



# Third Quarter 2018 Earnings Call

November 2, 2018

# Forward-Looking Statements



This supplemental information contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied by these statements. These risks and uncertainties include factors detailed in the reports we file with the SEC, including those described under “Risk Factors” in our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q. These forward-looking statements speak only as of the date of this communication. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

It should also be noted that this information contains certain financial measures, including Adjusted EBITDA, Adjusted Earnings per Share, Adjusted Free Cash Flow, and Net Leverage Ratio that are not required by, or presented in accordance with, accounting principles generally accepted in the United States, or GAAP. These measures are presented here to provide additional useful measurements to review our operations, provide transparency to investors and enable period-to-period comparability of financial performance. A description of non-GAAP financial measures that we use to evaluate our operations and financial performance, and reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and reported in accordance with GAAP, can be found in the appendix under “Reconciliation of Non-GAAP Measures”.

# 3Q 2018 AAM Highlights



**\$1.82B**

Quarterly  
Sales  
5% YoY Growth

**\$275M**

Quarterly  
Adj. EBITDA\*

**\$121M**

Quarterly  
Adj. Free  
Cash Flow\*



**QUANTUM™**  
Technology wins  
Altair and SAA  
Lightweighting  
Awards



**5<sup>th</sup> New  
Business Award**  
for our **Ecotrac™**  
Disconnecting  
AWD Technology



Announces  
Redemption of  
**\$100M** of Senior  
Notes due 2019

# Segment Performance – 3Q 2018



## DRIVELINE



- Sales of \$1.07 billion
- Segment Adjusted EBITDA of \$159.3 million
- Impacted by higher project and launch costs, inflationary pressures and operating performance.

## POWERTRAIN



- Sales of \$285.4 million
- Segment Adjusted EBITDA of \$34.3 million
- 3Q 2018 results reflect higher than expected project and launch related expenses.

## METAL FORMING



- Sales of \$382.2 million
- Segment Adjusted EBITDA of \$66.9 million
- Despite cost headwinds, still operating at over 17% Adjusted EBITDA margin.

## CASTING



- Sales of \$219.1 million
- Segment Adjusted EBITDA of \$14.5 million
- Lower sequential Adjusted EBITDA margin on lower sales, cost inflation and operational inefficiencies due to labor shortages.

