

Arconic Inc.  
Form 10-Q  
August 02, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the Quarterly Period Ended June 30, 2017**

**OR**

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

**Commission File Number 1-3610**

**ARCONIC INC.**

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

**PENNSYLVANIA**  
**(State of incorporation)**

**25-0317820**  
**(I.R.S. Employer**

**390 Park Avenue, New York, New York**  
**(Address of principal executive offices)**

**Identification No.)**  
**10022-4608**  
**(Zip code)**

**Investor Relations 212-836-2758**

**Office of the Secretary 212-836-2732**

**(Registrant's telephone number including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 28, 2017, there were 441,030,999 shares of common stock, par value \$1.00 per share, of the registrant outstanding.



**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****Arconic and subsidiaries****Statement of Consolidated Operations (unaudited)****(in millions, except per-share amounts)**

	<b>Second quarter ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Sales (I)	\$ 3,261	\$ 3,234	\$ 6,453	\$ 6,289
Cost of goods sold (exclusive of expenses below)	2,583	2,533	5,075	4,933
Selling, general administrative, and other expenses	204	239	425	444
Research and development expenses	30	32	58	63
Provision for depreciation and amortization	137	133	270	266
Restructuring and other charges (D & E)	26	14	99	30
Operating income	281	283	526	553
Interest expense (L)	183	124	298	245
Other income, net (G)	(171)	(17)	(525)	(29)
Income from continuing operations before income taxes	269	176	753	337
Provision for income taxes	57	123	219	174
Income from continuing operations after income taxes	212	53	534	163
Income from discontinued operations after income taxes (G)		125		26
Net income	212	178	534	189
Less: Income from discontinued operations attributable to noncontrolling interests (G)		43		38
Net income attributable to Arconic	\$ 212	\$ 135	\$ 534	\$ 151
<b>Amounts Attributable to Arconic Common Shareholders (J):</b>				
Net income	\$ 194	\$ 118	\$ 499	\$ 117
Earnings per share - basic				
Continuing operations	\$ 0.44	\$ 0.08	\$ 1.13	\$ 0.30
Discontinued operations		0.19		(0.03)
Net income per share - basic	\$ 0.44	\$ 0.27	\$ 1.13	\$ 0.27

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Earnings per share - diluted				
Continuing operations	\$ 0.43	\$ 0.08	\$ 1.07	\$ 0.29
Discontinued operations		0.19		(0.03)
Net income per share - diluted	\$ 0.43	\$ 0.27	\$ 1.07	\$ 0.26
Dividends paid per share	\$ 0.06	\$ 0.09	\$ 0.12	\$ 0.18
<b>Weighted Average Shares Outstanding (J):</b>				
Average shares outstanding - basic	441	438	440	438
Average shares outstanding - diluted	462	452	500	442

The accompanying notes are an integral part of the consolidated financial statements.

## Arconic and subsidiaries

## Statement of Consolidated Comprehensive Income (unaudited)

(in millions)

	Arconic		Noncontrolling Interests		Total	
	Second quarter ended		Second quarter ended		Second quarter ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	\$ 212	\$ 135	\$	\$ 43	\$ 212	\$ 178
Other comprehensive income (loss), net of tax (C):						
Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits	48	65		2	48	67
Foreign currency translation adjustments	99	45		32	99	77
Net change in unrealized gains/losses on available-for-sale securities	(101)	3			(101)	3
Net change in unrecognized gains/losses on cash flow hedges	(2)	(153)		16	(2)	(137)
Total Other comprehensive income (loss), net of tax	44	(40)		50	44	10
Comprehensive income	\$ 256	\$ 95	\$	\$ 93	\$ 256	\$ 188

	Arconic		Noncontrolling Interests		Total	
	Six months ended		Six months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	\$ 534	\$ 151	\$	\$ 38	\$ 534	\$ 189
Other comprehensive income, net of tax (C):						
Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits	79	97		3	79	100
Foreign currency translation adjustments	166	348		139	166	487
Net change in unrealized gains/losses on available-for-sale securities	(134)	4			(134)	4
Net change in unrecognized gains/losses on cash flow hedges	3	(233)		14	3	(219)
Total Other comprehensive income, net of tax	114	216		156	114	372
Comprehensive income	\$ 648	\$ 367	\$	\$ 194	\$ 648	\$ 561

The accompanying notes are an integral part of the consolidated financial statements.

