Aerojet Rocketdyne Holdings, Inc. Reports Third Quarter 2018 Results

October 30, 2018

EL SEGUNDO, Calif., Oct. 30, 2018 (GLOBE NEWSWIRE) -- Aerojet Rocketdyne Holdings, Inc. (NYSE:AJRD) today reported results for the third quarter ended September 30, 2018.

Financial Overview

Third quarter of 2018 compared with third quarter of 2017

- Net sales for the three months ended September 30, 2018, totaled $498.8 million compared with $484.1 million for the three months ended September 30, 2017.
- Net income for the three months ended September 30, 2018, was $65.0 million, or $0.82 diluted income per share, compared with net income of $12.6 million, or $0.17 diluted income per share, for the three months ended September 30, 2017. Net income for the three months ended September 30, 2018, included a one-time after-tax benefit of $31.6 million, or $0.40 diluted income per share, in environmental remediation provision adjustments as a result of reaching a determination with the U.S. government that certain environmental expenditures are reimbursable.
- Adjusted EBITDAP (Non-GAAP measure*) for the three months ended September 30, 2018, was $118.1 million compared with $54.6 million for the three months ended September 30, 2017. Adjusted EBITDAP for the three months ended September 30, 2018, included a one-time benefit of $43.0 million in environmental remediation provision adjustments as a result of reaching a determination with the U.S. government that certain environmental expenditures are reimbursable.
- Segment performance before environmental remediation provision adjustments, retirement benefits, net, and unusual items (Non-GAAP measure*) was $71.3 million for the three months ended September 30, 2018, compared with $53.4 million for the three months ended September 30, 2017.
- Cash provided by operating activities for the three months ended September 30, 2018, totaled $72.5 million compared with $(11.8) million of cash used in operating activities for the three months ended September 30, 2017.
- Effective January 1, 2018, the Company adopted the new revenue recognition guidance. Consistent with the standard, net assets increased by $37.6 million and $578.0 million of net sales were recognized in the cumulative effect at January 1, 2018, with a corresponding reduction to backlog.
- Total backlog as of September 30, 2018, was $3.7 billion compared with $4.6 billion as of December 31, 2017.

First nine months of 2018 compared with first nine months of 2017

- Net sales for the nine months ended September 30, 2018, totaled $1,458.0 million compared with $1,349.0 million for the nine months ended September 30, 2017.
- Net income for the nine months ended September 30, 2018, was $113.8 million, or $1.47 diluted income per share, compared with net income of $42.8 million, or $0.57 diluted income per share, for the nine months ended September 30, 2017.
- Adjusted EBITDAP (Non-GAAP measure*) for the nine months ended September 30, 2018, was $241.1 million compared with $165.3 million for the nine months ended September 30, 2017.
- Segment performance before environmental remediation provision adjustments, retirement benefits, net, and unusual items (Non-GAAP measure*) was $178.6 million for the nine months ended September 30, 2018, compared with $152.0 million for the nine months ended September 30, 2017.
- Cash provided by operating activities for the nine months ended September 30, 2018, totaled $97.0 million compared with $25.9 million of cash provided by operating activities for the nine months ended September 30, 2017.

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* The Company provides Non-GAAP measures as a supplement to financial results presented in accordance with accounting principles generally accepted in the United States ("GAAP"). A reconciliation of the Non-GAAP measures to the most directly comparable GAAP measures is included at the end of the release.

"2018 continues to be an outstanding year for Aerojet Rocketdyne," said Eileen Drake, CEO and President of Aerojet Rocketdyne. "Free cash flow generation of $76 million through the first nine months and a year-to-date Adjusted EBITDAP margin of 13.6%, excluding the $43 million benefit of a change in environmental recovery, are a reflection of our continued focus on program execution and efficiency." Aerojet Rocketdyne sales were up 3% in the quarter on an as-reported basis. Effective January 1, 2018, the Company adopted the new revenue recognition standard ASC 606. Using the previous accounting standard, sales would have been $513.2 million in the quarter, an increase of 6%.

