

Global Brass and Copper Holdings, Inc. Reports Third Quarter 2018 Financial Results

Highlights

- Volume of 142.2 million pounds, an increase of 19.1% year-over-year;
- Net income and diluted earnings per common share increased \$2.5 million to \$14.8 million and \$0.10 per share to \$0.66 per share, respectively;
- Third quarter 2018 earnings include Alumet, which we acquired on November 1, 2017;
- Adjusted EBITDA decreased \$0.5 million to \$29.6 million year-over-year;
- Adjusted diluted earnings per common share increased to \$0.77 from \$0.64 in the prior year period;
- The Company declares a quarterly dividend of \$0.09 per share; and
- The Company reaffirms 2018 full-year guidance.

SCHAUMBURG, Ill.--(BUSINESS WIRE)-- Today, Global Brass and Copper Holdings, Inc. (NYSE:BRSS) ("GBC" or the "Company") reported results for the third quarter ended September 30, 2018 and announced a quarterly dividend of \$0.09 per share.

Third Quarter Operating Results

Volume for the third quarter of 2018 increased by 22.8 million pounds, or 19.1%, to 142.2 million pounds compared to 119.4 million pounds in the third quarter of 2017. The increase in volumes includes 14.8 million pounds of incremental volume from A.J. Oster's acquisition of Alumet in November 2017. In addition, A.J. Oster grew base volumes in the automotive and electronics / electrical components markets. Olin Brass experienced increased demand in the munitions and coinage markets while Chase Brass had increased transportation and industrial machinery and equipment volumes.

"We achieved third quarter results that reflect growth in volumes as well as adjusted diluted earnings per share, which benefited from changes in the statutory rates and tax strategies that added significantly to our bottom line. Adjusted EBITDA for the quarter was impacted by unfavorable mix along with production related issues. We continue to focus on delivering superior quality and service to our customers while advancing our balanced book, strategic pricing, and asset management practices," said John Wasz, GBC's President and Chief Executive Officer.

Net sales for the third quarter of 2018 increased to \$429.9 million from \$359.4 million in the third quarter of 2017. The increase was primarily attributable to an increase in the metal cost recovery component stemming from increased sales of unprocessed metal, increased volumes, and the addition of Alumet. Adjusted sales, our non-GAAP financial measure that reflects the value-added premium over metal replacement cost recovery, increased \$26.7 million compared to the prior year, primarily due to our Alumet acquisition (\$16.8 million) and other organic volume increases. A reconciliation of net sales to adjusted sales is provided later in this press release.

Net income attributable to Global Brass and Copper Holdings, Inc. for the third quarter was \$14.8 million in 2018, or \$0.66 per diluted share, compared to \$12.3 million, or \$0.56 per diluted share, in 2017. The increase can be attributed to the net of the following:

- a decrease in tax expense of \$4.7 million due primarily to changes in statutory rates and methods of tax accounting for inventories;
- favorable volumes;
- \$1.3 million of income generated from Alumet, a business we acquired in November 2017;
- a decrease in refinancing costs (\$0.9 million) and professional fees for the Alumet acquisition (\$0.5 million);
- a decrease in share based compensation expense of \$0.5 million;
- unfavorable conversion costs and employee and employee related costs;

- unfavorable lower of cost or market adjustment to inventory of \$1.9 million;
- unfavorable fluctuations in unrealized gains / losses on derivative contracts of \$1.0 million; and
- increased depreciation expense of \$0.8 million.

Adjusted EBITDA, our non-GAAP measure of consolidated profitability, was \$29.6 million for the third quarter of 2018 compared to \$30.1 million for the third quarter of 2017. Excluding the \$1.7 million of Adjusted EBITDA generated by Alumet, Adjusted EBITDA decreased by \$2.2 million as a result of unfavorable conversion costs and an increase in employee and employee related costs which more than offset favorable volumes.