# Synergy Achievement Progress from MPG Acquisition



Public Company  
Costs and  
Overhead  
Rationalization

**\$40 M**

Vertical  
Integration  
Benefits and  
Manufacturing  
Initiatives

**\$40 M**



Purchasing  
Power and  
AAM Know-How

**\$60 M**

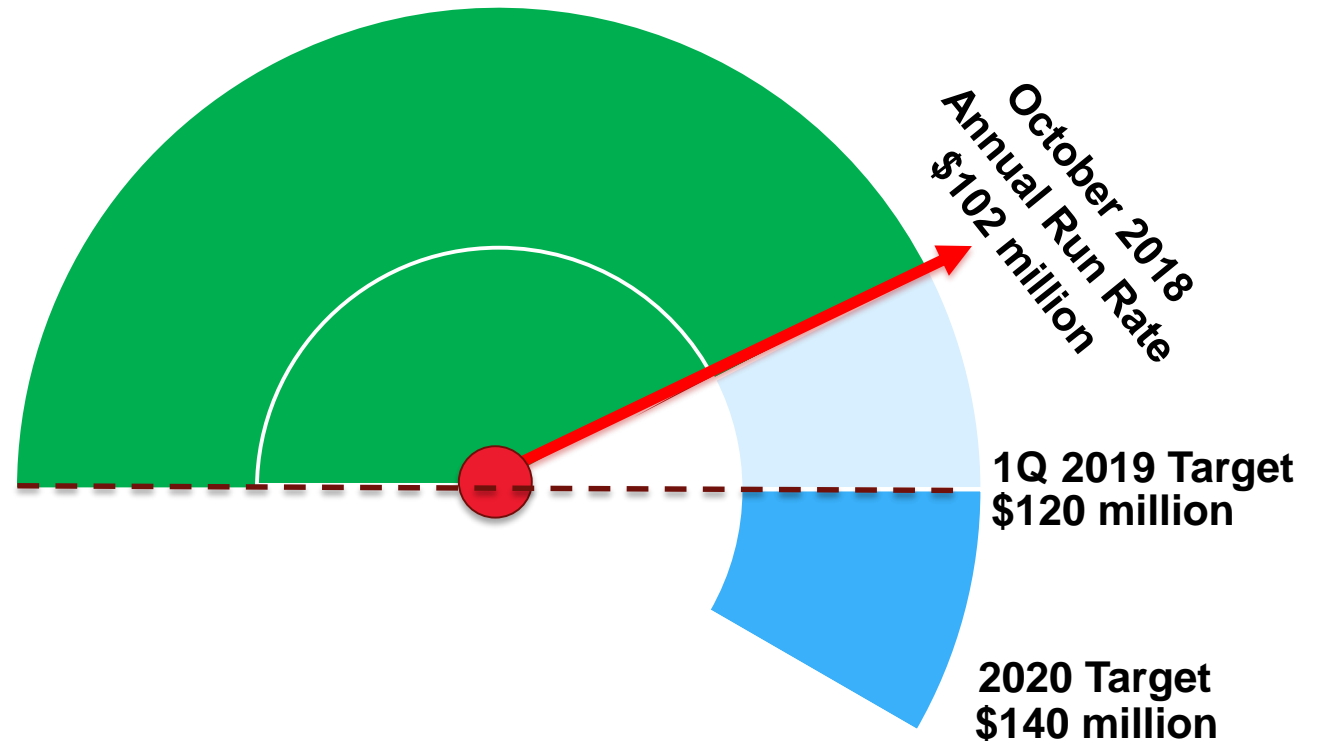
Targeted Cost  
Reduction  
Synergies - Run  
Rate by 2020

**= \$140 M**



## Synergy Achievement Gauge

(Annual Run Rate in millions)



**AAM has a clear path to meeting its updated synergy targets**

# AAM's Updated 2018 Financial Targets



## 2018 Full Year Targets

<b>Sales</b>	<b>≈ \$7.25 billion</b>
<b>Adjusted EBITDA* Margin</b>	<b>16.25% - 16.5%</b>
<b>Adjusted Free Cash Flow*</b>	<b>≈ 4% of sales</b>

- Adjustments to previous targets reflect higher launch related expenses and manufacturing costs .
- We expect restructuring and acquisition-related payments to be between \$60 and \$75 million for the full year 2018.

**Despite lowering full year targets – AAM still expects a strong financial performance in 2018**

# Other Forward-Looking Information Updates



## Updated Forward-Looking Targets

<b>2019 Full Year Sales</b>	<b>Flat to 2% growth</b>
<b>2019 Adjusted EBITDA* Margin</b>	<b>≈ 17% of sales</b>
<b>2017 – 2020 Cumulative Adjusted Free Cash Flow*</b>	<b>≈ \$1.5 billion</b>

- Based on the anticipated launch schedule of our new business backlog, our assumption that the US SAAR\* is approximately 16.5 - 17 million units and current metal market levels.

# 3Q Financial Results



	Three Months Ended September 30,		Difference
	2018	2017	
	(dollars in millions, except per share data)		
Net sales	\$ 1,817.0	\$ 1,724.4	\$ 92.6
Gross profit	\$ 267.4	\$ 297.7	\$ (30.3)
Gross margin	14.7%	17.3%	-2.6%
SG&A	\$ 96.3	\$ 102.3	\$ (6.0)
SG&A as a % of sales	5.3%	5.9%	-0.6%
Amortization of intangible assets	\$ 24.8	\$ 24.4	\$ 0.4
Restructuring and acquisition costs	\$ 11.7	\$ 22.8	\$ (11.1)
Other income (expense)	\$ (4.8)	\$ 0.5	\$ (5.3)
Adjusted EBITDA*	\$ 275.0	\$ 297.8	\$ (22.8)
Adjusted EBITDA* margin	15.1%	17.3%	-2.2%
Net interest expense	\$ 54.3	\$ 56.7	\$ (2.4)
Income tax expense	\$ 11.5	\$ 5.7	\$ 5.8
Effective tax rate	15.2%	6.2%	9.0%
Net income attributable to AAM	\$ 63.8	\$ 86.2	\$ (22.4)
Diluted EPS	\$ 0.55	\$ 0.75	\$ (0.20)
Adjusted EPS*	\$ 0.63	\$ 0.86	\$ (0.23)