Operations Review

Aerospace and Defense Segment

	Three months ended September 30, 2018		2017		Nine months ended September 30, 2018		2017	
	(In millions, except percentage amounts)							
Net sales	$ 497.2		$ 482.5		$ 1,453.2		$ 1,344.2	
Segment performance	108.0		46.7		209.6		137.6	
Segment margin	21.7	%	9.7	%	14.4	%	10.2	%
Segment margin before environmental remediation provision adjustments, retirement benefits, net, and unusual items (Non-GAAP measure)	14.2	%	11.0	%	12.2	%	11.2	%
Components of segment performance:								
Aerospace and Defense income	$ 70.7		$ 52.9		$ 176.8		$ 149.9	
Environmental remediation provision adjustments	39.9		(0.5	)	37.6		(1.6	)
GAAP/Cost Accounting Standards (“CAS”) retirement benefits expense difference	(2.6	)	(5.8	)	(4.8	)	(12.7	)
Unusual items	—		0.1		—		2.0	
Aerospace and Defense total	$ 108.0		$ 46.7		$ 209.6		$ 137.6	

Net sales were significantly impacted by the adoption of new revenue recognition guidance effective January 1, 2018, using the modified retrospective method. The primary impact of the new guidance was a change in the timing of revenue recognition on certain long-term contracts. Under this new guidance, the Company discontinued the use of the unit-of-delivery method on certain customer contracts and re-measured the performance obligations using the cost-to-cost method.

Segment performance during the three and nine months ended September 30, 2018, was significantly impacted by a one-time benefit of $43.0 million as a result of reaching a determination with the U.S. government that certain environmental expenditures are reimbursable under the Global Settlement (see discussion below).

Third quarter of 2018 compared with third quarter of 2017

Net sales in the three months ended September 30, 2018, would have been $511.6 million under the previous revenue recognition guidance which is $29.1 million higher than the net sales reported in the three months ended September 30, 2017, resulting from an increase of $47.1 million in defense programs primarily driven by increased deliveries on the Standard Missile, Guided Multiple Launch Rocket System (“GMLRS”), Terminal High Altitude Area Defense (“THAAD”), and Patriot Advanced Capability-3 (“PAC-3”) programs. The increase in net sales was partially offset by a decrease of $18.0 million in space programs primarily driven by a decrease in volume on the Commercial Crew Development program. The Atlas V program contributed sales of $9.1 million under the new revenue recognition guidance in the three months ended September 30, 2018, and sales of $29.6 million under the previous revenue recognition guidance in the three months ended September 30, 2018.

The increase in segment margin before environmental remediation provision adjustments, retirement benefits, net and unusual items was primarily driven by risk retirements on the RS-68 and RL-10 programs, partially offset by cost growth and performance issues in the current period on the Commercial Crew Development program.

During the three months ended September 30, 2018, we had $26.9 million of favorable changes in contract estimates on operating results before income taxes compared with favorable changes of $11.5 million during the three months ended September 30, 2017.

First nine months of 2018 compared with first nine months of 2017

Net sales in the nine months ended September 30, 2018, would have been $1,454.4 million under the previous revenue recognition guidance which is $110.2 million higher than the net sales reported in the nine months ended September 30, 2017, resulting from an increase of $164.4 million in defense programs primarily driven by increased deliveries on the Standard Missile, PAC-3, THAAD and GMLRS programs. The increase in net sales was partially offset by a decrease of $54.2 million in space programs primarily driven by performance issues on the Commercial Crew Development program. The Atlas V program contributed sales of $41.4 million under the new revenue recognition guidance in the nine months ended September 30, 2018, and sales of $74.2 million under the previous revenue recognition guidance in the nine months ended September 30, 2018.