## Arconic and subsidiaries

## Consolidated Balance Sheet (unaudited)

(in millions)

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,785	\$ 1,863
Receivables from customers, less allowances of \$8 in 2017 and \$13 in 2016 (K)	1,170	974
Other receivables (G & K)	357	477
Inventories (F)	2,416	2,253
Prepaid expenses and other current assets	305	325
Total current assets	6,033	5,892
Properties, plants, and equipment	11,738	11,572
Less: accumulated depreciation and amortization	6,231	6,073
Properties, plants, and equipment, net	5,507	5,499
Goodwill	5,215	5,148
Deferred income taxes	1,080	1,234
Investment in common stock of Alcoa Corporation (G & N)		1,020
Other noncurrent assets	1,271	1,245
<b>Total Assets</b>	<b>\$ 19,106</b>	<b>\$ 20,038</b>
<b>Liabilities</b>		
Current liabilities:		
Short-term borrowings	\$ 48	\$ 36
Accounts payable, trade	1,667	1,744
Accrued compensation and retirement costs	363	398
Taxes, including income taxes	77	85
Accrued interest payable	124	153
Other current liabilities	379	329
Long-term debt due within one year		4
Total current liabilities	2,658	2,749
Long-term debt, less amount due within one year (L & N)	6,796	8,044
Accrued pension benefits	2,202	2,345
Accrued other postretirement benefits	822	889
Other noncurrent liabilities and deferred credits	875	870
Total liabilities	13,353	14,897

Contingencies and commitments (H)



<b>Equity</b>		
Arconic shareholders' equity:		
Preferred stock	55	55
Mandatory convertible preferred stock	3	3
Common stock	441	438
Additional capital	8,262	8,214
Accumulated deficit	(567)	(1,027)
Accumulated other comprehensive loss (C)	(2,454)	(2,568)
<b>Total Arconic shareholders' equity</b>	<b>5,740</b>	<b>5,115</b>
Noncontrolling interests	13	26
<b>Total equity</b>	<b>5,753</b>	<b>5,141</b>
<b>Total Liabilities and Equity</b>	<b>\$ 19,106</b>	<b>\$ 20,038</b>

The accompanying notes are an integral part of the consolidated financial statements.

## Arconic and subsidiaries

## Statement of Consolidated Cash Flows (unaudited)

(in millions)

	<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash from Operations</b>		
Net income	\$ 534	\$ 189
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion and amortization	270	622
Deferred income taxes	27	(78)
Equity income, net of dividends		20
Restructuring and other charges	99	116
Net gain from investing activities - asset sales (G)	(515)	(28)
Net periodic pension benefit cost (M)	108	168
Stock-based compensation	48	55
Other	63	19
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:		
(Increase) in receivables	(282)	(218)
(Increase) in inventories	(150)	(3)
Decrease in prepaid expenses and other current assets	30	4
(Decrease) in accounts payable, trade	(69)	(243)
(Decrease) in accrued expenses	(105)	(301)
Increase in taxes, including income taxes	121	57
Pension contributions	(163)	(147)
(Increase) in noncurrent assets	(60)	(215)
(Decrease) in noncurrent liabilities	(39)	(115)
<b>Cash used for operations</b>	<b>(83)</b>	<b>(98)</b>
<b>Financing Activities</b>		
Net change in short-term borrowings (original maturities of three months or less)	9	(5)
Additions to debt (original maturities greater than three months)	512	876
Payments on debt (original maturities greater than three months) (L)	(1,333)	(882)
Proceeds from exercise of employee stock options	26	2
Dividends paid to shareholders	(88)	(114)
Distributions to noncontrolling interests	(14)	(84)
Other	(15)	
<b>Cash used for financing activities</b>	<b>(903)</b>	<b>(207)</b>
<b>Investing Activities</b>		
Capital expenditures	(229)	(528)
Proceeds from the sale of assets and businesses (E)	(9)	549

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Additions to investments	(1)	(8)
Sales of investments (G)	888	275
Net change in restricted cash	10	7
Other (G)	245	15
<b>Cash provided from investing activities</b>	<b>904</b>	<b>310</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>4</b>	<b>5</b>
Net change in cash and cash equivalents	(78)	10
Cash and cash equivalents at beginning of year	1,863	1,919
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,785</b>	<b>\$ 1,929</b>

The accompanying notes are an integral part of the consolidated financial statements.

