

GLOBAL BRASS & COPPER HOLDINGS, INC.

Form 10-Q

August 03, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____ to _____

Commission File No. 001-35938

GLOBAL BRASS AND COPPER HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	06-1826563
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

475 N. Martingale Road Suite 1050	60173
Schaumburg, IL	
(Address of principal executive offices)	(Zip Code)
(847) 240-4700	
(Registrant's telephone number, including area code)	

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, 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 Smaller reporting company

Emerging growth 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 x

On July 26, 2018, there were 22,173,877 shares of common stock outstanding.

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June 30, 2018

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(in millions, except share and par value data)	As of	
	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$91.1	\$ 59.0
Accounts receivable (net of allowance of \$1.0 at June 30, 2018 and December 31, 2017)	197.0	197.8
Inventories	235.9	208.1
Prepaid expenses and other current assets	9.4	11.7
Income tax receivable	—	3.6
Total current assets	533.4	480.2
Property, plant and equipment	231.1	221.9
Less: Accumulated depreciation	(89.0)	(79.0)
Property, plant and equipment, net	142.1	142.9
Goodwill	4.5	4.5
Intangible assets, net	1.8	2.0
Deferred income taxes	14.5	16.1
Other noncurrent assets	5.8	6.5
Total assets	\$702.1	\$ 652.2
Liabilities and equity		
Current liabilities:		
Current portion of debt	\$5.0	\$ 5.0
Accounts payable	138.8	117.1
Accrued liabilities	30.6	36.0
Accrued interest	0.2	0.2
Income tax payable	1.3	0.5
Total current liabilities	175.9	158.8
Noncurrent portion of debt	307.1	309.0
Other noncurrent liabilities	37.9	37.1
Total liabilities	520.9	504.9
Commitments and Contingencies (Note 12)		
Global Brass and Copper Holdings, Inc. stockholders' equity:		
Common stock - \$0.01 par value; 80,000,000 shares authorized; 22,515,822 and 22,133,764 shares issued at June 30, 2018 and December 31, 2017, respectively	0.2	0.2
Additional paid-in capital	58.3	54.5
Retained earnings	131.5	97.3
Treasury stock - 341,678 and 226,576 shares at June 30, 2018 and December 31, 2017, respectively	(10.0)	(6.6)
Accumulated other comprehensive loss	(3.7)	(2.9)
Total Global Brass and Copper Holdings, Inc. stockholders' equity	176.3	142.5
Noncontrolling interest	4.9	4.8
Total equity	181.2	147.3
Total liabilities and equity	\$702.1	\$ 652.2

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

Table of ContentsGlobal Brass and Copper Holdings, Inc.
Consolidated Statements of Operations (Unaudited)

(in millions, except per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net sales	\$459.4	\$374.8	\$931.2	\$794.3
Cost of sales	(401.5)	(330.6)	(824.3)	(699.5)
Gross profit	57.9	44.2	106.9	94.8
Selling, general and administrative expenses	(23.1)	(19.3)	(46.5)	(42.2)
Operating income	34.8	24.9	60.4	52.6
Interest expense	(4.3)	(4.8)	(8.6)	(9.5)
Loss on extinguishment of debt	(0.5)	—	(0.5)	—
Other (expense) income, net	(0.9)	4.5	(1.0)	4.2
Income before provision for income taxes	29.1	24.6	50.3	47.3
Provision for income taxes	(8.0)	(8.8)	(13.3)	(13.8)
Net income	21.1	15.8	37.0	33.5
Net income attributable to noncontrolling interest	(0.1)	(0.1)	(0.2)	(0.3)
Net income attributable to Global Brass and Copper Holdings, Inc.	\$21.0	\$15.7	\$36.8	\$33.2
Net income attributable to Global Brass and Copper Holdings, Inc. per common share:				
Basic	\$0.95	\$0.72	\$1.68	\$1.54
Diluted	\$0.94	\$0.71	\$1.66	\$1.50
Weighted average common shares outstanding:				
Basic	22.0	21.8	21.9	21.6
Diluted	22.3	22.1	22.2	22.1
Dividends declared per common share	\$0.0600	\$0.0375	\$0.1200	\$0.0750