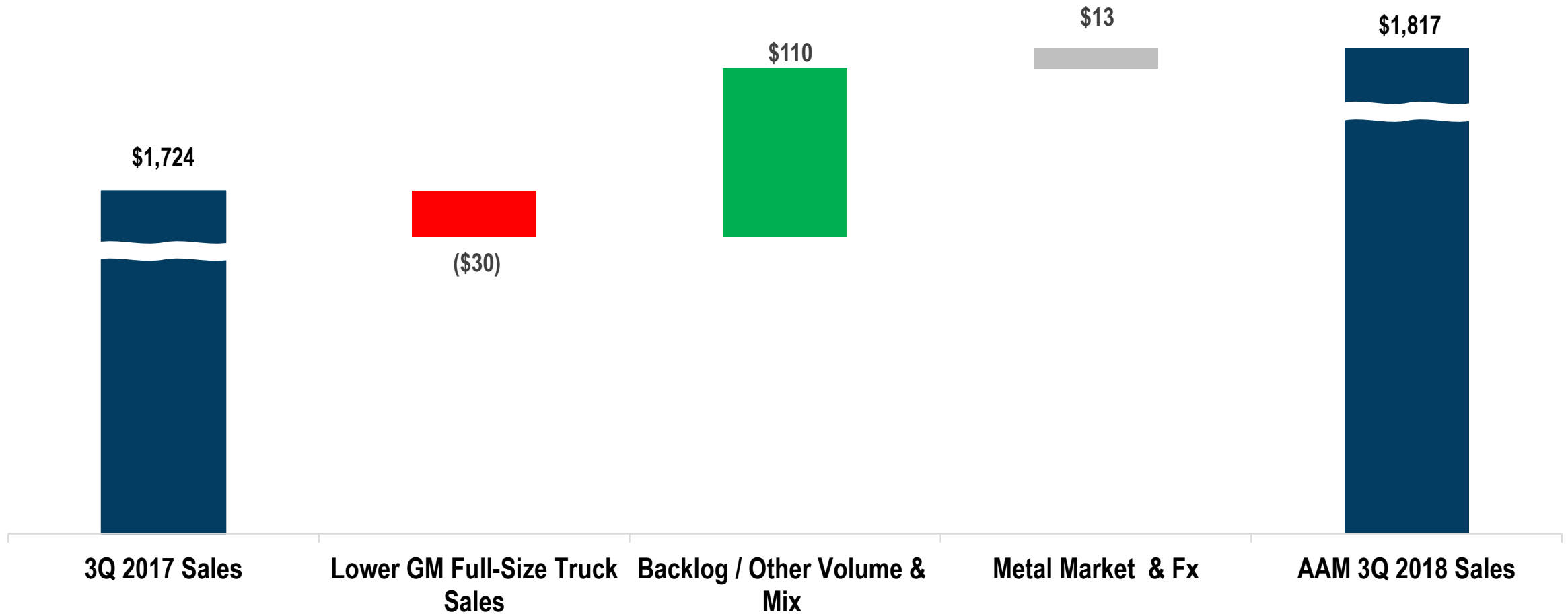
Adjusted earnings per share are based on weighted average diluted shares outstanding of 116.3 million and 114.3 million for the three months ended on September 30, 2018 and 2017, respectively.

\* For definitions of terms and non-GAAP reconciliations, please see the attached appendix.