Adjusted diluted earnings per common share, another non-GAAP measure, was \$0.77 for the third quarter of 2018 compared to \$0.64 in the prior year. A reconciliation of diluted net income attributable to GBC per common share to adjusted diluted earnings per common share is provided later in this press release. Adjusted diluted earnings per share fluctuated for reasons similar to the fluctuation in Adjusted EBITDA, in addition to a decrease in tax and interest expense, partially offset by an increase in depreciation expense.

Cash Flow and Leverage

For the nine months ended September 30, 2018, we generated \$73.3 million of cash from operating activities, which was a \$40.4 million improvement over the prior year. The increase was due to reduced investments in working capital, driven by reduced copper prices and increased volumes, as well as strong earnings.

We ended the quarter with cash of \$101.1 million, \$313.6 million outstanding under our term loan facility, and \$195.4 million available under our asset-based revolving loan facility.

2018 Guidance

We affirm our full-year 2018 guidance and expect:

- Shipment volumes to range from 570 million pounds to 610 million pounds; and
- Adjusted EBITDA to range from \$127 million to \$137 million.

Due to the forward looking nature of Adjusted EBITDA guidance, we are unable to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure, as we are unable to project certain reconciling items, in particular unrealized gains / losses on derivative contracts, LIFO liquidation gains / losses, and lower of cost or market adjustments to inventory, for future periods due to market volatility.

Quarterly Dividend

On November 1, 2018, our Board of Directors declared a quarterly cash dividend of \$0.09 per share on the Company's common stock for the third quarter of 2018. The dividend will be paid on November 21, 2018 to stockholders of record on the close of business on November 12, 2018.

Conference Call

The Company will host a teleconference and webcast at 9:00 a.m. (Central Time) on Friday, November 2, 2018 to review the results. To listen to the live call, individuals can access the webcast approximately 10 minutes before the scheduled start time at the investor relations portion of the Company's website at <http://ir.gbcholdings.com>, or by dialing 855-878-0250, passcode #3188635. For those who cannot listen to the live webcast, replays will be available shortly after the call on the Company's website.

About Global Brass and Copper

Global Brass and Copper Holdings, Inc. is a leading, value-added converter, fabricator, processor, and distributor of specialized non-ferrous products in North America. We engage in metal melting and casting, rolling, drawing, extruding, welding, stamping, and coating to fabricate finished and semi-finished alloy products from processed scrap, virgin metals, and other refined metals. Our products include a wide range of sheet, strip, foil, rod, tube, painted and fabricated metal component products. Our products are used in a variety of applications across diversified markets, including the building and housing, munitions, automotive, transportation, coinage, electronics / electrical components, industrial machinery and equipment, and general consumer markets.

Consolidated Statements of Operations (Unaudited)

<i>(In millions, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 429.9	\$ 359.4	\$ 1,361.1	\$ 1,153.7
Cost of sales	(387.0)	(315.8)	(1,211.3)	(1,015.3)
Gross profit	42.9	43.6	149.8	138.4
Selling, general and administrative expenses	(22.0)	(19.4)	(68.5)	(61.6)
Operating income	20.9	24.2	81.3	76.8
Interest expense	(4.1)	(4.4)	(12.7)	(13.9)
Loss on extinguishment of debt	—	(0.2)	(0.5)	(0.2)
Other (expense) income, net	—	(0.6)	(1.0)	3.6
Income before provision for income taxes	16.8	19.0	67.1	66.3
Provision for income taxes	(1.9)	(6.6)	(15.2)	(20.4)
Net income	14.9	12.4	51.9	45.9
Net income attributable to noncontrolling interest	(0.1)	(0.1)	(0.3)	(0.4)
Net income attributable to Global Brass and Copper Holdings, Inc.	\$ 14.8	\$ 12.3	\$ 51.6	\$ 45.5

Net income attributable to Global Brass and Copper Holdings, Inc. per common share:

Basic	\$ 0.67	\$ 0.56	\$ 2.35	\$ 2.10
Diluted	\$ 0.66	\$ 0.56	\$ 2.31	\$ 2.06
Weighted average common shares outstanding:				
Basic	22.1	21.8	22.0	21.7
Diluted	22.4	22.1	22.3	22.1

