# Fourth Quarter and Full Year 2018 Earnings Call

February 15, 2019

# 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”.

# 2018 4Q and Full Year Financial Highlights

**4Q 2018**

**$1.69B**
Quarterly Sales

**$244M**
Quarterly Adj. EBITDA

**$142M**
Quarterly Adj. Free Cash Flow

**FY 2018**

**$7.27B**
RECORD Full Year Sales

**$1.18B**
RECORD Full Year Adj. EBITDA

**$322M**
Full Year Adj. Free Cash Flow

* For definitions of Adjusted EBITDA and Adjusted Free Cash Flow and non-GAAP reconciliations, please see the attached appendix.

# Segment Performance – 4Q 2018

## DRIVELINE

- Sales of $996.0 million
- Segment Adjusted EBITDA of $146.5 million
- Sequential margin down slightly due to lower sales partially offset by improved operating and launch performance

## POWERTRAIN

- Sales of $262.9 million
- Segment Adjusted EBITDA of $32.3 million
- Sequential margin higher – continued launch and performance improvement expected in 2019

## METAL FORMING

- Sales of $339.1 million
- Segment Adjusted EBITDA of $54.6 million
- Performing at > 16% margin despite lower sales due to seasonality and customer downtime for program changeovers

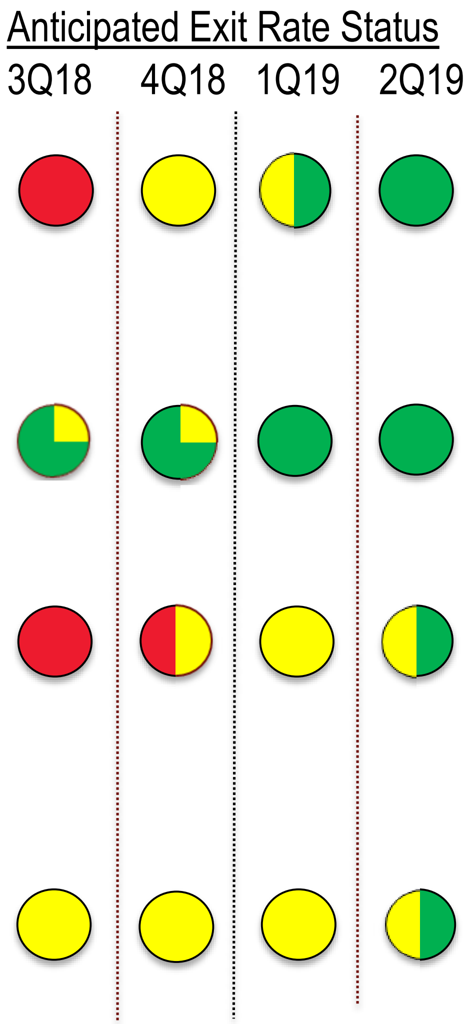
## CASTING

- Sales of $218.5 million
- Segment Adjusted EBITDA of $10.6 million
- Lower margin on operational inefficiencies and input cost inflation - full run rate of customer price increases to occur in 1Q 2019

* For definitions of Segment Adjusted EBITDA and non-GAAP reconciliations, please see the attached appendix.

# Performance Improvement Plans

| | 3Q 2018 Issues | Status Update |
|---|---|---|
| **Driveline** | - Changes affecting build-out and launch<br>- Scrap performance<br>- Supplier delivery performance | - RAM HD prior model build out complete in December 2018, new model start of production begins in January 2019<br>- Improved scrap performance<br>- Resolution of 1 of 2 e-drive unit supplier issues<br>- Most other supplier delivery issues resolved |
| **Metal Forming** | - European capacity constraints | - Eliminated delivery past-due conditions |
| **Powertrain** | - Ineffective program management<br>- Launch performance<br>- Capacity constraints | - Accelerated implementation of IPM systems<br>- Reallocation of resources and restructuring of business unit accelerates integration<br>- In process of addressing capacity constraints |
| **Casting** | - Availability of labor<br>- Operational inefficiencies<br>- Inflationary pressures | - Continue to address workforce shortages<br>- Improved business performance<br>- Implementing customer pricing actions |




**AAM is on track to meet these previously disclosed performance improvement goals**

# Business Unit Consolidation

| DRIVELINE | POWERTRAIN | METAL FORMING | CASTING |
|---|---|---|---|
| *2018 Sales - $4.3B* <br> *16 facilities* | *2018 Sales - $1.1B* <br> *24 facilities* | *2018 Sales - $1.5B* <br> *23 facilities* | *2018 Sales - $900M* <br> *11 facilities* |

| DRIVELINE | METAL FORMING | CASTING |
|---|---|---|
| *2018 Pro forma Sales - $4.9B* <br> *28 facilities* | *2018 Pro forma Sales - $2.0B* <br> *35 facilities* | *No change* |
| *Adding Highly Engineered Product operations from Powertrain* | *Adding Process-oriented Forming and Sintered operations from Powertrain* | |