# 3Q 2018 Year-Over-Year Sales Walk

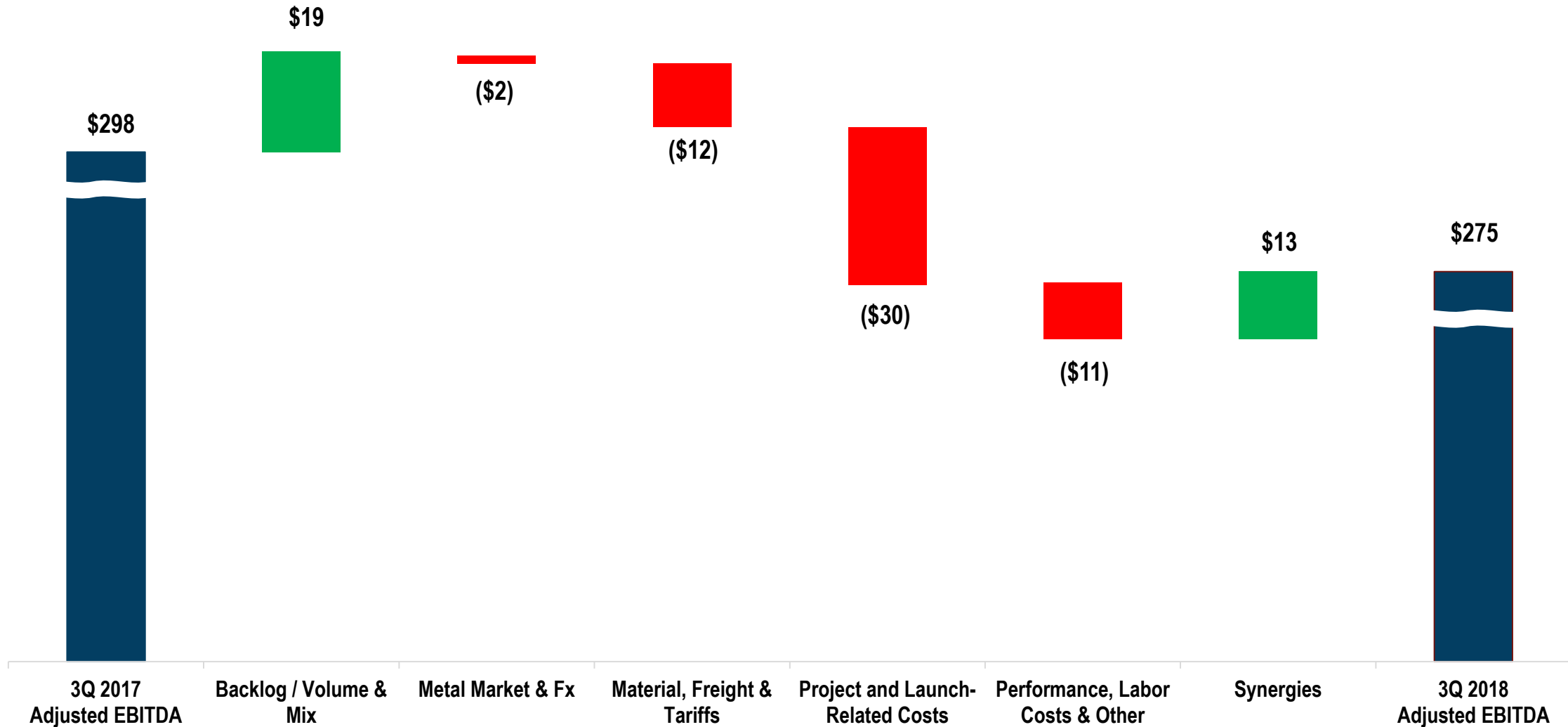
(in millions)