Supplemental Non-GAAP Reconciliation

Net sales	\$ 429.9	\$ 359.4	\$ 1,361.1	\$ 1,153.7
Metal component of net sales	(275.0)	(231.2)	(891.1)	(754.8)
Adjusted sales	\$ 154.9	\$ 128.2	\$ 470.0	\$ 398.9

Diluted net income attributable to Global Brass and Copper Holdings, Inc. per common share, as reported

Diluted net income attributable to Global Brass and Copper Holdings, Inc. per common share, as reported	\$ 0.66	\$ 0.56	\$ 2.31	\$ 2.06
Unrealized loss (gain) on derivative contracts	0.03	(0.01)	0.06	0.05
Refinancing costs	—	0.04	0.07	0.04
Specified legal / professional expenses	—	0.02	—	0.02
Lower of cost or market adjustment to inventory	0.05	(0.03)	—	(0.03)
Share-based compensation expense	0.07	0.09	0.21	0.28
Step-up costs from acquisition accounting	—	—	0.01	—
Tax impact on above adjustments (a)	(0.04)	(0.03)	(0.11)	(0.26)
Adjusted diluted earnings per common share	\$ 0.77	\$ 0.64	\$ 2.55	\$ 2.16

(a) Calculated based on our estimated tax rate, including tax benefits related to the vesting of share awards and option exercises.

Global Brass and Copper Holdings, Inc. **Adjusted EBITDA Reconciliation**

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017

Net income attributable to Global Brass and Copper Holdings, Inc.

	\$ 14.8	\$ 12.3	\$ 51.6	\$ 45.5
Interest expense, net	4.1	4.2	12.7	13.6
Provision for income taxes	1.9	6.6	15.2	20.4
Depreciation expense	5.3	4.5	15.6	13.5
Amortization expense	0.1	0.1	0.3	0.1
Unrealized loss (gain) on derivative contracts	0.7	(0.3)	1.3	1.1
Refinancing costs	—	0.9	1.6	0.9
Specified legal / professional expenses	—	0.5	—	0.5
Lower of cost or market adjustment to inventory	1.2	(0.7)	0.1	(0.8)
Share-based compensation expense	1.5	2.0	4.6	6.3
Step-up costs from acquisition accounting	—	—	0.2	—
Adjusted EBITDA	<u>\$ 29.6</u>	<u>\$ 30.1</u>	<u>\$ 103.2</u>	<u>\$ 101.1</u>

Segment Results of Operations

<i>(in millions)</i>	Three Months Ended September 30,		Change 2018 vs. 2017	
	2018	2017	Amount	Percent
Pounds shipped (a)				
Olin Brass	63.4	56.5	6.9	12.2%
Chase Brass	53.8	53.0	0.8	1.5%
A.J. Oster	34.1	18.1	16.0	88.4%
Corporate and other (b)	(9.1)	(8.2)	(0.9)	(11.0)%
Total	<u>142.2</u>	<u>119.4</u>	<u>22.8</u>	<u>19.1%</u>
Net sales				
Olin Brass	\$ 185.9	\$ 155.3	\$ 30.6	19.7%
Chase Brass	149.0	144.8	4.2	2.9%
A.J. Oster	117.4	76.9	40.5	52.7%
Corporate and other (b)	(22.4)	(17.6)	(4.8)	(27.3)%
Total	<u>\$ 429.9</u>	<u>\$ 359.4</u>	<u>\$ 70.5</u>	<u>19.6%</u>
Adjusted EBITDA				
Olin Brass	\$ 11.4	\$ 11.8	\$ (0.4)	(3.4)%
Chase Brass	16.0	18.3	(2.3)	(12.6)%
A.J. Oster	6.3	3.6	2.7	75.0%
Total Adjusted EBITDA of operating segments	<u>\$ 33.7</u>	<u>\$ 33.7</u>	<u>\$ —</u>	<u>—%</u>
Corporate and other	(4.1)	(3.6)	(0.5)	(13.9)%
Total consolidated Adjusted EBITDA	<u>\$ 29.6</u>	<u>\$ 30.1</u>	<u>\$ (0.5)</u>	<u>(1.7)%</u>