The increase in the segment margin before environmental remediation provision adjustments, retirement benefits, net and unusual items was primarily due to the following: (i) risk retirements on the RS-68 program, (ii) favorable overhead rate performance, and (iii) cost growth and manufacturing inefficiencies in 2017 on electric propulsion contracts. These factors were partially offset by cost growth and performance issues in the current period on the Commercial Crew Development program and favorable contract performance on the THAAD program in 2017 as a result of risk retirements and cost reductions.

During the nine months ended September 30, 2018, we had $41.0 million of favorable changes in contract estimates on operating results before income taxes compared with favorable changes of $25.2 million during the nine months ended September 30, 2017.

Real Estate Segment

	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
	(In millions)			

Net sales	$ 1.6	$ 1.6	$ 4.8	$ 4.8
Segment performance	0.6	0.5	1.8	2.1

Net sales and segment performance consist primarily of rental property operations.

Backlog

As of September 30, 2018, the Company's total remaining performance obligations, which are also referred to as backlog, were $3.7 billion. The Company expects to recognize approximately 50%, or $1.9 billion, of the remaining performance obligations as sales over the next twelve months. A summary of the Company's backlog is as follows:

	September 30, 2018	December 31, 2017
	(In billions)	
Funded backlog	$ 1.6	$ 2.1
Unfunded backlog	2.1	2.5
Total backlog	$ 3.7	$ 4.6

The Company's adoption of the new revenue recognition guidance accelerated the timing of revenue recognition on some of the Company's contracts, the adoption resulted in a $0.6 billion reduction in the Company's backlog as of December 31, 2017. Total backlog includes both funded backlog (unfilled orders for which funding is authorized, appropriated and contractually obligated by the customer) and unfunded backlog (firm orders for which funding has not been appropriated). Indefinite delivery and quantity contracts and unexercised options are not reported in total backlog. Backlog is subject to funding delays or program restructurings/cancellations which are beyond the Company's control.

Environmental

On January 12, 1999, Aerojet Rocketdyne and the U.S. government reached a settlement agreement ("Global Settlement") covering environmental costs associated with the Company's Sacramento site and its former Azusa site. Pursuant to the Global Settlement, the Company can recover up to 88% of its environmental remediation costs through the establishment of prices for Aerojet Rocketdyne's products and services sold to the U.S. government. Additionally, in conjunction with the sale of the EIS business in 2001, Aerojet Rocketdyne entered into an agreement (the "Northrop Agreement") with Northrop Grumman Corporation ("Northrop") whereby Aerojet Rocketdyne is reimbursed by Northrop for a portion of environmental expenditures eligible for recovery under the Global Settlement, subject to an annual billing limitation of $6.0 million and a cumulative limitation of $189.7 million.

The cumulative expenditure limitation of $189.7 million under the Northrop Agreement was reached in June 2017. At that time, the Company was uncertain of the allowability and allocability of additional expenditures above that cumulative limitation and therefore did not recognize a recoverable asset for such amounts. During the three months ended September 30, 2018, the Company reached a determination with the U.S. government that these expenditures are reimbursable under the Global Settlement and therefore recorded a one-time benefit of $43.0 million to recognize the recoverability of environmental expenditures at a rate of 88%.

The impact of environmental reserves and recoveries to the unaudited condensed consolidated statements of operations is set forth below:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In millions)			
(Benefit) expense to unaudited condensed consolidated statement of operations	$ (39.8)	$ 0.5	$ (37.0)	$ 2.2

Income Taxes

In the nine months ended September 30, 2018, the income tax provision was $39.8 million for an effective tax rate of 25.9%. The Company's effective tax rate differed from the 21% statutory federal income tax rate primarily due to state income taxes and certain expenditures which are permanently not deductible for tax purposes, partially offset by the impact of research and development credits.