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

Table of ContentsGlobal Brass and Copper Holdings, Inc.
Consolidated Statements of Comprehensive Income (Unaudited)

(in millions)	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Net income	\$21.1	\$15.8	\$37.0	\$33.5
Other comprehensive income (loss):				
Derivatives:				
Net derivative gain (loss) on hedge transactions	(0.2)	—	(0.2)	—
Income taxes on derivative transactions	0.1	—	0.1	—
Foreign currency translation:				
Foreign currency translation adjustment	(1.9)	0.5	(0.7)	1.3
Income tax (expense) benefit on foreign currency translation adjustment	0.2	(0.1)	(0.1)	(0.2)
Comprehensive income	19.3	16.2	36.1	34.6
Comprehensive (income) loss attributable to noncontrolling interest	0.1	(0.2)	(0.1)	(0.4)
Comprehensive income attributable to Global Brass and Copper Holdings, Inc.	\$19.4	\$16.0	\$36.0	\$34.2

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

Table of ContentsGlobal Brass and Copper Holdings, Inc.
Consolidated Statements of Changes in Equity (Unaudited)

(in millions, except share data)	Shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total Global Brass and Copper Holdings, Inc. stockholders' equity	Noncontrolling interest	Total equity
Balance at December 31, 2016	21,633,067	\$ 0.2	\$ 45.0	\$ 51.2	\$(1.5)	\$ (4.1)	\$ 90.8	\$ 4.4	\$ 95.2
Share-based compensation	380,020	—	4.3	—	—	—	4.3	—	4.3
Exercise of stock options	38,381	—	0.7	—	—	—	0.7	—	0.7
Share repurchases	(146,582)	—	—	—	(5.0)	—	(5.0)	—	(5.0)
Adoption of ASU 2016-09	—	—	0.5	(0.5)	—	—	—	—	—
Dividends declared	—	—	—	(1.7)	—	—	(1.7)	—	(1.7)
Net income	—	—	—	33.2	—	—	33.2	0.3	33.5
Other comprehensive income (loss), net of tax	—	—	—	—	—	1.0	1.0	0.1	1.1
Balance at June 30, 2017	21,904,886	\$ 0.2	\$ 50.5	\$ 82.2	\$(6.5)	\$ (3.1)	\$ 123.3	\$ 4.8	\$ 128.1
Balance at December 31, 2017	21,907,188	\$ 0.2	\$ 54.5	\$ 97.3	\$(6.6)	\$ (2.9)	\$ 142.5	\$ 4.8	\$ 147.3
Share-based compensation	338,084	—	3.1	—	—	—	3.1	—	3.1
Exercise of stock options	43,974	—	0.7	—	—	—	0.7	—	0.7
Share repurchases	(115,102)	—	—	—	(3.4)	—	(3.4)	—	(3.4)
Dividends declared	—	—	—	(2.6)	—	—	(2.6)	—	(2.6)
Net income	—	—	—	36.8	—	—	36.8	0.2	37.0
Other comprehensive income (loss), net of tax	—	—	—	—	—	(0.8)	(0.8)	(0.1)	(0.9)
Balance at June 30, 2018	22,174,144	\$ 0.2	\$ 58.3	\$ 131.5	\$(10.0)	\$ (3.7)	\$ 176.3	\$ 4.9	\$ 181.2

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

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

(in millions)	Six Months Ended June 30, 2018	2017
Cash flows from operating activities		
Net income	\$ 37.0	\$ 33.5
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Lower of cost or market adjustment to inventory	(1.1)	(0.1)
Unrealized (gain) loss on derivatives	0.6	1.4
Depreciation	10.3	9.0
Amortization of intangible assets	0.2	—
Amortization of debt discount and issuance costs	0.6	0.6
Loss on extinguishment of debt	0.5	—
Share-based compensation expense	3.1	4.3
Provision for bad debts, net of reductions	0.4	0.4
Deferred income taxes	1.7	—
Loss on disposal of property, plant and equipment	0.1	—
Change in assets and liabilities, net of effects of business acquisition:		
Accounts receivable	0.8	(38.6)
Inventories	(26.8)	(5.2)
Prepaid expenses and other current assets	1.5	1.7
Accounts payable	25.4	17.6
Accrued liabilities	(4.4)	(9.4)
Income taxes, net	4.3	2.0
Other, net	1.1	(0.2)
Net cash provided by (used in) operating activities	55.3	17.0
Cash flows from investing activities		
Capital expenditures	(12.7)	(12.5)

