciation related to the disposition of non-core assets, partially offset by the impact of cost reduction actions.

**Selling, General and Administrative Expenses**

The charts below present selling, general and administrative (SG&A) expense for the three months ended March 31, 2020 and 2019.



18



[Table of Contents](#page2)

Selling, general and administrative (SG&A) expense for the three months ended March 31, 2020 of $23.4 million was relatively consistent with the prior year quarter. The increase is primarily due to the increase in variable compensation and bad debt expense, substantially offset by lower wages and benefits, as a result of a reduction in employees following the Company’s recent restructuring actions.

**Restructuring Charges**

During 2019 and into the first quarter of 2020, TimkenSteel made organizational changes to enhance profitable and sustainable growth. These company-wide actions included the restructuring of its business support functions, the reduction of management layers throughout the organization, the closure of the TimkenSteel Material Services (TMS) facility in Houston, and other actions to further improve the Company’s overall cost structure. Through these restructuring efforts, to date the Company has eliminated approximately 160 salaried positions and recognized restructuring charges of $9.1 million, consisting of severance and employee-related benefits. Approximately 10 of these positions were eliminated in the first quarter of 2020. During the three months ended March 31, 2020, there were additional restructuring charges of $0.6 million, as well as a cash outflow of approximately $4 million primarily related to prior year restructuring actions. The Company expects to realize annual savings of approximately $20 million in 2020 and beyond as a result of these plans. Refer to “Note 4 - Restructuring Charges” in the Notes to the unaudited Consolidated Financial Statements for additional information.

**Interest Expense**

Interest expense for the three months ended March 31, 2020 was $3.2 million, a decrease of $1.0 million, compared with the three months ended March 31, 2019. The decrease in interest expense was primarily due to a reduction in outstanding borrowings as well as a lower interest rate environment. Refer to “Note 10 - Financing Arrangements” in the Notes to the unaudited Consolidated Financial Statements for additional information.

**Other Expense (Income), net**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Three Months Ended March 31,** |  |
|  | **2020** |  |  | **2019** |  | **$ Change** |
| Pension and postretirement non-service benefit loss (income) | **$** | **(6.6)** | $ | (2.8) | $ | (3.8) |
| Loss from remeasurement benefit plan |  | **9.5** |  | — |  | 9.5 |
| Foreign currency exchange loss (gain) |  | **—** |  | 0.1 |  | (0.1) |
| Miscellaneous expense (income) |  | **(0.2)** |  | — |  | (0.2) |
| **Total other expense (income), net** | **$** | **2.7** | $ | (2.7) | $ | 5.4 |

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 months ended March 31, 2020 and 2019.

The Salaried Plan has a provision that permits employees to elect to receive their pension benefits in a lump sum. In the first quarter of 2020, the cumulative cost of all lump sum payments was projected to exceed the sum of the service cost and interest cost components of net periodic pension cost for the Salaried Plan. The Company completed a full remeasurement of its pension obligations and plan assets associated with the Salaried Plan as of March 31, 2020, which resulted in a non-cash loss from remeasurement of $9.5 million. For more details on the remeasurement, refer to “Note 11 - Retirement and Postretirement Plans.”

**Provision for Income Taxes**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Three Months Ended March 31,** |  |
|  | **2020** |  |  | **2019** |  | **$ Change** |
| Provision (benefit) for income taxes | **$** | **0.1** | $ | 0.1 | $ | — |
| Effective tax rate |  | **(0.5)%** |  | 1.3% |  | NM |

The majority of the Company’s income tax expense is derived from foreign operations. The Company remains in a full valuation for the U.S. jurisdiction for the three months ended March 31, 2020 and 2019.

19



[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 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.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(dollars in millions, tons in thousands)** |  |  |  |  | **Three Months Ended March 31, 2020** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  | **Mobile** |  | **Industrial** |  | **Energy** |  | **Other** |  | **Total** |  |  |
| Tons |  |  | **88.8** |  | **81.2** |  | **18.4** |  | **25.0** |  | **213.4** |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net Sales | **$** | **97.7** | **$** | **113.3** | **$** | **25.2** | **$** | **23.5** | **$** | **259.7** |  |  |
| Less: Surcharges |  |  | **16.6** |  | **18.8** |  | **4.2** |  | **6.3** |  | **45.9** |  |  |
| Base Sales | **$** | **81.1** | **$** | **94.5** | **$** | **21.0** | **$** | **17.2** | **$** | **213.8** |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net Sales / Ton | **$** | **1,100** | **$** | **1,395** | **$** | **1,370** | **$** | **940** | **$** | **1,217** |  |  |
| Base Sales / Ton | **$** | **913** | **$** | **1,164** | **$** | **1,141** | **$** | **688** | **$** | **1,002** |  |  |
|  |  |  |  |  | **Three Months Ended March 31, 2019** |  |  |  |  |
|  |  |  | **Mobile** |  | **Industrial** |  | **Energy** |  | **Other** |  | **Total** |  |  |
| Tons |  |  | 112.8 |  | 102.5 |  | 31.4 |  | 14.2 |  | 260.9 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net Sales | $ | 144.2 | $ | 147.0 | $ | 60.8 | $ | 19.0 | $ | 371.0 |  |  |
| Less: Surcharges |  |  | 37.5 |  | 35.1 |  | 12.5 |  | 4.6 |  | 89.7 |  |  |
| Base Sales | $ | 106.7 | $ | 111.9 | $ | 48.3 | $ | 14.4 | $ | 281.3 |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net Sales / Ton | $ | 1,278 | $ | 1,434 | $ | 1,936 | $ | 1,338 | $ | 1,422 |  |  |
| Base Sales / Ton | $ | 946 | $ | 1,092 | $ | 1,538 | $ | 1,014 | $ | 1,078 |  |  |
|  |  |  | 20 |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |



[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.

**Amended Credit Agreement**

On October 15, 2019, the Company, entered into a Third Amended and Restated Credit Agreement (the Amended Credit Agreement), with JP Morgan Chase Bank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, and the other lenders party thereto, which further amends and restates the Company’s Second Amended and Restated Credit Agreement dated as of January 26, 2018.