The current income taxes payable as of September 30, 2018, was $130.3 million compared with $0.8 million as of December 31, 2017. The significant increase in the current income taxes payable during this reporting period relates to the impact of the Company's adoption of the new revenue recognition guidance on January 1, 2018. This increase in current income taxes payable was offset with an increase in deferred tax assets, resulting in no net impact to the Company's income tax provision. In anticipation of the increase to the payable, the Company filed a non-automatic accounting method change request, Form 3115 Application for Change in Accounting Method, with the Internal Revenue Service ("IRS") during the three months ended March 31, 2018. As of the reporting period ended September 30, 2018, the IRS had not responded to the Company's request; however, subsequent to this reporting period, the Company was informed by the IRS that it would not provide a ruling as the U.S. Treasury is currently preparing Treasury Regulations that may provide guidance on this matter. The Company believes that the increase in the current income taxes payable is an unintended consequence of the new revenue recognition guidance and if the matter is not adequately addressed through such Treasury Regulations, the Company will further pursue the matter with the IRS.

Forward-Looking Statements

This release may contain certain "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such statements in this release and in subsequent discussions with the Company's management are based on management's current expectations and are subject to risks, uncertainty and changes in circumstances, which could cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. All statements contained herein and in subsequent discussions with the Company's management that are not clearly historical in nature are forward-looking and the words “anticipate,” “believe,” “expect,” “estimate,” “plan,” and similar expressions are generally intended to identify forward-looking statements. A variety of factors could cause actual results or outcomes to differ materially from those expected and expressed in the Company’s forward-looking statements. Some important risk factors that could cause actual results or outcomes to differ from those expressed in the forward-looking statements include, but are not limited to, the following:

- future reductions or changes in U.S. government spending;
- cancellation or material modification of one or more significant contracts;
- cost overruns on the Company’s contracts that require the Company to absorb excess costs;
- failure of the Company’s subcontractors or suppliers to perform their contractual obligations;
- failure to secure contracts;
- failure to comply with regulations applicable to contracts with the U.S. government;
- failure to comply with applicable laws, including laws relating to export controls and anti-corruption or bribery laws;
- the Company’s Competitive Improvement Program may not be successful in aligning the Company’s operations to current market conditions or in achieving the anticipated costs savings and other benefits within the expected timeframes;
- costs and time commitment related to potential and/or actual acquisition activities may exceed expectations;
- the Company’s inability to adapt to rapid technological changes;
- failure of the Company’s information technology infrastructure including a successful cyber-attack, accident, unsuccessful outsourcing of certain information technology and cyber security functions, or security breach that could result in disruptions to the Company’s operations;
- product failures, schedule delays or other problems with existing or new products and systems;
- the release, unplanned ignition, explosion, or improper handling of dangerous materials used in the Company’s businesses;
- loss of key qualified suppliers of technologies, components, and materials;
- the funded status of the Company’s defined benefit pension plan and the Company’s obligation to make cash contributions in excess of the amount that the Company can recover in its current period overhead rates;
- effects of changes in discount rates and actuarial estimates, actual returns on plan assets, and government regulations on defined benefit pension plans;
- the possibility that environmental and other government regulations that impact the Company become more stringent or subject the Company to material liability in excess of its established reserves;
- environmental claims related to the Company’s current and former businesses and operations including the inability to protect or enforce previously executed environmental agreements;
- reductions in the amount recoverable from environmental claims;
- significant risk exposures and potential liabilities that are inadequately covered by indemnity or insurance;
- inability to protect the Company’s patents and proprietary rights;
- business disruptions to the extent not covered by insurance;
- changes or clarifications to current tax law or procedural guidance could adversely impact the Company’s tax liabilities and effective tax rate;
- the substantial amount of debt that places significant demands on the Company’s cash resources and could limit the Company’s ability to borrow additional funds or expand its operations;
- the Company’s ability to comply with the financial and other covenants contained in the Company’s debt agreements;
- risks inherent to the real estate market;
- changes in economic and other conditions in the Sacramento, California metropolitan area real estate market or changes in interest rates affecting real estate values in that market;
- additional costs related to past or future divestitures;
- the loss of key employees and shortage of available skilled employees to achieve anticipated growth;
- a strike or other work stoppage or the Company’s inability to renew collective bargaining agreements on favorable terms;
- fluctuations in sales levels causing the Company’s quarterly operating results and cash flows to fluctuate;
- restatement of previously issued consolidated financial statements may lead to additional risks and uncertainties;
- failure to maintain effective internal controls in accordance with the Sarbanes-Oxley Act; and
- those risks detailed in the Company’s reports filed with the SEC.