<i>(in millions)</i>	Nine Months Ended September 30,		Change 2018 vs. 2017	
	2018	2017	Amount	Percent
Pounds shipped (a)				
Olin Brass	195.5	186.8	8.7	4.7%
Chase Brass	164.9	167.0	(2.1)	(1.3)%
A.J. Oster	103.0	55.2	47.8	86.6%
Corporate and other (b)	(29.9)	(29.4)	(0.5)	(1.7)%
Total	<u>433.5</u>	<u>379.6</u>	<u>53.9</u>	<u>14.2%</u>
Net sales				
Olin Brass	\$ 584.2	\$ 548.9	\$ 35.3	6.4%
Chase Brass	480.1	440.0	40.1	9.1%
A.J. Oster	363.1	226.6	136.5	60.2%

Corporate and other (b)	(66.3)	(61.8)	(4.5)	(7.3)%
Total	<u>\$ 1,361.1</u>	<u>\$ 1,153.7</u>	<u>\$ 207.4</u>	18.0%
Adjusted EBITDA				
Olin Brass	\$ 45.5	\$ 38.7	\$ 6.8	17.6%
Chase Brass	53.0	56.6	(3.6)	(6.4)%
A.J. Oster	18.1	10.4	7.7	74.0%
Total Adjusted EBITDA of operating segments	<u>\$ 116.6</u>	<u>\$ 105.7</u>	<u>\$ 10.9</u>	10.3%
Corporate and other (c)	(13.4)	(4.6)	(8.8)	(191.3)%
Total consolidated Adjusted EBITDA	<u>\$ 103.2</u>	<u>\$ 101.1</u>	<u>\$ 2.1</u>	2.1%

(a) Amounts exclude quantity of unprocessed metal sold.

(b) Amounts represent intercompany eliminations.

(c) The nine months ended September 30, 2017 includes a \$7.4 million recovery of insurance proceeds relating to a production outage in 2016.

Global Brass and Copper Holdings, Inc.
Consolidated Balance Sheets (Unaudited)

<i>(In millions, except share and par value data)</i>	As of	
	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 101.1	\$ 59.0
Accounts receivable (net of allowance of \$ 1.1 and \$1.0, respectively)	199.6	197.8
Inventories	218.8	208.1
Prepaid expenses and other current assets	10.2	11.7
Income tax receivable	4.0	3.6
Total current assets	533.7	480.2
Property, plant and equipment, net	143.4	142.9
Goodwill	4.4	4.5
Intangible assets, net	1.7	2.0
Deferred income taxes	8.6	16.1
	6.8	6.5
Other noncurrent assets		
Total assets	\$ 698.6	\$ 652.2
Liabilities and equity		
Current liabilities:		
Current portion of debt	\$ 5.0	\$ 5.0
Accounts payable	121.2	117.1
Accrued liabilities	30.9	36.0
Accrued interest	0.2	0.2
Income tax payable	0.6	0.5
Total current liabilities	157.9	158.8
Noncurrent portion of debt	306.3	309.0
Other noncurrent liabilities	38.2	37.1
Total liabilities	502.4	504.9
Commitments and contingencies		
Global Brass and Copper Holdings, Inc. stockholders' equity:		
Common stock - \$0.01 par value; 80,000,000 shares authorized; 22,541,416 and 22,133,764 shares issued, respectively	0.2	0.2
Additional paid-in capital	60.4	54.5
Retained earnings	144.3	97.3
Treasury stock - 342,031 and 226,576 shares, respectively	(10.0)	(6.6)
Accumulated other comprehensive loss	(3.5)	(2.9)