The Amended Credit Agreement increases capacity to $400 million compared to $300 million in the previous facility and extends the maturity date to October 15, 2024. Furthermore, the Amended Credit Agreement provides for an enhanced asset base with reappraised fixed assets and investment grade foreign accounts receivable collateral in the borrowing base, improves interest rate spread pricing of 50 basis points, and reduces the unused commitment fee to a fixed 25 basis points from the previous 37.5 to 50 basis point range.

**Additional Liquidity Considerations**

The following represents a summary of key liquidity measures under the Amended Credit Agreement as of March 31, 2020 and December 31, 2019:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **March 31,** |  | **December 31,** |
|  |  | **2020** |  | **2019** |
| Cash and cash equivalents | **$** | **65.6** | $ | 27.1 |
|  |  |  |  |  |
| **Credit Agreement:** |  |  |  |  |
| Maximum availability | **$** | **400.0** | $ | 400.0 |
| Suppressed availability(1) |  | **(111.9)** |  | (103.0) |
| Availability |  | **288.1** |  | 297.0 |
| Amount borrowed |  | **(60.0)** |  | (90.0) |
| Letter of credit obligations |  | **(3.7)** |  | (3.8) |
| Availability not borrowed |  | **224.4** |  | 203.2 |
|  |  |  |  |  |
| Total liquidity | **$** | **290.0** | $ | 230.3 |

(1) As of March 31, 2020 and December 31, 2019, TimkenSteel had less than $400 million in collateral assets to borrow against.

Our principal sources of liquidity are cash and cash equivalents, cash flows from operations and available borrowing capacity under our credit agreement. As of March 31, 2020, taking into account our view of automotive, industrial, and energy market demands for our products, our 2020 operating and long-range plan, we believe that our cash balance as of March 31, 2020, projected cash generated from operations, and borrowings available under the Amended 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.

The full extent to which the COVID-19 pandemic will impact our operations and financial results is uncertain and ultimately will depend on, among many other factors, the duration of the pandemic, further Federal and State government actions from the Federal and State governments and the speed of economic recovery. While the negative impact on our second quarter, remainder of the year and beyond remains unknown, at a minimum, we expect customer demand in the COVID-19 environment to be sharply lower in the second quarter of 2020. 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 restructuring, changes in working capital management and further reductions of capital expenditures. Regardless, we will continue to evaluate additional financing or may seek to refinance outstanding borrowings under the Amended 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.

21



[Table of Contents](#page2)

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, an economic stimulus package intended to provide support, principally in the form of tax benefits and additional liquidity, to companies and individuals negatively impacted by the COVID-19 pandemic. Although the majority of the provisions included in the CARES Act will not immediately benefit the Company from a cash tax perspective due to its significant net operating losses, the Company has taken advantage of the deferral of the employer share (6.2% of employee wages) of Social Security payroll taxes that would otherwise have been owed from the date of enactment of the legislation through December 31, 2020, as afforded by the Act. The Company expects this to result in deferred cash payments of approximately $7 million to $10 million for the remainder of 2020, to be paid in two equal installments at December 31, 2021 and December 31, 2022.

For additional details regarding the Amended Credit Agreement and the Convertible Notes, please refer to “Note 14 - Financing Arrangements” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

**Cash Flows**

The following table reflects the major categories of cash flows for the three months ended March 31, 2020 and 2019. For additional details, please refer to the unaudited Consolidated Statements of Cash Flows included in this quarterly report.

**Three Months Ended March 31,**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2020** |  |  | **2019** |
| Net cash provided (used) by operating activities | **$** | **63.8** | $ | (33.6) |
| Net cash provided (used) by investing activities |  | **4.9** |  | (4.4) |
| Net cash (used) provided by financing activities |  | **(30.2)** |  | 24.2 |
| **(Decrease) Increase in Cash and Cash Equivalents** | **$** | **38.5** | $ | (13.8) |

*Operating activities*

Net cash provided by operating activities for the three months ended March 31, 2020 was $63.8 million compared to net cash used of $33.6 million for the three months ended March 31, 2019. The increase in cash provided by operating activities of $97.4 million was primarily due to management actions to improve working capital.

The improvement in working capital between periods was due to inventories and accounts payable, partially offset by accounts receivable. The additional cash provided by inventory was primarily driven by the Company’s inventory management program implemented late in 2019, which resulted in decreases in raw material inventory on hand, as compared to higher inventory in the first quarter of 2019. The additional cash provided by accounts payable was primarily driven by harmonization of the Company’s payment procedures instituted in the first quarter of 2020, as well as a lower level of overall purchases and a decline in scrap raw material prices in recent months as compared to the prior year comparable period. The increased use of cash in accounts receivable was primarily due to higher sales in the first three months of 2020 in comparison to the last quarter of 2019, which resulted in first quarter of 2020 billings exceeding collections. In comparison, sales declined in the first three months of 2019 in comparison to the last quarter of 2018, which resulted in collections exceeding billings in the first quarter of 2019. Refer to the unaudited Consolidated Statements of Cash Flows for additional information.

*Investing activities*

Net cash provided by investing activities for the three months ended March 31, 2020 was $4.9 million, as compared to net cash used of $4.4 million for the three months ended March 31, 2019. Cash provided by investing activities in the first quarter of 2020 primarily relates to proceeds from sales of property, plant and equipment in conjunction with the disposition of non-core assets, as discussed in “Note 5 – Disposition of Non-Core Assets” in the Notes to the unaudited Consolidated Financial Statements, partially offset by capital investments in our manufacturing facilities. Cash used for investing activities in the first quarter of 2019 primarily relates to capital investments in our manufacturing facilities.

Given the current economic environment, the Company reduced its capital expenditure budget by $5 million to a maximum of $25 million in 2020 (made up of approximately $6 million relating to growth initiatives and the remainder related to continuous improvement). The Company has no material capital expenditure plans or commitments beyond 2020 at this time.

*Financing activities*

Net cash used by financing activities for the three months ended March 31, 2020 was $30.2 million compared to net cash provided by financing activities of $24.2 million for the three months ended March 31, 2019, primarily due to changes in borrowings on credit agreements.

**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.

22



[Table of Contents](#page2)

**New Accounting Guidance**

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

**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-Q. 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;
* the potential impact of the COVID-19 pandemic on our operations, financial results, and liquidity;
* 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; 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, 2019.

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.