About Aerojet Rocketdyne Holdings, Inc.

Aerojet Rocketdyne Holdings, Inc., headquartered in El Segundo, California, is an innovative technology-based manufacturer of aerospace and defense products and systems, with a real estate segment that includes activities related to the entitlement, sale, and leasing of the company’s excess real estate assets. More information can be obtained by visiting the Company’s website at www.aerojetrocketdyne.com.

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Aerojet Rocketdyne Holdings, Inc.

Unaudited Condensed Consolidated Statement of Operations

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In millions, except per share amounts)			
Net sales	$ 498.8	$ 484.1	$ 1,458.0	$ 1,349.0
Operating costs and expenses:				
Cost of sales (exclusive of items shown separately below)	400.7	403.8	1,197.0	1,113.8
Selling, general and administrative expense	13.0	17.5	30.8	40.7
Depreciation and amortization	18.1	18.6	53.5	54.0
Other (income) expense, net:				
Environmental remediation provision adjustments	(39.8)	0.5	(37.0)	2.2
Other	(1.5)	0.1	(2.2)	(1.2)
Total operating costs and expenses	390.5	440.5	1,242.1	1,209.5
Operating income	108.3	43.6	215.9	139.5
Non-operating (income) expense:				
Retirement benefits expense	14.4	18.3	43.2	54.9
Interest income	(2.8)	(1.0)	(6.4)	(2.3)
Interest expense	9.1	7.7	25.5	22.9
Total non-operating expense, net	20.7	25.0	62.3	75.5
Income before income taxes	87.6	18.6	153.6	64.0
Income tax provision	22.6	6.0	39.8	21.2
Net income	$ 65.0	$ 12.6	$ 113.8	$ 42.8
Earnings Per Share of Common Stock				
Basic				
Basic net income per share	$ 0.85	$ 0.17	$ 1.50	$ 0.57
Diluted				
Diluted net income per share	$ 0.82	$ 0.17	$ 1.47	$ 0.57
Weighted average shares of common stock outstanding, basic	74.7	73.5	74.2	72.8
Weighted average shares of common stock outstanding, diluted	77.3	73.9	75.9	73.0

The Company adopted the new revenue recognition guidance effective January 1, 2018, using the modified retrospective method, with the cumulative effect recognized during the three months ended March 31, 2018. The primary impact of the new guidance was a change in the timing of revenue recognition on certain long-term contracts in the Company's Aerospace and Defense segment. The new guidance does not change the total sales or operating income on the related customer contracts, only the timing of when sales and operating income are recognized. Under this new guidance, the Company discontinued the use of the unit-of-delivery method on certain customer contracts and re-measured the performance obligations using the cost-to-cost method. The unit-of-delivery method was utilized for 48% of net sales for the year ended December 31, 2017. The cumulative impact of adoption was $37.6 million.

The following tables summarize the effect of adoption of the new revenue recognition standard on the Company's unaudited Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2018.

Aerojet Rocketdyne Holdings, Inc.
Unaudited Condensed Consolidated Statement of Operations

	Three months ended September 30, 2018		
	As Reported	Effect of Adoption	Amounts Excluding Effect of Adoption
	(In millions, except per share amounts)		
Net sales	$ 498.8	$ 14.4	$ 513.2
Operating costs and expenses:			
Cost of sales (exclusive of items shown separately below)	400.7	16.6	417.3
Selling, general and administrative expense	13.0	—	13.0
Depreciation and amortization	18.1	—	18.1
Other income, net:			
Environmental remediation provision adjustments	(39.8)	—	(39.8)
Other	(1.5)	—	(1.5)
Total operating costs and expenses	390.5	16.6	407.1
Operating income	108.3	(2.2)	106.1