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Business acquisition	(1.6)	—	
Net cash used in investing activities	(14.3)	(12.5)
Cash flows from financing activities				
Borrowings on ABL Facility	0.4		0.4	
Payments on ABL Facility	(0.4)	(0.4)
Payments of debt issuance costs	(0.4)	—	
Proceeds from term loan	25.4		—	
Payments on term loan	(27.0)	(1.6)
Principal payments under capital lease obligation	(0.9)	(0.7)
Dividends paid	(2.8)	(1.7)
Proceeds from exercise of stock options	0.7		0.7	
Share repurchases	(3.4)	(5.0)
Net cash used in financing activities	(8.4)	(8.3)
Effect of foreign currency exchange rates	(0.5)	(0.5)
Net increase (decrease) in cash	32.1		(4.3)
Cash and cash equivalents at beginning of period	59.0		88.2	
Cash and cash equivalents at end of period	\$	91.1	\$	83.9
Noncash investing and financing activities				
Purchases of property, plant and equipment not yet paid	\$	3.2	\$	2.3

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

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Global Brass and Copper Holdings, Inc.
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation and Principles of Consolidation

Global Brass and Copper Holdings, Inc. (“Holdings,” “GBC,” the “Company,” “we,” “us,” or “our”) is operated and managed through three reportable segments: Olin Brass, Chase Brass and A.J. Oster.

These unaudited consolidated financial statements include the accounts of the Company, our wholly-owned subsidiaries and our majority-owned subsidiaries in which we have a controlling interest. All intercompany accounts and transactions are eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements include all normal recurring adjustments that are, in the opinion of management, necessary to fairly state the results for the interim periods presented. The December 31, 2017 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). Certain information and disclosures normally included in annual financial statements prepared in accordance with US GAAP have been condensed or omitted.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, it requires management to make estimates and assumptions that affect the reported amount of net sales and expenses during the reporting periods. Actual amounts could differ from those estimates.

Results of operations for the interim periods presented are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole. On January 1, 2018, the Company changed its policy for recognition of unprocessed metal sales to toll customers as a result of the adoption of Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers. The financial impacts of this change in policy to the periods covered by this report are provided below. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Recently Issued and Recently Adopted Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU provides new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. The entire change in fair value for qualifying hedge instruments included in the effectiveness will be recorded in other comprehensive income (“OCI”) and amounts deferred in OCI will be reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is reported. We early adopted this guidance on May 25, 2018 upon entering into an interest rate swap agreement. The adoption of this standard did not impact our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the definition of a business, which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance became effective on January 1, 2018 for interim and annual periods. The adoption of this standard did not have a material impact on our consolidated financial statements.

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Global Brass and Copper Holdings, Inc.
Notes to Consolidated Financial Statements (Unaudited)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease effectively finances a purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method (finance lease) or on a straight line basis over the term of the lease (operating lease). A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. ASU 2016-02 supersedes the existing guidance on accounting for leases in “Leases (Topic 840).” The provisions of ASU 2016-02 are effective for fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted and the provisions are to be applied using a modified retrospective approach. We are in the process of evaluating the impact of adoption on our consolidated financial statements. As disclosed in our Annual Report on Form 10-K as of December 31, 2017, we have approximately \$9.9 million of future minimum lease payments on non-cancelable operating leases.