**AAM is proactively streamlining our business by consolidating four business units into three**

Note: 2018 sales figures reflect approximately $550 million of intercompany sales

# Business Unit Consolidation Objectives

1. Finalize integration process

WE ARE

2. Align AAM's product and process technologies


3. Achieve efficiencies within our corporate and business unit support teams

4. Accelerate implementation of AAM's Operating System including program management and launch readiness

5. Provide annual cost savings estimated at $10 - $20 million

6. Enhance our ability to adapt to constantly changing market conditions

# 2018 AAM Highlights

**Record Annual Sales – Over $7 Billion** for the first time in **AAM History**

FORTUNE 500 2018

AAM recognized as **Fortune 500** Company



**Sold Aftermarket** division of our Powertrain BU for **$50 million**

Formed joint venture with **Liuzhou Wuling** in **China**

Met key **Integration Milestones,** including **Synergy Attainment**

Named GM **Supplier of the Year** for 2nd consecutive year

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

ECOTRAC DISCONNECTING AWD SYSTEM BY AAM

**5th New Business Award** for our **Ecotrac™** Disconnecting AWD Technology

Strong cash flow generation and **Over $200 Million** in senior debt payments

# 2019 Financial Outlook

| 2019 Financial Targets | |
|---|---|
| Full Year Sales | $7.3 - $7.4 billion |
| Adjusted EBITDA* | $1.2 - $1.25 billion |
| Capital Expenditures | ≈ 7% of sales |
| Adjusted Free Cash Flow* | $350 - $400 million |

- Based on the anticipated launch schedule of our new business backlog, our assumption that the US SAAR* is between 16.5 – 17 million units and current metal market and foreign currency levels.
- Our 2019 financial targets for the full year contemplate customer downtime in preparation for critical program changeovers and related project expense.  We expect this to have the greatest impact in the first quarter of 2019.
- We expect restructuring and acquisition-related payments to be between $50 - $60 million for the full year 2019.

* For definitions of Adjusted EBITDA and Adjusted Free Cash Flow and Non-GAAP reconciliations, please see the attached appendix

# 4Q Financial Results

| | Three Months Ended December 31, 2018 | 2017 | Difference |
|---|---|---|---|
| | (dollars in millions, except per share data) | | |
| Net sales | $ 1,694.1 | $ 1,733.9 | $ (39.8) |
| Gross profit | $ 225.3 | $ 294.3 | $ (69.0) |
| Gross margin | 13.3% | 17.0% | -3.7% |
| SG&A | $ 97.1 | $ 101.0 | $ (3.9) |
| SG&A as a % of sales | 5.7% | 5.8% | -0.1% |
| Amortization of intangible assets | $ 24.9 | $ 24.5 | $ 0.4 |
| Restructuring and acquisition costs | $ 12.1 | $ 20.2 | $ (8.1) |
| Goodwill impairment | $ 485.5 | $ - | $ 485.5 |
| Other income (expense) | $ (2.4) | $ (0.2) | $ (2.2) |
| Adjusted EBITDA | $ 244.0 | $ 295.7 | $ (51.7) |
| Adjusted EBITDA margin | 14.4% | 17.1% | -2.7% |
| Net interest expense | $ 53.4 | $ 55.0 | $ (1.6) |
| Income tax expense (benefit) | $ (88.5) | $ (13.1) | $ (75.4) |
| Effective tax rate | 19.7% | -14.0% | 33.7% |
| Net income (loss) attributable to AAM | $ (361.8) | $ 106.3 | $ (468.1) |
| Diluted EPS | $ (3.24) | $ 0.93 | $ (4.17) |
| Adjusted EPS | $ 0.45 | $ 0.89 | $ (0.44) |

Adjusted earnings per share are based on weighted average diluted shares outstanding of 116.2 million and 114.4 million for the three months ended on December 31, 2018 and 2017, respectively.



* For definitions of Adjusted EBITDA and Adjusted Earnings Per Share (EPS) and non-GAAP reconciliations, please see the attached appendix.