**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 March 31, 2020, we have $139.8 million of aggregate debt outstanding, of which $60.0 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 $0.6 million annually.

23



[Table of Contents](#page2)

**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.

24



[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, and 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, 2019 filed with the SEC.

**Risks Related to COVID-19**

***The COVID-19 pandemic could have a material, adverse impact on our operations and financial results including cash flows and liquidity.***

We continue to closely monitor the impact of the COVID-19 pandemic on our Company, customers, employees and supply chain. The full extent to which the COVID-19 pandemic will impact our operations and financial results is uncertain and ultimately will depend on, among many other factors, the duration of the pandemic, further Federal and State government actions and the speed of economic recovery. The negative impact on our second quarter, remainder of the year and beyond remains unknown.

The effects of the COVID-19 pandemic also may impact other risk factors previously disclosed in Item 1A. Risk Factors in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019. This impact could be to cause previously disclosed risks to occur or to increase the severity of the negative affect inherent in those other risk factors.

25



[Table of Contents](#page2)

**ITEM 6. EXHIBITS**

**Exhibit**

**Number** **Exhibit Description**



|  |  |
| --- | --- |
| 10.1\* | [Form Performance-Based Restricted Stock Unit Agreement](#page28) |
| 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](#page44) |
|  | [Sarbanes-Oxley Act of 2002.](#page44) |  |
|  |  |  |  |
| 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](#page45) |  |
|  | [Sarbanes-Oxley Act of 2002.](#page45) |
|  |  |  |
| 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](#page46) |
|  | [Sarbanes-Oxley Act of 2002.](#page46) |
| 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.

26



[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: May 7, 2020 |  | /s/Kristopher R. Westbrooks |
|  |  | Kristopher R. Westbrooks |
|  |  | Executive Vice President and Chief Financial Officer |
|  |  | (Principal Financial Officer) |
|  | 27 |

**Exhibit 10.1**

**TIMKENSTEEL CORPORATION**

**Performance-Based Restricted Stock Unit Agreement**

WHEREAS, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (“***Grantee***”) is an employee of TimkenSteel Corporation (the “***Company***”) or a

Subsidiary thereof; and

WHEREAS, the grant of performance-based Restricted Stock Units evidenced hereby was authorized by a resolution of the Compensation Committee (the “***Committee***”) of the Board that was duly adopted on February 11, 2020, and the execution of a performance-based Restricted Stock Unit agreement in the form hereof (this “***Agreement***”) was authorized by a resolution of the Committee duly adopted on February 11, 2020.

NOW, THEREFORE, pursuant to the TimkenSteel Corporation Amended and Restated 2014 Equity and Incentive Performance Plan (the “***Plan***”) and subject to the terms and conditions thereof and the terms and conditions hereinafter set forth, the Company hereby confirms to Grantee the grant, effective \_\_\_\_\_, 2020 (the “***Date of Grant***”), of \_\_\_\_\_ performance-based

Restricted Stock Units (the “***PRSUs***”). All terms used in this Agreement with initial capital letters that are defined in the Plan and not otherwise defined herein shall have the meanings assigned to them in the Plan. Subject to the attainment of the Management Objectives described in **Section 3** of this Agreement, Grantee may earn between 0% and 150% of the PRSUs.

1. Payment of PRSUs. The PRSUs will become payable in accordance with the provisions of **Section 6** of this Agreement if the Restriction Period lapses and Grantee’s right to receive payment for the PRSUs becomes nonforfeitable (“***Vest***,” “***Vesting***” or “***Vested***”) in accordance with **Section 3** and **Section 4** of this Agreement.
2. PRSUs Not Transferrable. None of the PRSUs nor any interest therein or in any Common Shares underlying such PRSUs is transferable prior to payment other than by will or the laws of descent and distribution upon the death of the Grantee.
3. Vesting of PRSUs.
	1. Subject to the terms and conditions of **Section 4** and **Section 5** of this Agreement, the PRSUs will be earned and Vest on the basis of the relative achievement of the Management Objectives approved by the Committee on or before the Date of Grant (the “***Performance Metrics***”) for the period from **January 1, 2020 through December 31, 2022**, inclusive (the “***Performance Period***”), as set forthon **Exhibit A** of this Agreement. The Vesting of the PRSUs pursuant to this **Section 3** or pursuant to **Section 4** is contingent upon a determination of the Committee that the Performance Metrics have been satisfied and the PRSUs have been earned, as described in this **Section 3** and set forth in **Exhibit A**.

NAI-1511148714v4



* 1. If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, the manner in which it conducts business or other events or circumstances render the Performance Metrics specified in this **Section 3** to be unsuitable, the Committee may modify such Performance Metrics or any related minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate.
	2. Subject to **Section 3(a)** and **Section 3(b)**, the PRSUs earned with respect to the Performance Period will Vest if Grantee is in the continuous employ of the Company or a Subsidiary from the Date of Grant through the last day of the Performance Period. For purposes of this Agreement, the continuous employment of Grantee with the Company or a Subsidiary will not be deemed to have been interrupted, and Grantee shall not be deemed to have ceased to be an employee of the Company or a Subsidiary, by reason of the transfer of Grantee’s employment among the Company and its Subsidiaries.
1. Alternative Vesting of PRSUs. Notwithstanding the provisions of **Section 3** of this Agreement, and subject to the payment provisions of **Section 6** hereof, some or all of the PRSUs will Vest under the following circumstances:
	1. Death or Disability: If Grantee dies or become permanently disabled while in the employ of the Company or a Subsidiary, then Grantee shall Vest in a number of PRSUs equal to the product of
		1. the number of PRSUs in which Grantee would have Vested in accordance with the terms and conditions of **Section 3** if Grantee had remained in the continuous employ of the Company or a Subsidiary from the Date of Grant until the end of the Performance Period or the occurrence of a Change in Control to the extent a Replacement Award is not provided, whichever occurs first, multiplied by (ii) a fraction (in no case greater than 1) the numerator of which is the number of whole months from the first day of the Performance Period through the date of such death or permanent disability and the denominator of which is 36. PRSUs that Vest in accordance with this **Section 4(a)** will be paid as provided for in **Section 6** of this Agreement. As used herein,“permanently disabled” means that Grantee has qualified for long-term disability benefits under a disability plan or program of the Company or a Subsidiary or, in the absence of a disability plan or program of the Company or a Subsidiary, under a government-sponsored disability program, and is “disabled” within the meaning of Section 409A(a)(2)(C) of the Code. As used in this Agreement, “Code” means the Internal Revenue Code of 1986, as amended, including any regulations or any other formal guidance promulgated by the U.S. Department of the Treasury or the Internal Revenue Service with respect to the Sections of the Code referenced in this Agreement.