Non-operating (income) expense:			
Retirement benefits expense	14.4	—	14.4
Interest income	(2.8)	—	(2.8)
Interest expense	9.1	—	9.1
Total non-operating expense, net	20.7	—	20.7
Income before income taxes	87.6	(2.2)	85.4
Income tax provision	22.6	(0.5)	22.1
Net income	$ 65.0	$ (1.7)	$ 63.3
Earnings Per Share of Common Stock			
Basic			
Basic net income per share	$ 0.85	$ (0.02)	$ 0.83
Diluted			
Diluted net income per share	$ 0.82	$ (0.02)	$ 0.80
Weighted average shares of common stock outstanding, basic	74.7	—	74.7
Weighted average shares of common stock outstanding, diluted	77.3	—	77.3

Aerojet Rocketdyne Holdings, Inc.
Unaudited Condensed Consolidated Statement of Operations

	Nine months ended September 30, 2018		
	As Reported	Effect of Adoption	Amounts Excluding Effect of Adoption
	(In millions, except per share amounts)		
Net sales	$ 1,458.0	$ 1.2	$ 1,459.2
Operating costs and expenses:			
Cost of sales (exclusive of items shown separately below)	1,197.0	14.8	1,211.8
Selling, general and administrative expense	30.8	—	30.8
Depreciation and amortization	53.5	—	53.5
Other income, net:			
Environmental remediation provision adjustments	(37.0)	—	(37.0)
Other	(2.2)	—	(2.2)
Total operating costs and expenses	1,242.1	14.8	1,256.9
Operating income	215.9	(13.6)	202.3
Non-operating (income) expense:			
Retirement benefits expense	43.2	—	43.2
Interest income	(6.4)	—	(6.4)
Interest expense	25.5	—	25.5
Total non-operating expense, net	62.3	—	62.3
Income before income taxes	153.6	(13.6)	140.0
Income tax provision	39.8	(3.6)	36.2
Net income	$ 113.8	$ (10.0)	$ 103.8
Earnings Per Share of Common Stock			
Basic			
Basic net income per share	$ 1.50	$ (0.13)	$ 1.37
Diluted			
Diluted net income per share	$ 1.47	$ (0.13)	$ 1.34
Weighted average shares of common stock outstanding, basic	74.2	—	74.2
Weighted average shares of common stock outstanding, diluted	75.9	—	75.9

Aerojet Rocketdyne Holdings, Inc.
Unaudited Operating Segment Information

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In millions)			

Net Sales:				
Aerospace and Defense	$ 497.2	$ 482.5	$ 1,453.2	$ 1,344.2
Real Estate	1.6	1.6	4.8	4.8
Total Net Sales	$ 498.8	$ 484.1	$ 1,458.0	$ 1,349.0
Segment Performance:				
Aerospace and Defense	$ 70.7	$ 52.9	$ 176.8	$ 149.9
Environmental remediation provision adjustments	39.9	(0.5)	37.6	(1.6)
GAAP/CAS retirement benefits expense difference	(2.6)	(5.8)	(4.8)	(12.7)
Unusual items	—	0.1	—	2.0
Aerospace and Defense Total	108.0	46.7	209.6	137.6
Real Estate	0.6	0.5	1.8	2.1
Total Segment Performance	$ 108.6	$ 47.2	$ 211.4	$ 139.7
Reconciliation of segment performance to income before income taxes:				
Segment performance	$ 108.6	$ 47.2	$ 211.4	$ 139.7
Interest expense	(9.1)	(7.7)	(25.5)	(22.9)
Interest income	2.8	1.0	6.4	2.3
Stock-based compensation expense	(6.2)	(11.0)	(12.9)	(21.2)
Corporate retirement benefits expense	(3.3)	(5.0)	(9.9)	(15.0)
Corporate and other expense, net	(5.0)	(5.9)	(15.7)	(17.9)
Unusual items	(0.2)	—	(0.2)	(1.0)
Income before income taxes	$ 87.6	$ 18.6	$ 153.6	$ 64.0