# Full Year Financial Results

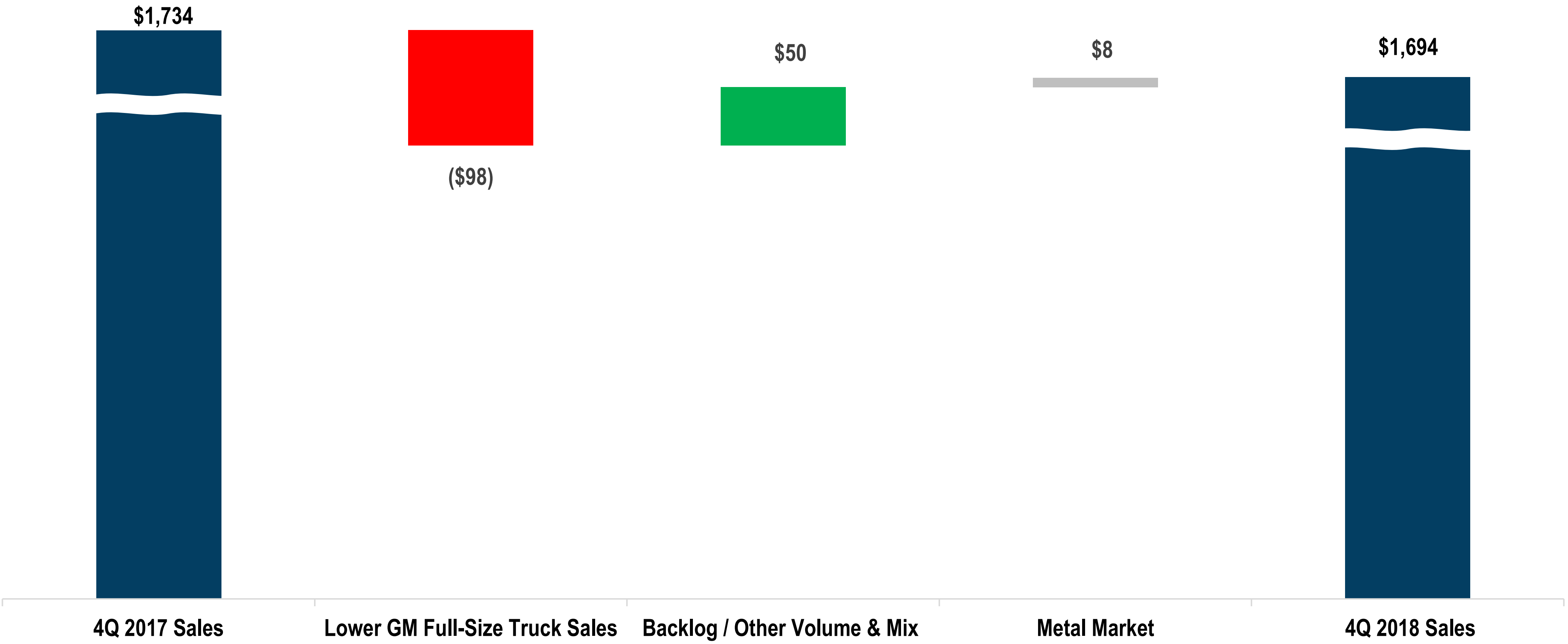
| | Twelve Months Ended December 31, 2018 | 2017 | Difference |
|---|---|---|---|
| | (dollars in millions, except per share data) | | |
| Net sales | $ 7,270.4 | $ 6,266.0 | $ 1,004.4 |
| Gross profit | $ 1,140.4 | $ 1,119.1 | $ 21.3 |
| Gross margin | 15.7% | 17.9% | -2.2% |
| SG&A | $ 385.7 | $ 390.1 | $ (4.4) |
| SG&A as a % of sales | 5.3% | 6.2% | -0.9% |
| Amortization of intangible assets | $ 99.4 | $ 75.3 | $ 24.1 |
| Restructuring and acquisition costs | $ 78.9 | $ 110.7 | $ (31.8) |
| Goodwill impairment | $ 485.5 | $ - | $ 485.5 |
| Other income (expense) | $ (6.0) | $ (10.3) | $ 4.3 |
| Adjusted EBITDA | $ 1,183.9 | $ 1,102.7 | $ 81.2 |
| Adjusted EBITDA margin | 16.3% | 17.6% | -1.4% |
| Net interest expense | $ 214.3 | $ 192.7 | $ 21.6 |
| Income tax expense (benefit) | $ (57.1) | $ 2.5 | $ (59.6) |
| Effective tax rate | -50.1% | 0.7% | -50.9% |
| Net income (loss) attributable to AAM | $ (57.5) | $ 337.1 | $ (394.6) |
| Diluted EPS | $ (0.51) | $ 3.21 | $ (3.72) |
| Adjusted EPS | $ 3.28 | $ 3.75 | $ (0.47) |

Adjusted earnings per share are based on weighted average diluted shares outstanding of 115.8 million and 105.1 million for the twelve months ended on December 31, 2018 and 2017, respectively.

* For definitions of Adjusted EBITDA and Adjusted Earnings Per Share (EPS) and non-GAAP reconciliations, please see the attached appendix.