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -2- |
|  |  |



1. Retirement: If Grantee retires with the Company’s consent, then Grantee shall Vest in a number of PRSUs equal to the product of (i) the number of PRSUs in which Grantee would have Vested in accordance with the terms and conditions of **Section 3** if Grantee had remained in the continuous employ of the Company or a Subsidiary from the Date of Grant until the end of the Performance Period or the occurrence of a Change in Control to the extent a Replacement Award is not provided, whichever occurs first, multiplied by (ii) a fraction (in no case greater than 1) the numerator of which is the number of whole months from the first day of the Performance Period through the date of such retirement and the denominator of which is 36. PRSUs that Vest in accordance with this **Section 4(b)** will be paid as provided for in **Section 6** of this Agreement. As used herein, “retirewith the Company’s consent” means: (i) the retirement of Grantee prior to age 62 and eligible to retire under a retirement plan of the Company or a Subsidiary, if the Board or the Committee determines that his or her retirement is for the convenience of the Company or a Subsidiary ; or (ii) the retirement of Grantee at or after age 62 and eligible to retire under a retirement plan of the Company or a Subsidiary.
2. Change in Control:
3. Upon a Change in Control occurring during the Restriction Period while Grantee is an employee of the Company or a Subsidiary or during the period that Grantee is deemed to be in the continuous employ of the Company or a Subsidiary pursuant to **Section 4(a)**, **4(b)**, **4(d)** or **4(e)**, to the extent the PRSUs have not been forfeited, then, notwithstandingany provision of this Agreement (including **Exhibit A**) to the contrary, (A) the Committee as constituted immediately before such Change in Control shall determine and certify the number of earned PRSUs in accordance with **Exhibit A** to this Agreement based on achievement of the Performance Metrics as of the date of the Change in Control (the “Change in Control Payout Level”), and (B) a number of the PRSUs will Vest (except to the extent that a Replacement Award is provided to Grantee for the PRSUs to continue, replace or assume the PRSUs covered by this Agreement) equal to the product of (I) the number of PRSUs earned at the Change in Control Payout Level, multiplied by (II) a fraction (in no case greater than 1), the numerator of which is the number of whole months from the first day of the Performance Period through the date of the Change in Control, and the denominator of which is 36, but in no event may negative discretion be exercised with respect to the number of PRSUs Vested. Any PRSUs that are not earned and do not Vest in accordance with this **Section 4(c)(i)** shall terminate and be forfeited (except to the extent that a Replacement Award is provided). PRSUs that Vest in accordance with this **Section 4(c)(i)** will be paid as provided for in **Section 6** of this Agreement.

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -3- |
|  |  |



1. As used in this Agreement, a “***Replacement Award***” means an award (A) of service-based restricted stock units with no performance-based vesting requirements, (B) that has a value at least equal to the value of the PRSUs earned at the Change in Control Payout Level, (C) that relates to publicly traded equity securities of the Company or its successor in the Change in Control (or another entity that is affiliated with the Company or its successor following the Change in Control), (D) the tax consequences of which, under the Code, if Grantee is subject to U.S. federal income tax under the Code, are not less favorable to Grantee than the tax consequences relative to the PRSUs, (E) that Vests upon a termination of Grantee’s employment with the Company or a Subsidiary or their successors in the Change in Control (or another entity that is affiliated with the Company or a Subsidiary or their successors following the Change in Control) (as applicable, the “***Successor***”) for Good Reason by Grantee or without Cause by such employer or upon the death of Grantee or Grantee becoming permanently disabled (as defined in **Section** **4(a)**), in each case prior to the end of the Performance Period and within a period of twoyears after the Change in Control; provided, that the number of PRSUs in which Grantee shall so Vest shall be equal to the product of (X) the number of PRSUs earned at the Change in Control Payout Level, multiplied by (Y) a fraction (in no case greater than 1) the numerator of which is the number of whole months from the first day of the Performance Period through the date of such termination, death or permanent disability, and the denominator of which is 36, and (F) the other terms and conditions of which are not less favorable to Grantee than the terms and conditions of the PRSUs (including the provisions that would apply in the event of a subsequent Change in Control). A Replacement Award may be granted only to the extent it conforms to the requirements of Treasury Regulation 1.409A-3(i)(5)(iv)(B) or otherwise does not result in the PRSUs or Replacement Award failing to comply with or be exempt from Section 409A of the Code. Without limiting the generality of the foregoing, the Replacement Award may take the form of a continuation of the PRSUs if the requirements of the preceding sentence are satisfied. The determination of whether the conditions of this **Section 4(c)(ii)** are satisfied will be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion.