The Company evaluates its operating segments based on several factors, of which the primary financial measure is segment performance. Segment performance represents net sales less applicable costs, expenses and unusual items relating to the segment operations. Segment performance excludes corporate income and expenses, unusual items not related to the segment operations, interest expense, interest income, and income taxes. The Company believes that segment performance provides information useful to investors in understanding its underlying operational performance. Specifically, the Company believes the exclusion of the items listed above permits an evaluation and a comparison of results for ongoing business operations. It is on this basis that management internally assesses the financial performance of its segments.

Aerojet Rocketdyne Holdings, Inc.
Unaudited Condensed Consolidated Balance Sheet

	September 30, 2018	**December 31, 2017**
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 608.6	$ 535.0
Marketable securities	3.0	20.0
Accounts receivable	189.0	64.5
Contract assets	195.9	268.1
Other current assets, net	126.1	129.1
Total Current Assets	1,122.6	1,016.7
Noncurrent Assets		
Property, plant and equipment, net	386.5	359.0
Recoverable environmental remediation costs	257.8	231.1
Deferred income taxes	228.9	145.8
Goodwill	161.3	161.3
Intangible assets	75.3	85.5
Other noncurrent assets, net	260.2	259.3
Total Noncurrent Assets	1,370.0	1,242.0
Total Assets	$ 2,492.6	$ 2,258.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 271.1	$ 25.0
Accounts payable	86.2	100.9
Reserves for environmental remediation costs	39.6	35.2
Contract liabilities	195.9	276.8
Other current liabilities	315.2	156.9
Total Current Liabilities	908.0	594.8
Noncurrent Liabilities		

Long-term debt	356.4	591.4
Reserves for environmental remediation costs	295.8	306.2
Pension benefits	360.6	492.8
Other noncurrent liabilities	175.4	171.1
Total Noncurrent Liabilities	1,188.2	1,561.5
Total Liabilities	2,096.2	2,156.3
Commitments and contingencies		
Stockholders’ Equity		
Common stock	7.7	7.4
Other capital	556.3	503.1
Treasury stock at cost	(12.7)	(64.5)
Retained earnings (accumulated deficit)	80.4	(71.0)
Accumulated other comprehensive loss, net of income taxes	(235.3)	(272.6)
Total Stockholders’ Equity	396.4	102.4
Total Liabilities and Stockholders’ Equity	$ 2,492.6	$ 2,258.7

Aerojet Rocketdyne Holdings, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30,	
	2018	2017
	(In millions)	
Operating Activities		
Net income	$ 113.8	$ 42.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53.5	54.0
Amortization of debt discount and deferred financing costs	6.6	6.3
Stock-based compensation	12.9	21.2
Retirement benefits, net	10.4	(16.2)
Insurance proceeds	(1.9)	—
Other, net	—	0.3
Changes in assets and liabilities, net of effects from acquisition in 2017:		
Accounts receivable	(95.1)	(78.0)
Contract assets	49.7	(21.9)
Other current assets, net	13.1	8.1
Recoverable environmental remediation costs	(26.7)	14.3
Other noncurrent assets	0.6	(47.4)
Accounts payable	(36.6)	28.1
Contract liabilities	(47.5)	(29.5)
Other current liabilities	20.4	(1.1)
Deferred income taxes	24.7	23.5
Reserves for environmental remediation costs	(6.0)	(15.3)
Other noncurrent liabilities and other	5.1	36.7
Net Cash Provided by Operating Activities	97.0	25.9
Investing Activities		
Purchases of marketable securities	(47.7)	—
Sales of marketable securities	65.1	—
Purchase of Coleman Aerospace	—	(17.0)
Insurance proceeds	1.9	—
Capital expenditures	(20.9)	(10.5)
Net Cash Used in Investing Activities	(1.6)	(27.5)
Financing Activities		
Debt issuance costs	(3.3)	—
Debt repayments	(20.5)	(15.0)
Repurchase of shares for withholding taxes and option costs under employee equity plans	(2.6)	(5.7)
Proceeds from shares issued under equity plans	4.6	4.5
Net Cash Used in Financing Activities	(21.8)	(16.2)
Net Increase (Decrease) in Cash and Cash Equivalents	73.6	(17.8)
Cash and Cash Equivalents at Beginning of Period	535.0	410.3