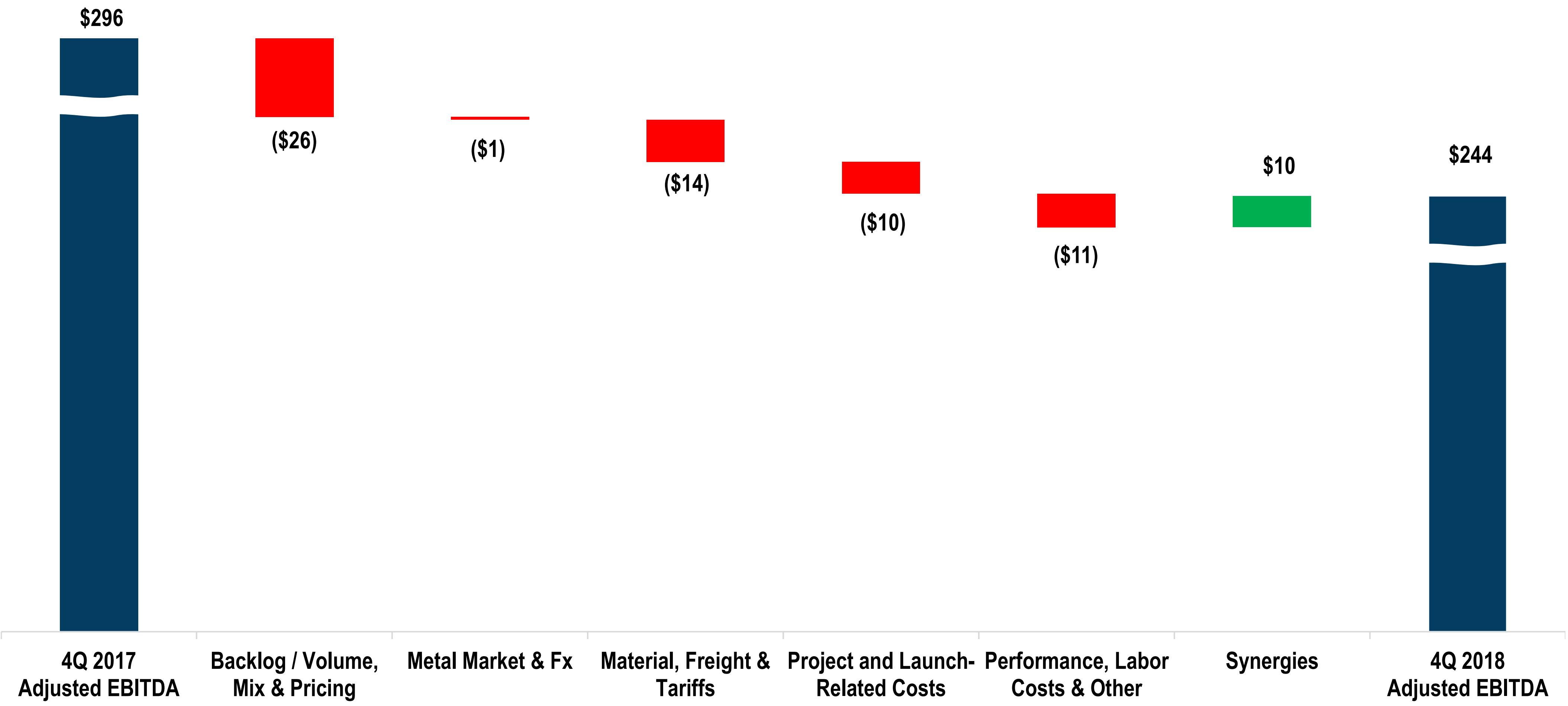
# 4Q 2018 Year-Over-Year Sales Walk

(in millions)



# 4Q 2018 Year-Over-Year Adjusted EBITDA Walk

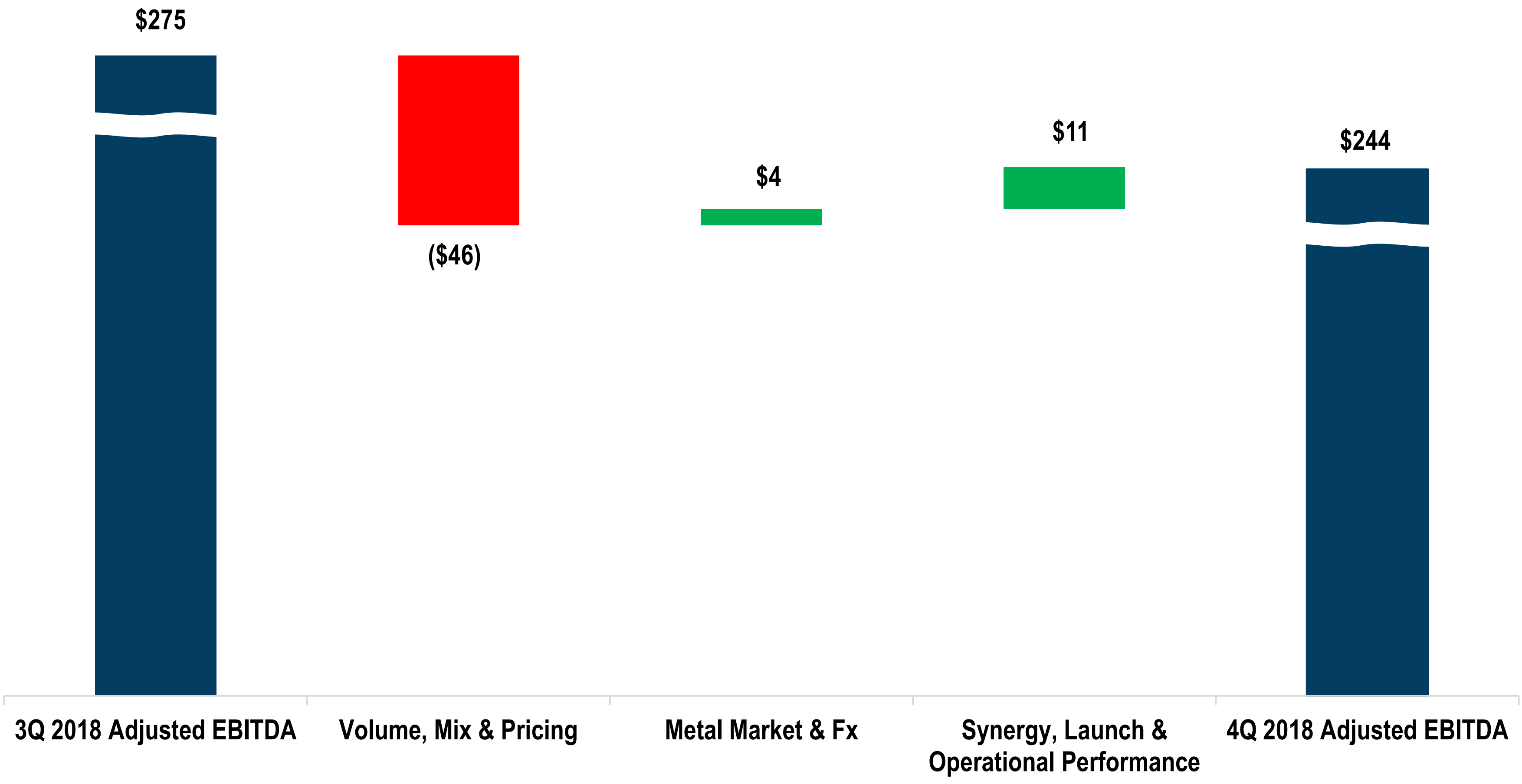
(in millions)