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -4- |
|  |  |



* 1. For purposes of **Section 4(c)(ii)**, “***Cause***” will be defined not less favorably with respect to Grantee than: any intentional act of fraud, embezzlement or theft in connection with the Grantee’s duties with the Successor, any intentional wrongful disclosure of secret processes or confidential information of the Successor, or any intentional wrongful engagement in any competitive activity that would constitute a material breach of Grantee’s duty of loyalty to the Successor, and no act, or failure to act, on the part of Grantee shall be deemed “intentional” unless done or omitted to be done by Grantee not in good faith and without reasonable belief that Grantee’s action or omission was in or not opposed to the best interest of the Successor; provided, that for any Grantee who is party to an individual severance or employment agreement defining Cause, “Cause” will have the meaning set forth in such agreement. Also for purposes of **Section 4(c)(ii)**, “***Good Reason***” means: a material reduction in the nature or scope of the responsibilities, authorities or duties of Grantee attached to Grantee’s position held immediately prior to the Change in Control, or a change of more than 60 miles in the location of Grantee’s principal office immediately prior to the Change in Control, or a material reduction in Grantee’s remuneration upon or after the Change in Control; provided, that, no later than 90 days following an event constituting Good Reason, Grantee gives notice to the Successor of the occurrence of such event and the Successor fails to cure the event within 30 days following the receipt of such notice.
	2. If a Replacement Award is provided, notwithstanding anything in this Agreement to the contrary, any outstanding PRSUs which at the time of the Change in Control are not subject to a “substantial risk of forfeiture” (within the meaning of Section 409A of the Code) will be deemed to be Vested at the time of such Change in Control and will be paid as provided for in **Section 6** of this Agreement.
1. Divestiture: If Grantee’s employment with the Company or a Subsidiary terminates as the result of a divestiture, then Grantee shall Vest in a number of PRSUs equal to the product of (i) the number of PRSUs in which Grantee would have Vested in accordance with the terms and conditions of **Section 3** if Grantee had remained in the continuous employ of the Company or a Subsidiary fromthe Date of Grant until the end of the Performance Period or the occurrence of a Change in Control to the extent a Replacement Award is not provided, whichever occurs first, multiplied by (ii) a fraction (in no case greater than 1) the numerator of which is the number of whole months from the first day of the Performance Period through the date of such termination and the denominator of which is 36. PRSUs that Vest in accordance with this **Section 4(d)** will be paid as provided for in **Section 6** of this Agreement. As used herein, the term “divestiture” means a permanent dispositionto a Person other than the Company or any Subsidiary of a plant or other facility or property at which Grantee performs a majority of Grantee’s services, whether such disposition is effected by means of a sale of assets, a sale of Subsidiary stock or otherwise.

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -5- |
|  |  |



* 1. Layoff: If (i) Grantee’s employment with the Company or a Subsidiary terminates as the result of a layoff and (ii) Grantee is entitled to receive severance pay pursuant to the terms of any severance pay plan of the Company in effect at the time of Grantee’s termination of employment that provides for severance pay calculated by multiplying Grantee’s base compensation by a specified severance period, then Grantee shall Vest in a number of PRSUs equal to the product of (x) the number of PRSUs in which Grantee would have Vested in accordance with the terms and conditions of **Section 3** if Grantee had remained in the continuous employ of the Company or a Subsidiary fromthe Date of Grant until the end of the Performance Period or the occurrence of a Change in Control to the extent a Replacement Award is not provided, whichever occurs first, multiplied by (y) a fraction (in no case greater than 1) the numerator of which is the number of whole months from the first day of the Performance Period through the end of the specified severance period and the denominator of which is 36. PRSUs that Vest in accordance with this **Section 4(e)** will be paid as provided for in **Section 6** of this Agreement. As used herein, “layoff” means the involuntary termination by the Company or any Subsidiary of Grantee’s employment with the Company or any Subsidiary due to (A) a reduction in force leading to a permanent downsizing of the salaried workforce, (B) a permanent shutdown of the plant, department or subdivision in which Grantee works, (C) an elimination of position; or (D) any or no reason, except for Cause, at the Company’s discretion; provided that a termination under clause (D) shall constitute a “layoff” for purposes of this Agreement only (i) upon the prior approval of the Compensation Committee in the case of an executive officer, or (ii) upon the prior approval of the Executive Vice President—Human Resources and Corporate Relations or the Executive Vice President, General Counsel and Secretary in the case of any other terminated Grantee.
1. Forfeiture of PRSUs. Any PRSUs that have not Vested pursuant to **Section 3** or **Section 4** at the end of the Performance Period will be forfeited automatically and without further notice after the end of the Performance Period (or earlier if, and on such date that, Grantee ceases to be an employee of the Company or a Subsidiary prior to the end of the Performance Period for any reason other than as described in **Section 4**).
2. Form and Time of Payment of PRSUs.
	1. General. Subject to **Section 5**, **Section 6(b)**, and **Section 6(c)**, payment for Vested PRSUs will be made in cash or Common Shares (as determined by the Committee) in the year following the last day of the Performance Period but in no event later than March 15 of that year.

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -6- |
|  |  |



* 1. Change in Control. Notwithstanding **Section 6(a)**, to the extent PRSUs are Vested on the date of a Change in Control, Grantee will receive payment for Vested PRSUs in cash or Common Shares (as determined by the Committee) on the date of the Change in Control; provided, however, that if such Change in Control would not qualify as a permissible date of distribution under Section 409A(a)(2)
		1. of the Code, and where Section 409A of the Code applies to such distribution, Grantee will receive the corresponding payment on the date that would have otherwise applied pursuant to this **Section 6**.
	2. Payment Following a Change in Control. Notwithstanding **Section 6(a)**, if, during the two-year period following a Change in Control, Grantee experiences a “separation from service” (within the meaning of Treasury Regulation section 1.409A-1(h)), the PRSUs that are Vested as of the date of such separation from service shall be paid in cash or Common Shares (as determined by the Committee) within 10 days of the separation from service to the extent they have not been previously paid to Grantee; provided, however, that if such Change in Control would not qualify as a permissible date of distribution under Section 409A(a)(2)(A) of the Code, and where Section 409A of the Code applies to such distribution, Grantee will receive the corresponding payment on the date that would have otherwise applied pursuant to this **Section 6**.
1. Dividend Equivalents. Grantee shall be credited with cash per PRSU equal to the amount of each cash dividend paid by the Company (if any) to holders of Common Shares generally with a record date occurring on or after the Date of Grant and prior to the time when the PRSUs are paid in accordance with **Section 6** hereof. Any amounts credited pursuant to the immediately preceding sentence shall be subject to the same applicable terms and conditions (including earning, Vesting, payment, and forfeitability) as apply to the PRSUs based on which the dividend equivalents were credited, and such amounts shall be paid in either cash or Common Shares, as determined by the Committee in its sole discretion, at the same time as the PRSUs to which they relate. If such amounts are paid in Common Shares, the number of shares so paid shall be rounded down to the nearest whole number and shall be determined by dividing such credited amounts by the Market Value per Share on the payment date.