Approximately 5% of organic growth in 3Q 2018 on a year-over-year basis

# 3Q 2018 Year-Over-Year Adjusted EBITDA Walk

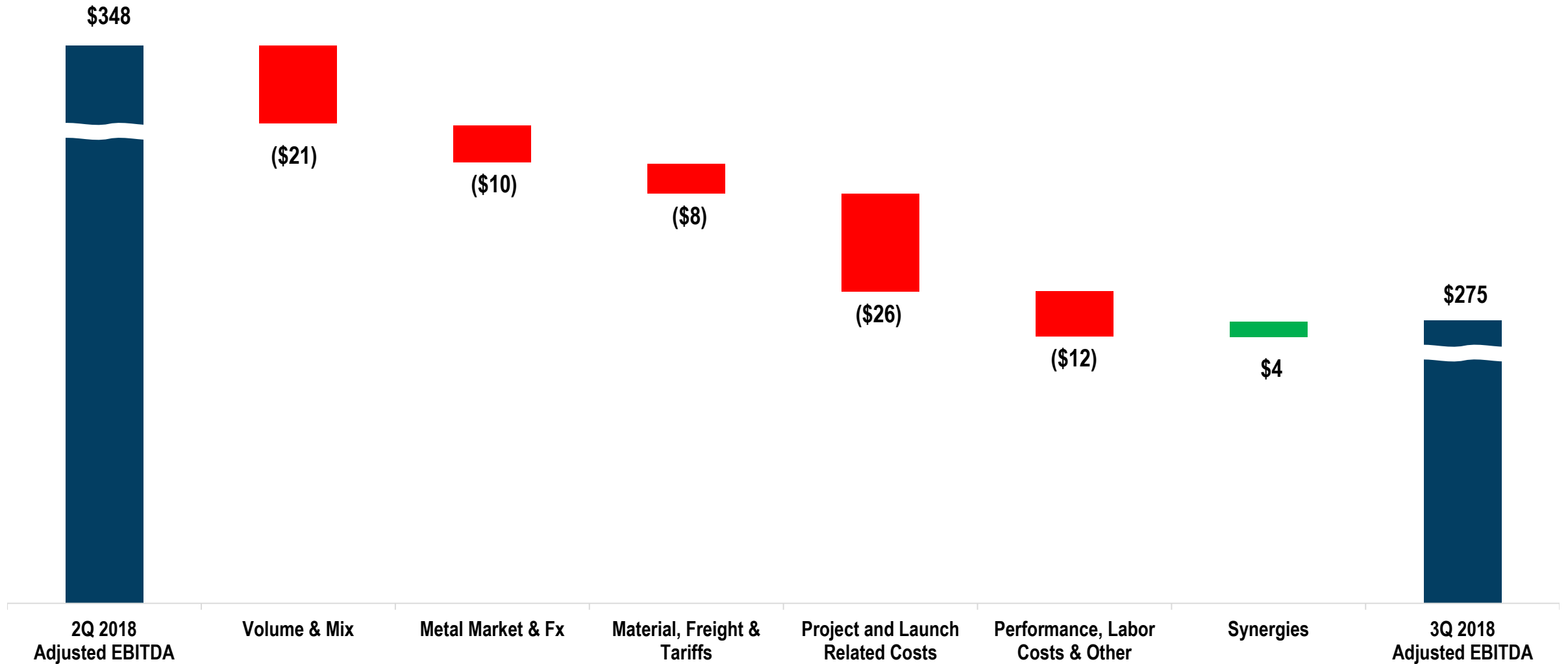
(in millions)



\* For definitions of terms and non-GAAP reconciliations, please see the attached appendix.

# 3Q Sequential Adjusted EBITDA Walk

(in millions)



\* For definitions of terms and non-GAAP reconciliations, please see the attached appendix.

# Adjusted Free Cash Flow and Debt Profile



Cash Flow and Debt Metrics	3Q 2018
Adjusted Free Cash Flow*	\$121.3 million
Net Debt*	\$3.45 billion
Net Leverage Ratio*	2.8x
Liquidity*	>\$1.4 billion

**AAM announced prepayment of \$100 million of 7.75% Senior Notes in November 2018**

# 3Q 2018 to 4Q 2018 Adjusted EBITDA Walk

(in millions)



In 4Q 2018, we expect improved performance to partially offset impact of lower seasonal 4Q production volumes

\* For definitions of terms and non-GAAP reconciliations, please see the attached appendix. \*\* Represents implied 4Q Adjusted EBITDA based on our full year 2018 Adjusted EBITDA targets



# Supplemental Data

# Reconciliation of Non-GAAP Measures



In addition to the results reported in accordance with accounting principles generally accepted in the United States of America (GAAP) included within this presentation, we have provided certain information, which includes non-GAAP financial measures. Such information is reconciled to its closest GAAP measure in accordance with Securities and Exchange Commission rules and is included in the following slides.

Certain of the forward-looking financial measures included in this presentation are provided on a non-GAAP basis. A reconciliation of non-GAAP forward-looking financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP is not practical given the difficulty of projecting event driven transactional and other non-core operating items and their related effects in any future period. The magnitude of these items, however, may be significant.