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

# 4Q Sequential Adjusted EBITDA Walk

**(in millions)**




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

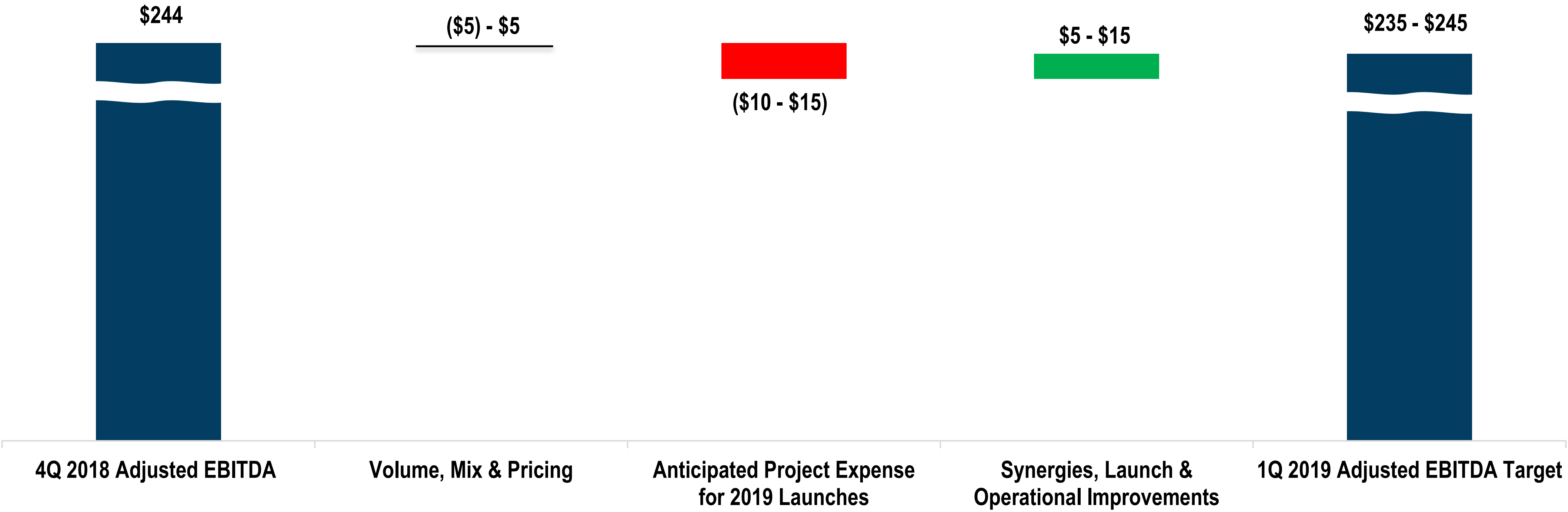
# Adjusted Free Cash Flow and Debt Profile

| Cash Flow and Debt Metrics | 4Q 2018 |
|---|---|
| Adjusted Free Cash Flow | $142.4 million |
| Net Debt | $3.33 billion |
| Net Leverage Ratio | 2.8x |
| Liquidity | >$1.4 billion |

**AAM prepaid $100 million of 7.75% Senior Notes in November 2018**

* For definitions of Adjusted Free Cash Flow, Net Debt, Net Leverage Ratio and Liquidity and non-GAAP reconciliations, please see the attached appendix.