Total Global Brass and Copper Holdings, Inc. stockholders' equity	191.4	142.5
Noncontrolling interest	4.8	4.8
Total equity	196.2	147.3
Total liabilities and equity	\$ 698.6	\$ 652.2

Global Brass and Copper Holdings, Inc.
Consolidated Statements of Cash Flows (Unaudited)

<i>(in millions)</i>	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 51.9	\$ 45.9
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Lower of cost or market adjustment to inventory	0.1	(0.8)
Unrealized (gain) loss on derivatives	1.3	1.1
Depreciation	15.6	13.5
Amortization of intangible assets	0.3	0.1
Amortization of debt discount and issuance costs	0.9	1.0
Loss on extinguishment of debt	0.5	0.2
Share-based compensation expense	4.6	6.3
Provision for bad debts, net of reductions	0.6	0.3
Deferred income taxes	7.1	11.7
Loss on disposal of property, plant and equipment	0.1	—
Change in assets and liabilities, net of effects of business acquisition:		
Accounts receivable	(2.0)	(31.2)
Inventories	(10.7)	(12.5)
Prepaid expenses and other current assets	(0.1)	0.3
Accounts payable	5.4	8.6
Accrued liabilities	(3.5)	(7.4)
Income taxes, net	(0.5)	(3.8)
Other, net	1.7	(0.4)
Net cash provided by (used in) operating activities	73.3	32.9
Cash flows from investing activities		
Capital expenditures	(17.4)	(18.4)
Business acquisition	(1.7)	—
Net cash used in investing activities	(19.1)	(18.4)
Cash flows from financing activities		
Borrowings on ABL Facility	0.7	0.6
Payments on ABL Facility	(0.7)	(0.6)
Payments of debt issuance costs	(0.4)	(0.2)
Proceeds from term loan, net of discount	25.4	8.7
Payments on term loan	(27.8)	(11.1)
Principal payments under capital lease obligation	(1.4)	(0.9)
Dividends paid	(4.7)	(3.0)
Proceeds from exercise of stock options	1.3	0.7
Share repurchases	(3.4)	(5.1)
Net cash used in financing activities	(11.0)	(10.9)
Effect of foreign currency exchange rates	(1.1)	(0.4)
Net increase (decrease) in cash	42.1	3.2
Cash and cash equivalents at beginning of period	59.0	88.2
Cash and cash equivalents at end of period	\$ 101.1	\$ 91.4

Noncash investing and financing activities

Purchases of property, plant and equipment not yet paid	\$	3.2	\$	1.5
Acquisition of equipment under capital lease obligation	\$	0.2	\$	—

Non-GAAP Measures

In addition to the results reported in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), we also report “adjusted EBITDA,” “adjusted diluted earnings per common share,” and “adjusted sales,” which are non-GAAP financial measures as defined below.

Adjusted sales, adjusted EBITDA, and adjusted diluted earnings per common share may not be comparable to similarly titled measures presented by other companies and are not intended as alternatives to any other measure of performance in conformity with US GAAP.

You should therefore not place undue reliance on adjusted EBITDA, adjusted diluted earnings per common share, adjusted sales, or any ratios calculated using them. Our US GAAP-based measures can be found in our consolidated financial statements included elsewhere in this press release.

Adjusted EBITDA

Net income attributable to Global Brass and Copper Holdings, Inc. is the most directly comparable US GAAP measure to adjusted EBITDA. Adjusted EBITDA is defined as net income attributable to Global Brass and Copper Holdings, Inc., plus interest, taxes, depreciation and amortization (“EBITDA”) adjusted to exclude the following:

- unrealized gains and losses on derivative contracts in support of our balanced book approach;
- unrealized gains and losses associated with derivative contracts related to energy and utility costs;
- impact associated with lower of cost or market adjustments to inventory;
- gains and losses due to the depletion of a last-in, first out (“LIFO”) layer of metal inventory;
- share-based compensation expense;
- refinancing costs;
- restructuring and other business transformation charges;
- inventory step-up costs related to acquisition accounting;
- specified legal and professional expenses; and
- certain other items.