Cash and Cash Equivalents at End of Period	$ 608.6	$ 392.5

Use of Non-GAAP Financial Measures

In addition to segment performance (discussed above), the Company provides the Non-GAAP financial measure of its operational performance called Adjusted EBITDAP. The Company uses this metric to measure its operating performance. The Company believes that to effectively compare core operating performance from period to period, the metric should exclude items relating to retirement benefits (pension and postretirement benefits), significant non-cash expenses, the impacts of financing decisions on earnings, and items incurred outside the ordinary, ongoing and customary course of its operations. Accordingly, the Company defines Adjusted EBITDAP as GAAP net income adjusted to exclude income taxes, interest expense, interest income, depreciation and amortization, retirement benefits net of amounts that are recoverable under its U.S. government contracts, and unusual items which the Company does not believe are reflective of such ordinary, ongoing and customary activities. Adjusted EBITDAP does not represent, and should not be considered an alternative to, net income as determined in accordance with GAAP.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In millions, except percentage amounts)			
Net income	$ 65.0	$ 12.6	$ 113.8	$ 42.8
Income tax provision	22.6	6.0	39.8	21.2
Interest expense	9.1	7.7	25.5	22.9
Interest income	(2.8)	(1.0)	(6.4)	(2.3)
Depreciation and amortization	18.1	18.6	53.5	54.0
GAAP retirement benefits expense	14.4	18.3	43.2	54.9
CAS recoverable retirement benefits expense (1)	(8.5)	(7.5)	(28.5)	(27.2)
Unusual items	0.2	(0.1)	0.2	(1.0)
Adjusted EBITDAP	$ 118.1	$ 54.6	$ 241.1	$ 165.3
Net income as a percentage of net sales	13.0 %	2.6 %	7.8 %	3.2 %
Adjusted EBITDAP as a percentage of net sales	23.7 %	11.3 %	16.5 %	12.3 %

(1) Effective January 1, 2018, the Company changed the presentation of CAS recoverable retirement benefits expense to include recoverable expenses under all retirement benefits plans. Previously, the CAS recoverable retirement benefits expense included only cash funding to the Company's tax-qualified defined benefit pension plan. This change was not significant to any of the prior periods, which have been reclassified to conform to the current year's presentation.

The Company also provides the Non-GAAP financial measure of Free Cash Flow. Free Cash Flow, a Non-GAAP financial measure, is defined as cash flow from operating activities less capital expenditures. Free Cash Flow should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to cash flows from operations presented in accordance with GAAP. The Company uses Free Cash Flow, both in presenting its results to stakeholders and the investment community, and in the Company's internal evaluation and management of the business. Management believes that this financial measure is useful because it provides supplemental information to assist investors in viewing the business using the same tools that management uses to evaluate progress in achieving the Company's goals (including under the annual cash and long-term compensation incentive plans).

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(In millions)			
Net cash provided by (used in) operating activities	$ 72.5	$ (11.8)	$ 97.0	$ 25.9
Capital expenditures	(8.7)	(4.4)	(20.9)	(10.5)
Free Cash Flow	$ 63.8	$ (16.2)	$ 76.1	$ 15.4

Because the Company's method for calculating these Non-GAAP measures may differ from other companies' methods, the Non-GAAP measures presented above may not be comparable to similarly titled measures reported by other companies. These measures are not recognized in accordance with GAAP, and the Company does not intend for this information to be considered in isolation or as a substitute for GAAP measures.

AEROJET ROCKETDYNE Holdings, Inc.

Source: Aerojet Rocketdyne Holdings, Inc.