# 4Q 2018 to 1Q 2019 Adjusted EBITDA Walk




- AAM expects sales in the range of $1.7 - $1.75 billion in the first quarter of 2019
- AAM expects a seasonal use of cash in the first quarter of 2019

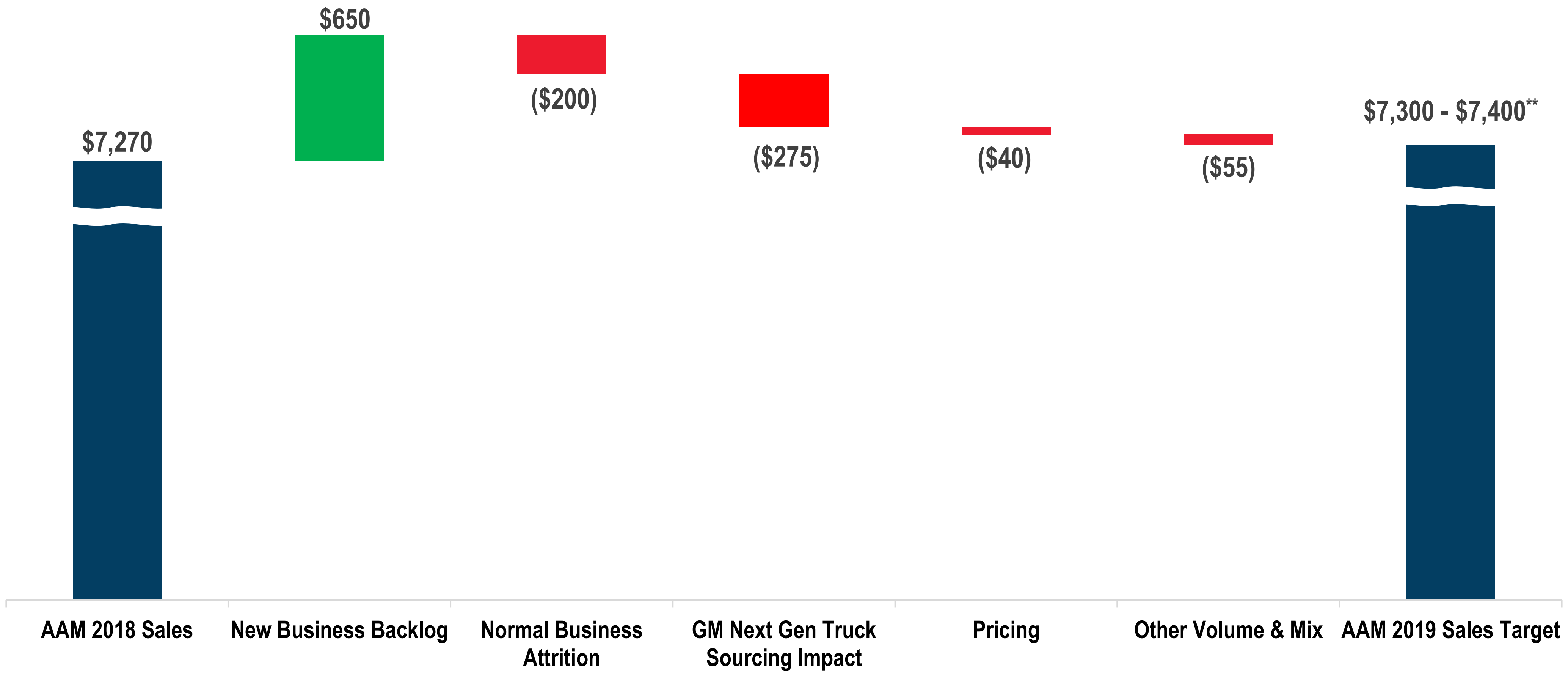


* For definitions of Adjusted EBITDA and non-GAAP reconciliations, please see the attached appendix. **Utilizes the midpoint of the range for charting purposes

# Supplemental Data

# 2019 Sales Target Walk

(in millions)