## Arconic and subsidiaries

## Statement of Changes in Consolidated Equity (unaudited)

(in millions, except per-share amounts)

	Arconic Shareholders					Treasury stock	Accumulated other comprehen sive loss	Noncontrolling interests	Total Equity
	Mandatory convertible		Common stock	Additional capital	Retained earnings				
	Preferred stock	Preferred stock							
Balance at March 31, 2016	\$ 55	\$ 3	\$ 1,391	\$ 9,856	\$ 8,753	\$ (2,657)	\$ (5,175)	\$ 2,135	\$ 14,361
Net income					135			43	178
Other comprehensive income (C)							(40)	50	10
Cash dividends declared:									
Preferred-Class A @ \$0.9375 per share									
Preferred-Class B @ \$6.71875 per share					(17)				(17)
Stock-based compensation				29					29
Common stock issued:									
compensation plans				(8)		10			2
Distributions								(34)	(34)
Balance at June 30, 2016	\$ 55	\$ 3	\$ 1,391	\$ 9,877	\$ 8,871	\$ (2,647)	\$ (5,215)	\$ 2,194	\$ 14,529

	Arconic Shareholders					Treasury stock	Accumulated other comprehen sive loss	Noncontrolling interests	Total Equity
	Mandatory convertible		Common stock	Additional capital	Accumulated deficit				
	Preferred stock	Preferred stock							
Balance at March 31, 2017	\$ 55	\$ 3	\$ 441	\$ 8,249	\$ (768)	\$	\$ (2,498)	\$ 13	\$ 5,495
Net income					212				212
Other comprehensive income (C)							44		44
Cash dividends declared:									
Preferred-Class A @ \$0.9375 per share									
Preferred-Class B @ \$6.71875 per share					(18)				(18)
Stock-based compensation				20					20
Common stock issued:									
compensation plans				(7)					(7)
Other					7				7
Balance at June 30, 2017	\$ 55	\$ 3	\$ 441	\$ 8,262	\$ (567)	\$	\$ (2,454)	\$ 13	\$ 5,753

The accompanying notes are an integral part of the consolidated financial statements.

## Arconic and subsidiaries

## Statement of Changes in Consolidated Equity (unaudited)

(in millions, except per-share amounts)

	Arconic Shareholders					Retained earnings	Treasury stock	Accumulated other comprehensive income	Noncontrolling interests	Total Equity
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Retained earnings					
Balance at December 31, 2015	\$ 55	\$ 3	\$ 1,391	\$ 10,019	\$ 8,834	\$ (2,825)	\$ (5,431)	\$ 2,085	\$ 14,131	
Net income					151			38	189	
Other comprehensive income (C)							216	156	372	
Cash dividends declared:										
Preferred-Class A @ \$1.875 per share					(1)				(1)	
Preferred-Class B @ \$13.4375 per share					(34)				(34)	
Common @ \$0.06 per share					(79)				(79)	
Stock-based compensation				55					55	
Common stock issued:										
compensation plans				(197)		178			(19)	
Distributions								(84)	(84)	
Other								(1)	(1)	
Balance at June 30, 2016	\$ 55	\$ 3	\$ 1,391	\$ 9,877	\$ 8,871	\$ (2,647)	\$ (5,215)	\$ 2,194	\$ 14,529	

	Arconic Shareholders					Accumulated deficit	Treasury stock	Accumulated other comprehensive income	Noncontrolling interests	Total Equity
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Accumulated deficit					
Balance at December 31, 2016	\$ 55	\$ 3	\$ 438	\$ 8,214	\$ (1,027)	\$	\$ (2,568)	\$ 26	\$ 5,141	
Net income					534				534	
Other comprehensive income (C)							114		114	
Cash dividends declared:										
Preferred-Class A @ \$1.875 per share					(1)				(1)	
Preferred-Class B @ \$13.4375 per share					(34)				(34)	

&amp;#15

Common @ \$0.12 per  
share