# Supplemental Data



## EBITDA and Adjusted EBITDA Reconciliation (\$ in millions)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$ 64.0	\$ 86.3	\$ 304.8	\$ 231.0
Interest expense	54.9	57.5	162.5	139.9
Income tax expense	11.5	5.7	31.4	15.6
Depreciation and amortization	132.9	122.6	390.9	303.4
EBITDA	263.3	272.1	889.6	689.9
Restructuring and acquisition-related costs	11.7	22.8	66.8	90.5
Debt refinancing and redemption costs	-	-	14.6	2.7
Gain on sale of business	-	-	(15.5)	-
Non-recurring items:				
Gain on settlement of capital lease	-	-	(15.6)	-
Acquisition-related fair value inventory adjustment	-	-	-	24.9
Other	-	2.9	-	(0.8)
Adjusted EBITDA	\$ 275.0	\$ 297.8	\$ 939.9	\$ 807.2
As % of net sales	15.1%	17.3%	16.9%	17.8%



# Supplemental Data



## EBITDA and Adjusted EBITDA for the Trailing Twelve Months Ended September 30, 2018 (\$ in millions)

	Quarter Ended				Trailing Twelve Months Ended September 30, 2018
	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	
Net income	\$ 106.5	\$ 89.5	\$ 151.3	\$ 64.0	\$ 411.3
Interest expense	55.7	53.2	54.4	54.9	218.2
Income tax expense (benefit)	(13.1)	17.9	2.0	11.5	18.3
Depreciation and amortization	125.2	127.8	130.2	132.9	516.1
EBITDA	274.3	288.4	337.9	263.3	1,163.9
Restructuring and acquisition-related costs	20.2	18.3	36.8	11.7	87.0
Debt refinancing and redemption costs	0.8	10.3	4.3	-	15.4
Gain on sale of business	-	-	(15.5)	-	(15.5)
Non-recurring items:					
Gain on settlement of capital lease	-	-	(15.6)	-	(15.6)
Other	0.4	-	-	-	0.4
Adjusted EBITDA	\$ 295.7	\$ 317.0	\$ 347.9	\$ 275.0	\$ 1,235.6

# Supplemental Data



## Adjusted Earnings Per Share Reconciliation

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Diluted earnings per share	\$ 0.55	\$ 0.75	\$ 2.63	\$ 2.27
Restructuring and acquisition-related costs	0.10	0.20	0.58	0.89
Debt refinancing and redemption costs	-	-	0.13	0.03
Gain on sale of business	-	-	(0.14)	-
Non-recurring items:				
Gain on settlement of capital lease	-	-	(0.14)	-
Acquisition-related fair value inventory adjustment	-	-	-	0.24
Acquisition related tax adjustment	-	(0.04)	-	(0.12)
Adjustment to liability for unrecognized tax benefits	-	-	(0.17)	-
Other	-	0.03	-	(0.01)
Tax effect of adjustments	(0.02)	(0.08)	(0.06)	(0.41)
Adjusted earnings per share	<u>\$ 0.63</u>	<u>\$ 0.86</u>	<u>\$ 2.83</u>	<u>\$ 2.89</u>

Adjusted earnings per share are based on weighted average diluted shares outstanding of 116.3 million and 114.3 million for the three months ended on September 30, 2018 and 2017, respectively, and 115.7 million and 101.9 million for the nine months ended on September 30, 2018 and 2017, respectively.

# Supplemental Data



## Free Cash Flow and Adjusted Free Cash Flow Reconciliation (\$ in millions)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net cash provided by operating activities	\$ 223.8	\$ 207.5	\$ 513.2	\$ 420.7
Capital expenditures net of proceeds from the sale of property, plant and equipment	(116.5)	(139.9)	(388.6)	(277.0)
Free cash flow	107.3	67.6	124.6	143.7
Cash payments for restructuring and acquisition-related costs	14.0	20.3	55.3	86.5
Acquisition-related settlement of pre-existing accounts payable balances with acquired entities	-	-	-	35.2
Interest payments upon the settlement of acquired company debt	-	-	-	24.6
Adjusted free cash flow	\$ 121.3	\$ 87.9	\$ 179.9	\$ 290.0

# Supplemental Data



## Net Debt to Capital Reconciliation Schedule (\$ in millions)

	<b>September 30, 2018</b>
Current portion of long-term debt	\$ 16.5
Long-term debt, net	3,874.3
Total debt, net	3,890.8
Less: Cash and cash equivalents	439.4
Net debt at end of period	3,451.4
Adjusted LTM EBITDA	\$ 1,235.6
 Net Leverage Ratio	 2.8