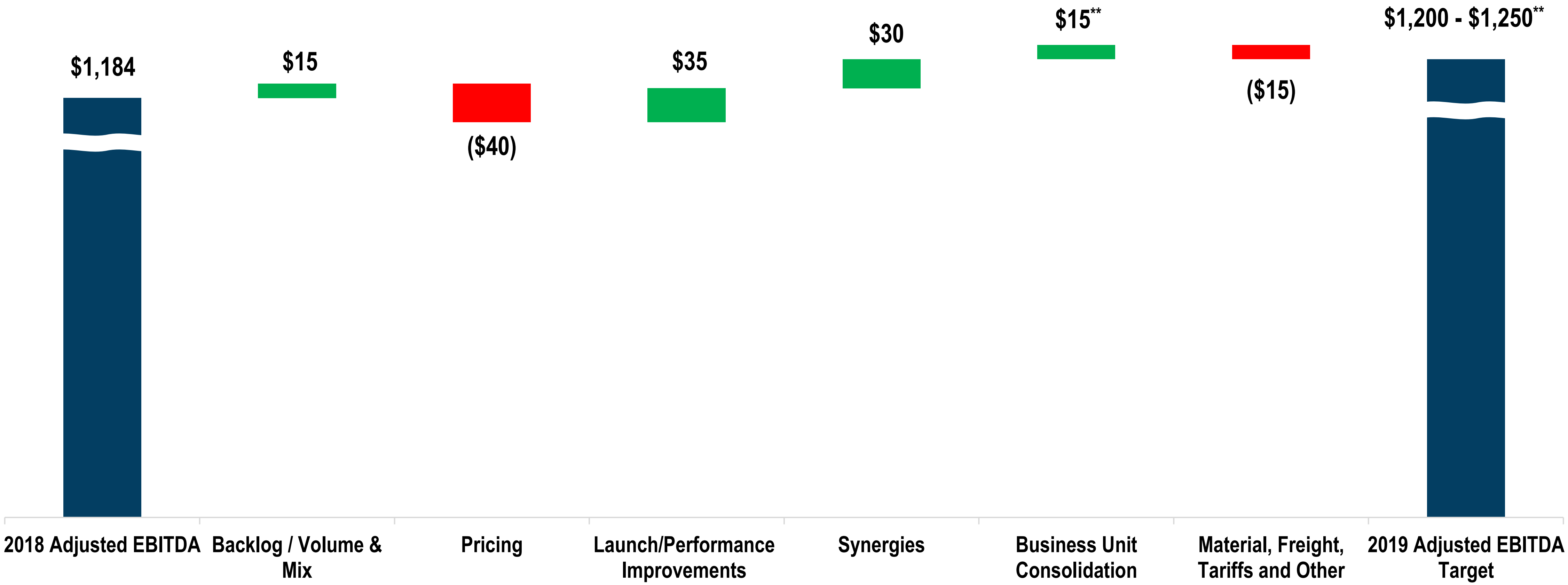



**AAM expects sales growth in 2019**

** Utilized the mid point for the range for charting purposes

# 2019 Adjusted EBITDA Target Walk

(dollars in millions)




**AAM expects to grow Adjusted EBITDA in 2019**

* For definitions of Non-GAAP measures, please see the attached appendix ** Utilized the mid point for the range for charting purposes

# 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 earnings release are provided on a non-GAAP basis. A reconciliation of non-GAAP forward-looking financial measures to the most directly comparable forward-looking financial measures calculated and presented in accordance with GAAP has been provided. The amounts in these reconciliations are based on our current estimates and actual results may differ materially from these forward-looking estimates for many reasons, including potential event driven transactional and other non-core operating items and their related effects in any future period, the magnitude of which may be significant.

# Supplemental Data

**EBITDA and Adjusted EBITDA Reconciliation**
**($ in millions)**

| | Three Months Ended December 31, 2018 | Three Months Ended December 31, 2017 | Twelve Months Ended December 31, 2018 | Twelve Months Ended December 31, 2017 |
|---|---|---|---|---|
| Net income (loss) | $ (361.6) | $ 106.5 | $ (56.8) | $ 337.5 |
| Interest expense | 53.8 | 55.7 | 216.3 | 195.6 |
| Income tax expense (benefit) | (88.5) | (13.1) | (57.1) | 2.5 |
| Depreciation and amortization | 137.9 | 125.2 | 528.8 | 428.5 |
| EBITDA | (258.4) | 274.3 | 631.2 | 964.1 |
| Restructuring and acquisition-related costs | 12.1 | 20.2 | 78.9 | 110.7 |
| Debt refinancing and redemption costs | 4.8 | 0.8 | 19.4 | 3.5 |
| Gain on sale of business | - | - | (15.5) | - |
| Goodwill impairment | 485.5 | - | 485.5 | - |
| Non-recurring items: | | | | |
| Gain on settlement of capital lease | - | - | (15.6) | - |
| Acquisition-related fair value inventory adjustment | - | - | - | 24.9 |
| Other | - | 0.4 | - | (0.5) |
| Adjusted EBITDA | $ 244.0 | $ 295.7 | $ 1,183.9 | $ 1,102.7 |
| as % of net sales | 14.4% | 17.1% | 16.3% | 17.6% |