We believe adjusted EBITDA represents a meaningful presentation of the financial performance of our core operations because it provides period-to-period comparisons that are more consistent and more easily understood. We also believe it is an important supplemental measure that is frequently used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry.

Adjusted EBITDA is the key metric used by our chief operating decision maker (“CODM”) to evaluate segment performance in a way that we believe reflects our core operating performance, and in turn, incentivizes members of management and certain employees. For example, we use adjusted EBITDA per pound in order to measure the effectiveness of the balanced book approach in reducing the financial impact of metal price volatility on earnings and operating margins, and to measure the effectiveness of our business transformation initiatives in improving earnings and operating margins. However, our adjusted EBITDA may not be comparable to similarly titled measures presented by other companies. In addition, it has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under US GAAP.

We compensate for these limitations by using adjusted EBITDA along with other comparative tools, together with US GAAP measurements, to assist in the evaluation of operating performance. Such US GAAP measurements include operating income and net income.

Adjusted diluted earnings per common share

Diluted net income attributable to Global Brass and Copper Holdings, Inc. per common share is the most directly comparable US GAAP measure to adjusted diluted earnings per common share. Adjusted diluted earnings per

common share is defined as diluted net income attributable to Global Brass and Copper Holdings, Inc. per common share adjusted to remove the per share impact of the add backs to EBITDA in calculating adjusted EBITDA.

We believe adjusted diluted earnings per common share represents a meaningful presentation of the financial performance of our consolidated results because it provides period-to-period comparisons that are more consistent and more easily understood. We also believe it is an important supplemental measure that is frequently used by securities analysts, investors, and other interested parties in the evaluation of companies in our industry.

Adjusted diluted earnings per share is the key metric used by our CODM to evaluate the Company's performance, and in turn, incentivize members of management and certain employees.

We believe that adjusted diluted earnings per common share supplements our US GAAP results to provide a more complete understanding of the results of our business, and we believe it is useful to our investors and other parties for these same reasons. Adjusted diluted earnings per common share may not be comparable to similarly titled measures presented by other companies and is not a measure of operating performance or liquidity defined by US GAAP.

Adjusted sales

Net sales is the most directly comparable US GAAP measure to adjusted sales, which represents the value-added premium we earn over our conversion and fabrication costs. Adjusted sales is defined as net sales less the metal cost of products sold. We use adjusted sales on a consolidated basis to monitor the revenues that are generated from our value-added conversion and fabrication processes excluding the effects of fluctuations in metal costs. We believe that adjusted sales supplements our US GAAP results to provide a more complete understanding of the results of our business, and we believe it is useful to our investors and other parties for these same reasons.

Cautionary Statement Concerning Forward-Looking Statements

This press release contains "forward-looking statements" that involve risks and uncertainties. All statements the Company makes relating to its estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates, and financial results or to its expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make or may make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may change at any time, and, therefore, our actual results may differ materially from those that we expected. Important factors that could cause actual results to differ materially from these expectations include, among other things, general market conditions, market demand and competitive factors, our ability to implement business and acquisition strategies, our ability to address unexpected operational issues, and our ability to continue to implement our balanced book approach.

More detailed information about these and other risks and uncertainties are contained in the Company's filings with the Securities and Exchange Commission, including under "Risk Factors" and elsewhere in our Annual Report on Form 10-K filed with the Securities and Exchange Commission and our reports filed with the Securities and Exchange Commission from time-to-time, including Quarterly Reports on Form 10-Q, copies of which may be obtained by visiting the Company's Investor Relations website at <http://ir.gbcholdings.com> or the SEC's website at www.sec.gov. All forward-looking information in this press release is expressly qualified in its entirety by these cautionary statements. All forward-looking statements contained in this press release are based upon information available to the Company on the date of this press release.

In addition, the matters referred to in the forward-looking statements contained in this press release may not in fact occur. Accordingly, investors should not place undue reliance on those statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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