# Supplemental Data



## Segment Financial Information (\$ in millions)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Segment Sales				
Driveline	\$ 1,068.0	\$ 1,007.9	\$ 3,258.8	\$ 3,028.7
Metal Forming	382.2	368.2	1,176.3	887.5
Powertrain	285.4	260.9	865.6	544.5
Casting	219.1	226.6	701.3	452.2
Total Sales	1,954.7	1,863.6	6,002.0	4,912.9
Intersegment Sales	(137.7)	(139.2)	(425.7)	(380.8)
Net External Sales	<u>\$ 1,817.0</u>	<u>\$ 1,724.4</u>	<u>\$ 5,576.3</u>	<u>\$ 4,532.1</u>
Segment Adjusted EBITDA				
Driveline	\$ 159.3	\$ 181.5	\$ 514.2	\$ 513.7
Metal Forming	66.9	70.7	231.3	170.5
Powertrain	34.3	36.8	131.4	88.7
Casting	14.5	8.8	63.0	34.3
Total Segment Adjusted EBITDA	<u>\$ 275.0</u>	<u>\$ 297.8</u>	<u>\$ 939.9</u>	<u>\$ 807.2</u>

# Definition of Non-GAAP Measures



## **EBITDA and Adjusted EBITDA**

We define EBITDA to be earnings before interest expense, income taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA excluding the impact of restructuring and acquisition-related costs, debt refinancing and redemption costs, gain on sale of business, and non-recurring items. We believe that EBITDA and Adjusted EBITDA are meaningful measures of performance as they are commonly utilized by management and investors to analyze operating performance and entity valuation. Our management, the investment community and the banking institutions routinely use EBITDA and Adjusted EBITDA, together with other measures, to measure our operating performance relative to other Tier 1 automotive suppliers. We also use Segment Adjusted EBITDA as the measure of earnings to assess the performance of each segment and determine the resources to be allocated to the segments. EBITDA and Adjusted EBITDA should not be construed as income from operations, net income or cash flow from operating activities as determined under GAAP. Other companies may calculate EBITDA and Adjusted EBITDA differently.

## **Other Non-recurring Items**

Other non-recurring items reflect the impact of a gain related to the change of our method of accounting for indirect inventory, the interest expense for the debt drawdown period prior to acquisition funding requirement and the impact of a non-cash pension settlement charge related to one of our foreign entities.

## **Adjusted Earnings per Share**

We define Adjusted earnings per share to be diluted earnings per share excluding the impact of restructuring and acquisition related costs, debt refinancing and redemption costs, gain on sale of business, and non-recurring items, including the tax effect thereon. We believe Adjusted earnings per share is a meaningful measure as it is commonly utilized by management and investors in assessing ongoing financial performance that provides improved comparability between periods through the exclusion of certain items that management believes are not indicative of core operating performance and which may obscure underlying business results and trends. Other companies may calculate Adjusted earnings per share differently.

## **Free Cash Flow and Adjusted Free Cash Flow**

We define free cash flow to be net cash provided by operating activities less capital expenditures net of proceeds from the sale of property, plant and equipment. Adjusted free cash flow is defined as free cash flow excluding the impact of cash payments for restructuring and acquisition-related costs, settlements of pre-existing accounts payable balances with acquired entities and interest payments upon the settlement of acquired company debt. We believe free cash flow and Adjusted free cash flow are meaningful measures as they are commonly utilized by management and investors to assess our ability to generate cash flow from business operations to repay debt and return capital to our stockholders. Other companies may calculate free cash flow and Adjusted free cash flow differently.

## **Net Debt and Net Leverage Ratio**

We define net debt to be total debt, net less cash and cash equivalents. We define Net Leverage Ratio to be net debt divided by the trailing 12 months of Adjusted EBITDA. We believe that Net Leverage Ratio is a meaningful measure of financial condition as it is commonly used by management, investors and creditors to assess capital structure risk. Other companies may calculate Net Leverage Ratio differently.

## **Liquidity**

We define Liquidity as cash on hand plus amounts available on our revolving credit facility and foreign credit facilities.

## **US SAAR**

We define US SAAR as the seasonally adjusted annual rate of light vehicle sales in the United States.