# Supplemental Data

## Adjusted Earnings Per Share Reconciliation

| | Three Months Ended December 31, | | | | Twelve Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| Diluted earnings (loss) per share | $ | (3.24) | $ | 0.93 | $ | (0.51) | $ | 3.21 |
| Restructuring and acquisition-related costs | | 0.11 | | 0.18 | | 0.71 | | 1.05 |
| Debt refinancing and redemption costs | | 0.04 | | 0.01 | | 0.17 | | 0.03 |
| Gain on sale of business | | - | | - | | (0.14) | | - |
| Goodwill impairment | | 4.35 | | - | | 4.35 | | - |
| Non-recurring items: | | | | | | | | |
| Gain on settlement of capital lease | | - | | - | | (0.14) | | - |
| Acquisition-related fair value inventory adjustment | | - | | - | | - | | 0.24 |
| Acquisition related tax adjustments | | - | | 0.01 | | - | | (0.15) |
| Adjustments related to the Tax Cuts and Jobs Act of 2017 | | - | | (0.17) | | - | | (0.19) |
| Adjustment to liability for unrecognized tax benefits | | - | | - | | (0.18) | | - |
| Other | | - | | - | | - | | 0.02 |
| Tax effect of adjustments | | (0.79) | | (0.07) | | (0.85) | | (0.46) |
| Adjustment for anti-dilutive effect | | (0.02) | | - | | (0.13) | | - |
| Adjusted earnings per share | $ | 0.45 | $ | 0.89 | $ | 3.28 | $ | 3.75 |

Adjusted earnings per share are based on weighted average diluted shares outstanding of 116.2 million and 114.4 million for the three months ended on December 31, 2018 and 2017, respectively, and 115.8 million and 105.1 million for the twelve months ended on December 31, 2018 and 2017, respectively.

# Supplemental Data

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

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net cash provided by operating activities | $ 258.3 | $ 226.3 | $ 771.5 | $ 647.0 |
| Capital expenditures net of proceeds from sale of property, plant and equipment | (131.2) | (198.2) | (519.8) | (475.2) |
| Free cash flow | 127.1 | 28.1 | 251.7 | 171.8 |
| Cash payments for restructuring and acquisition-related costs | 15.3 | 22.8 | 70.6 | 109.3 |
| 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 | $ 142.4 | $ 50.9 | $ 322.3 | $ 340.9 |

# Supplemental Data

## Net Debt and Net Leverage Ratio
## ($ in millions)

| | December 31, 2018 |
|---|---|
| Current portion of long-term debt | $ 121.6 |
| Long-term debt, net | 3,686.8 |
| Total debt, net | 3,808.4 |
| Less: Cash and cash equivalents | 476.4 |
| Net debt at end of period | 3,332.0 |
| Adjusted LTM EBITDA | $ 1,183.9 |
| | |
| Net Leverage Ratio | 2.8 |

# Supplemental Data

**Segment Financial Information**
**($ in millions)**

| | Three Months Ended December 31, 2018 | Three Months Ended December 31, 2017 | Twelve Months Ended December 31, 2018 | Twelve Months Ended December 31, 2017 |
|---|---|---|---|---|
| Segment Sales | | | | |
| Driveline | $ 996.0 | $ 1,012.1 | $ 4,254.8 | $ 4,040.8 |
| Metal Forming | 339.1 | 355.1 | 1,515.4 | 1,242.6 |
| Powertrain | 262.9 | 272.0 | 1,128.5 | 816.5 |
| Casting | 218.5 | 224.2 | 919.8 | 676.4 |
| Total Sales | 1,816.5 | 1,863.4 | 7,818.5 | 6,776.3 |
| Intersegment Sales | (122.4) | (129.5) | (548.1) | (510.3) |
| Net External Sales | $ 1,694.1 | $ 1,733.9 | $ 7,270.4 | $ 6,266.0 |
| | | | | |
| Segment Adjusted EBITDA | | | | |
| Driveline | $ 146.5 | $ 178.8 | $ 660.7 | $ 692.3 |
| Metal Forming | 54.6 | 61.8 | 285.9 | 232.3 |
| Powertrain | 32.3 | 42.4 | 163.7 | 131.1 |
| Casting | 10.6 | 12.7 | 73.6 | 47.0 |
| Total Segment Adjusted EBITDA | $ 244.0 | $ 295.7 | $ 1,183.9 | $ 1,102.7 |

# Supplemental Data

**Full Year 2019 Outlook**
**($ in millions)**

| | Adjusted EBITDA | |
|---|---|---|
| | **Low End** | **High End** |
| Net income | $ 285 | $ 325 |
| Interest expense | 225 | 225 |
| Income tax expense | 70 | 80 |
| Depreciation and amortization | 570 | 570 |
| Full year 2019 targeted EBITDA | 1,150 | 1,200 |
| Restructuring and acquisition-related costs | 50 | 50 |
| Full year 2019 targeted Adjusted EBITDA | $ 1,200 | $ 1,250 |

| | Adjusted Free Cash Flow | |
|---|---|---|
| | **Low End** | **High End** |
| Net cash provided by operating activities | $ 810 | $ 860 |
| Capital expenditures net of proceeds from the sale of property, plant and equipment | (515) | (515) |
| Full year 2019 targeted Free Cash Flow | 295 | 345 |
| Cash payments for restructuring and acquisition-related costs | 55 | 55 |
| Full year 2019 targeted Adjusted Free Cash Flow | $ 350 | $ 400 |

# 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 a business, goodwill impairments 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 a business, goodwill impairments 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. Free cash flow and Adjusted free cash flow are also key metrics used in our calculation of incentive compensation. 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.