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -7- |
|  |  |



1. Detrimental Activity and Recapture.
	1. Notwithstanding anything in this Agreement to the contrary, in the event that, as determined by the Committee, Grantee engages in Detrimental Activity during employment with the Company or a Subsidiary, the PRSUs will be forfeited automatically and without further notice at the time of that determination. As used herein, “***Detrimental Activity***” means:
		1. engaging in any activity, as an employee, principal, agent, or consultant, for another entity that competes with the Company in any actual, researched, or prospective product, service, system, or business activity for which Grantee has had any direct responsibility during the last two years of his or her employment with the Company or a Subsidiary, in any territory in which the Company or a Subsidiary manufactures, sells, markets, services, or installs such product, service, or system, or engages in such business activity;
		2. soliciting any employee of the Company or a Subsidiary to terminate his or her employment with the Company or a Subsidiary;
		3. the disclosure to anyone outside the Company or a Subsidiary, or the use in other than the Company’s or one of its Subsidiary’s business, without prior written authorization from the Company, of any confidential, proprietary or trade secret information or material relating to the business of the Company and its Subsidiaries, acquired by Grantee during his or her employment with the Company or its Subsidiaries or while acting as a director of or consultant for the Company or its Subsidiaries thereafter;
		4. the failure or refusal to disclose promptly and to assign to the Company upon request all right, title and interest in any invention or idea, patentable or not, made or conceived by Grantee during employment by the Company and any Subsidiary, relating in any manner to the actual or anticipated business, research or development work of the Company or any Subsidiary or the failure or refusal to do anything reasonably necessary to enable the Company or any Subsidiary to secure a patent where appropriate in the United States and in other countries;
		5. activity that results in Termination for Cause. As used herein, “***Termination for Cause***” means a termination: (A) due to Grantee’s willful and continuous gross neglect of his or her duties for which he or she is employed; or (B) due to an act of dishonesty on the part of Grantee constituting a felony resulting or intended to result, directly or indirectly, in his or her gain for personal enrichment at the expense of the Company or a Subsidiary; or

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -8- |
|  |  |



1. any other conduct or act determined to be injurious, detrimental or prejudicial to any significant interest of the Company or any Subsidiary unless Grantee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company.

Nothing in this Agreement prevents Grantee from providing, without prior notice to the Company, information to governmental authorities regarding possible legal violations or otherwise testifying or participating in any investigation or proceeding by any governmental authorities regarding possible legal violations.

1. If a Restatement occurs and the Committee determines that Grantee is personally responsible in whole or in part for causing the Restatement as a result of Grantee’s personal misconduct or any fraudulent activity on the part of Grantee, then the Committee has discretion to, based on applicable facts and circumstances and subject to applicable law, cause the Company to recover all or any portion (but no more than 100%) of the PRSUs (plus dividend equivalent payments) earned or payable to Grantee for some or all of the years covered by the Restatement. The amount of any earned or payable PRSUs (and dividend equivalent payments) recovered by the Company shall be limited to the amount by which such earned or payable PRSUs (and dividend equivalent payments) exceeded the amount that would have been earned by or paid to Grantee had the Company’s financial statements for the applicable restated fiscal year or years been initially filed as restated, as reasonably determined by the Committee. The Committee also shall determine whether the Company shall effect any recovery under this **Section 8(b)** by: (i) seeking repayment from Grantee;
	1. reducing, except with respect to any non-qualified deferred compensation under Section 409A of the Code, the amount that would otherwise be payable to Grantee under any compensatory plan, program or arrangement maintained by the Company (subject to applicable law and the terms and conditions of such plan, program or arrangement); (iii) by withholding, except with respect to any non-qualified deferred compensation under Section 409A of the Code, payment of future increases in compensation (including the payment of any discretionary bonus amount) that would otherwise have been made to Grantee in accordance with the Company’s compensation practices; or (iv) by any combination of these alternatives. As used herein, “***Restatement***” means a restatement (made within 24 months of the publication of the financial statements that are required to be restated) of any part of the Company’s financial statements for any fiscal year or years beginning with the year in which the Date of Grant occurs due to material noncompliance with any financial reporting requirement under the U.S. securities laws applicable to such fiscal year or years. Notwithstanding anything in this Agreement to the contrary, Grantee acknowledges and agrees that this Agreement and the award described herein (and any settlement thereof) are subject to the terms and conditions of the Company’s clawback policy (if any) as may be in effect from time to time, including specifically to implement Section 10D of the Exchange Act and any applicable rules or regulations promulgated thereunder (including applicable rules and regulations of any national securities exchange on which the Common Shares are traded) (the “***Compensation Recovery Policy***”), and that this **Section 8** shall be deemed superseded by and subject to the terms and conditions of the Compensation Recovery Policy from and after the effective date thereof.

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -9- |
|  |  |



1. Compliance with Law. The Company shall not be obligated to issue any of the Common Shares covered by this Agreement if the issuance thereof would result in violation of any law or regulation to which the Company is subject.
2. Adjustments. Subject to **Section 13** of the Plan, the Committee shall make any adjustments in the number of PRSUs or kind of shares of stock or other securities underlying the PRSUs covered by this Agreement, or in any other terms of this award, that the Committee determines to be equitably required to prevent any dilution or enlargement of Grantee’s rights under this Agreement that otherwise would result from any (a) stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, (b) merger, consolidation, separation, reorganization or partial or complete liquidation involving the Company or (c) other transaction or event having an effect similar to any of those referred to in **Section 10(a)** or **10(b)** hereof. Furthermore, in the event any transaction or event described or referred to inthe immediately preceding sentence shall occur, or in the event of a Change in Control, the Committee shall provide in substitution of any or all of Grantee’s rights under this Agreement such alternative consideration (including cash) as the Committee determines in good faith to be equitable under the circumstances.
3. Withholding Taxes. If the Company is required to withhold federal, state, local, employment, or foreign taxes, or, to the extent permitted under Section 409A of the Code, any other applicable taxes, in connection with Grantee’s right to receive Common Shares under this Agreement (regardless whether Grantee is entitled to the delivery of any Common Shares at that time), and the amounts available to the Company for such withholding are insufficient, it shall be a condition to the receipt of any Common Shares or any other benefit provided for under this Agreement that Grantee make arrangements satisfactory to the Company for payment of the balance of the taxes. Grantee may satisfy such tax obligation by paying the Company cash via personal check. Alternatively, Grantee may elect that all or any part of such tax obligation be satisfied by the Company’s retention of a portion of the Common Shares provided for under this Agreement or by Grantee’s surrender of a portion of the Common Shares that he or she has owned for at least 6 months. In no event, however, shall the Company accept Common Shares for payment of taxes in excess of required tax withholding rates (unless such higher withholding amounts would not result in adverse accounting implications for the Company). If an election is made to satisfy Grantee’s tax obligation with the release or surrender of Common Shares, the Common Shares shall be credited in the following manner: (a) at the Market Value per Share on the date of delivery if the tax obligations arise due to the delivery of Common Shares under this Agreement; or (b) at the Market Value per Share on the date the tax obligation arises, if for a reason other than the delivery of Common Shares under this Agreement.
4. Right to Terminate Employment. Nothing in this Agreement limits in any way whatsoever any right the Company or a Subsidiary may otherwise have to terminate the employment of Grantee at any time.

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -10- |
|  |  |



1. Relation to Other Benefits. Any economic or other benefit to Grantee under this Agreement or the Plan will not be taken into account in determining any benefits to which Grantee may be entitled under any profit‑sharing, retirement or other benefit or compensation plan maintained by the Company or a Subsidiary and will not affect the amount of any life insurance coverage available to any beneficiary under any life insurance plan covering employees of the Company or a Subsidiary.
2. Amendments. Any amendment to the Plan will be deemed to be an amendment to this Agreement to the

extent the amendment is applicable to this Agreement; provided, however, that (a) no amendment will adversely affect the rights of Grantee with respect to the Common Shares or other securities covered by this Agreement without Grantee’s consent and (b) Grantee’s consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 10D of the Exchange Act. Notwithstanding the foregoing, the limitation requiring the consent of Grantee to certain amendments will not apply to any amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code.

1. Severability. In the event one or more of the provisions of this Agreement is invalidated for any reason by a court of competent jurisdiction, any provision so invalidated will be deemed to be separable from the other provisions of this Agreement, and the remaining provisions of this Agreement will continue to be valid and fully enforceable.
2. Governing Law. This Agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Ohio.
3. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to Grantee. This Agreement and the Plan shall be administered in a manner consistent with this intent. Notwithstanding any provision of the Agreement to the contrary, if, at the time of Grantee’s separation from service (within the meaning of Section 409A of the Code), (a) Grantee is a specified employee (within the meaning of Section 409A of the Code and using the identification methodology selected by the Company from time to time) and (b) the Company makes a good faith determination that an amount payable hereunder constitutes deferred compensation (within the meaning of Section 409A of the Code) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A of the Code in order to avoid taxes or penalties under Section 409A of the Code, then the Company shall not pay such amount on the otherwise scheduled payment date but shall instead pay it, without interest, on the first business day of the seventh month after Grantee’s separation from service.

**[SIGNATURES ON FOLLOWING PAGE]**

|  |  |
| --- | --- |
| NAI- 1511148714v4 | -11- |
|  |  |



**Exhibit 10.1**

The undersigned Grantee hereby acknowledges receipt of an executed original of this Agreement and accepts the award of PRSUs covered hereby, subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

Grantee



Date:



This Agreement is executed by the Company on this \_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_, 20\_\_.

TimkenSteel Corporation

By:



Frank A. DiPiero

Executive Vice President, General Counsel &

Secretary

NAI-1511148714v4



**Exhibit A**

**Statement of Management Objectives**

This Statement of Management Objectives applies to the PRSUs granted to the Grantee on the Date of Grant memorialized in the Agreement. Capitalized terms used in the Agreement that are not specifically defined in this Statement of Management Objectives have the meanings assigned to them in the Agreement or in the Plan, as applicable.

Section 1. Definitions. For purposes hereof:

1. “***Peer Group***” means, of a benchmark group of **17** entities, the names of which are attached hereto as Annex A, those entities that remain in the Peer Group as of the end of the Performance Period (or the date of the Change in Control if **Section 1(e)(ii)** of this **Exhibit A** is applicable) after application of the Peer Group Adjustment Protocol.
2. “***Peer Group Adjustment Protocol***” means: (i) if an entity listed in Annex A files for bankruptcy and/or liquidation, is operating under bankruptcy protection, or is delisted from its primary stock exchange because it fails to meet the exchange listing requirement, then such entity will remain in the Peer Group, but RTSR for the Performance Period will be calculated as if such entity achieved Total Shareholder Return placing it at the bottom (chronologically, if more than one such entity) of the Peer Group; (ii) if, by the last day of the Performance Period (or the date of the Change in Control if **Section 1(e)(ii)** of this **Exhibit A** is applicable), an entity listed in Annex A has been acquired, or has announced that it has entered into a definitive agreement the consummation of which will result in such entity’s acquisition, and/or the entity is no longer existing as a public company that is traded on its primary stock exchange (other than for the reasons as described in subsection (i) above), then such entity will not remain in the Peer Group and RTSR for the Performance Period will be calculated as if such entity had never been a member of the Peer Group; and (iii) except as otherwise described in subsection (i) and (ii) above, for purposes of this Statement of Management Objectives, for each of the entities listed in Annex A, such entity shall be deemed to include any successor to all or substantially all of the primary business of such entity at end of the Performance Period.
3. “***Relative Total Shareholder Return***” or “***RTSR***” means the percentile rank of the Company’s Total Shareholder Return among the Total Shareholder Returns of all members of the Peer Group (including the Company), ranked in descending order, at the end of the Performance Period (or the date of the Change in Control if **Section 1(e)(ii)** of this **Exhibit A** is applicable).
4. “***Total Shareholder Return***” means, with respect to each of the Common Shares and the common stock of each of the members of the Peer Group, a rate of return reflecting stock price appreciation, plus the reinvestment of dividends in additional shares of stock, from the beginning of the Performance Period through the end of the Performance Period. Total Shareholder Return will be calculated as follows:

NAI- 1511148714v4



1. Except as provided in clause (ii), Total Shareholder Return will be calculated for the Company and each member of the Peer Group by averaging the Company’s and member’s shareholder return for each calendar year during the Performance Period measured at the last day of each calendar year against the beginning price at the start of the Performance Period. For purposes of calculating Total Shareholder Return for each of the Company and the members of the Peer Group, the beginning stock price will be based on the average closing stock price for the 20 trading days immediately preceding the first day of the Performance Period on the principal stock exchange on which the stock then traded and the ending stock price for each calendar year during the Performance Period will be based on the average closing stock price for the 20 trading days ending on December 31 of each calendar year in the Performance Period on the principal stock exchange on which the stock then trades.
2. If a Change in Control occurs during the Restriction Period, and **Section 4(c)** of the Agreement applies to the PRSUs, (A) for purposes of determining Total Shareholder Return, the last day of the Performance Period will be the date of the Change in Control, and (B) Total Shareholder Return will be calculated for the Company and each member of the Peer Group using a beginning stock price based on the average closing stock price for the 20 trading days immediately preceding the first day of the Performance Period on the principal stock exchange on which the stock then traded, and the ending stock price for the Company will be the “Sale Price” (as defined below) and for each member of the Peer Group will be based on the average closing stock price for the 20 trading days ending on the date of the Change in Control on the principal stock exchange on which the stock then traded. The “Sale Price” will be the amount of consideration per Common Share that shareholders of the Company receive upon consummation of the Change in Control (including the fair market value, as determined by the Committee, of any non-cash consideration); provided that if the Change in Control is not the result of a transaction in which shareholders receive consideration, the “Sale Price” will be the closing price of a Common Share on the last trading day immediately preceding the date of the Change in Control.

Section 2. Performance Matrices.

From 0% to 150% of the PRSUs will be earned based on achievement of the Management Objectives measured by RTSR performance during the Performance Period, in each case as follows:

|  |  |  |
| --- | --- | --- |
| **Performance Level** | **Relative Total Shareholder Return** | **PRSUs Earned** |
| Below Threshold | Ranked below 25th percentile | 0% |
| Threshold | Ranked at 25th percentile | 50% |
| Target | Ranked at 50th percentile | 100% |
| Maximum | Ranked at or above 75th percentile | 150% |

NAI- 1511148714v4



Section 3. Number of PRSUs Earned. The Committee shall determine whether and to what extent the goals relating to the Management Objectives have been satisfied for the Performance Period and shall determine the number of PRSUs that shall become earned hereunder and under the Agreement on the basis of the following:

1. Below Threshold. If, upon the conclusion of the Performance Period (or the date of the Change in Control if **Section 1(e)(ii)** of this **Exhibit A** is applicable), RTSR for the Performance Period falls below the thresholdlevel, as set forth in the Performance Matrices, no PRSUs shall become earned.
2. Threshold. If, upon the conclusion of the Performance Period (or the date of the Change in Control if **Section** **1(e)(ii)** of this **Exhibit A** is applicable), RTSR for the Performance Period equals the threshold level, as setforth in the Performance Matrices, 50% of the PRSUs (rounded down to the nearest whole number of PRSUs) shall become earned.
3. Between Threshold and Target. If, upon the conclusion of the Performance Period (or the date of the Change in Control if **Section 1(e)(ii)** of this **Exhibit A** is applicable), RTSR for the Performance Period exceeds the threshold level, but is less than the target level, as set forth in the Performance Matrices, a percentage between 50% and 100% (determined on the basis of straight-line mathematical interpolation) of the PRSUs (rounded down to the nearest whole number of PRSUs) shall become earned.
4. Target. If, upon the conclusion of the Performance Period (or the date of the Change in Control if **Section** **1(e)(ii)** of this **Exhibit A** is applicable), RTSR for the Performance Period equals the target level, as set forthin the Performance Matrices, 100% of the PRSUs shall become earned.
5. Between Target and Maximum. If, upon the conclusion of the Performance Period (or the date of the Change in Control if **Section 1(e)(ii)** of this **Exhibit A** is applicable), RTSR for the Performance Period exceeds the target level, but is less than the maximum level, as set forth in the Performance Matrices, a percentage between 100% and 150% (determined on the basis of straight-line mathematical interpolation) of the PRSUs (rounded down to the nearest whole number of PRSUs) shall become earned.
6. Equals or Exceeds Maximum. If, upon the conclusion of the Performance Period (or the date of the Change in Control if **Section 1(e)(ii)** of this **Exhibit A** is applicable), RTSR for the Performance Period equals or exceeds the maximum level, as set forth in the Performance Matrices, 150% of the PRSUs shall become earned.

NAI- 1511148714v4



**Annex A**

|  |  |
| --- | --- |
|  | **2020 Peer Group** |
|  |  |  |
| **Company Name** |  | **Ticker Symbol** |
| AK Steel |  |  |
|  |  |  |
| Allegheny Technologies Incorporated |  |  |
|  |  |  |
| Ampco-Pittsburgh Corporation |  |  |
|  |  |  |
| Carpenter Technology Corporation |  |  |
|  |  |  |
| Commercial Metals Company |  |  |
|  |  |  |
| Friedman Industries, Incorporated |  |  |
|  |  |  |
| Haynes International, Inc. |  |  |
|  |  |  |
| Nucor Corporation |  |  |
|  |  |  |
| Olympic Steel, Inc. |  |  |
|  |  |  |
| Reliance Steel & Aluminum Company |  |  |
|  |  |  |
| Ryerson Holding Corporation |  |  |
|  |  |  |
| Schnitzer Steel Industries |  |  |
|  |  |  |
| Steel Dynamics, Inc. |  |  |
|  |  |  |
| Synalloy Corporation |  |  |
|  |  |  |
| United States Steel Corporation |  |  |
|  |  |  |
| Universal Stainless & Alloy Products, Inc. |  |  |
|  |  |  |
| Worthington Industries, Inc. |  |  |
|  |  |  |
|  |  |  |
| NAI-1511148714v4 |  |  |

**Exhibit 31.1**

**CERTIFICATION**

I, Terry L. Dunlap, 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
1. 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: May 7, 2020 | /s/ Terry L. Dunlap |
|  | Terry L. Dunlap |
|  | Interim 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
1. 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: May 7, 2020 | /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 March 31, 2020, 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: | May 7, 2020 | /s/ Terry L. Dunlap |
|  |  | Terry L. Dunlap |
|  |  | Interim Chief Executive Officer and President |
|  |  | (Principal Executive Officer) |
| Date: | May 7, 2020 | /s/ Kristopher R. Westbrooks |
|  |  | Kristopher R. Westbrooks |
|  |  | Executive Vice President and Chief Financial Officer |
|  |  | (Principal Financial Officer) |