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Notes to Consolidated Financial Statements (Unaudited)

On January 1, 2018, we adopted ASC Topic 606, Revenue from Contracts with Customers, using the full retrospective method. The adoption of ASC Topic 606 impacted the timing of recognition of revenue from unprocessed metal sales to toll customers. The following tables summarize the effects of adopting ASC Topic 606 on our prior period unaudited Consolidated Financial Statements:

Consolidated Balance Sheet (Unaudited)	December 31, 2017 As Reported	Effects of the Adoption of ASC Topic 606	December 31, 2017 As Adjusted
(in millions, except share data)			
Assets			
Current assets:			
Cash and cash equivalents	\$ 59.0	\$ —	\$ 59.0
Accounts receivable (net of allowance of \$1.0)	197.9	(0.1)	197.8
Inventories	208.1	—	208.1
Prepaid expenses and other current assets	33.3	(21.6)	11.7
Income tax receivable	3.6	—	3.6
Total current assets	501.9	(21.7)	480.2
Property, plant and equipment, net	142.9	—	142.9
Goodwill	4.5	—	4.5
Intangible assets, net	2.0	—	2.0
Deferred income taxes	16.1	—	16.1
Other noncurrent assets	6.5	—	6.5
Total assets	\$ 673.9	\$ (21.7)	\$ 652.2
Liabilities and equity			
Current liabilities:			
Current portion of debt	\$ 5.0	\$ —	\$ 5.0
Accounts payable	117.1	—	117.1
Accrued liabilities	57.9	(21.9)	36.0
Accrued interest	0.2	—	0.2
Income tax payable	0.5	—	0.5
Total current liabilities	180.7	(21.9)	158.8
Noncurrent portion of debt	309.0	—	309.0
Other noncurrent liabilities	37.1	—	37.1
Total liabilities	526.8	(21.9)	504.9
Global Brass and Copper Holdings, Inc. stockholders' equity:			
Common stock - 22,133,764 shares issued	0.2	—	0.2
Additional paid-in capital	54.5	—	54.5
Retained earnings	97.1	0.2	97.3
Treasury stock - 226,576 shares	(6.6)	—	(6.6)
Accumulated other comprehensive loss	(2.9)	—	(2.9)
Total Global Brass and Copper Holdings, Inc. stockholders' equity	142.3	0.2	142.5
Noncontrolling interest	4.8	—	4.8
Total equity	147.1	0.2	147.3
Total liabilities and equity	\$ 673.9	\$ (21.7)	\$ 652.2

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Notes to Consolidated Financial Statements (Unaudited)

Consolidated Statement of Operations (Unaudited)	Three Months Ended June 30, 2017	Effects of the Adoption of ASC Topic 606	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	Effects of the Adoption of ASC Topic 606	Six Months Ended June 30, 2017
(in millions, except per share data)	As Reported	As Adjusted	As Adjusted	As Reported	As Adjusted	As Adjusted
Net sales	\$ 377.4	\$ (2.6)	\$ 374.8	\$ 770.7	\$ 23.6	\$ 794.3
Cost of sales	(332.7)	2.1	(330.6)	(676.1)	(23.4)	(699.5)
Gross profit	44.7	(0.5)	44.2	94.6	0.2	94.8
Selling, general and administrative expenses	(19.3)	—	(19.3)	(42.2)	—	(42.2)
Operating income	25.4	(0.5)	24.9	52.4	0.2	52.6
Interest expense	(4.8)	—	(4.8)	(9.5)	—	(9.5)
Other income (expense), net	4.5	—	4.5	4.2	—	4.2
Income before provision for income taxes	25.1	(0.5)	24.6	47.1	0.2	47.3
Provision for income taxes	(8.9)	0.1	(8.8)	(13.7)	(0.1)	(13.8)
Net income	16.2	(0.4)	15.8	33.4	0.1	33.5
Net income attributable to noncontrolling interest	(0.1)	—	(0.1)	(0.3)	—	(0.3)
Net income attributable to Global Brass and Copper Holdings, Inc.	\$ 16.1	\$ (0.4)	\$ 15.7	\$ 33.1	\$ 0.1	\$ 33.2
Net income attributable to Global Brass and Copper Holdings, Inc. per common share:						
Basic	\$ 0.74	\$ (0.02)	\$ 0.72	\$ 1.53	\$ 0.01	\$ 1.54
Diluted	\$ 0.73	\$ (0.02)	\$ 0.71	\$ 1.50	\$ —	\$ 1.50
Weighted average common shares outstanding:						
Basic	21.8	—	21.8	21.6	—	21.6
Diluted	22.1	—	22.1	22.1	—	22.1
Consolidated Statement of Comprehensive Income (Unaudited)	Three Months Ended June 30, 2017	Effects of the Adoption of ASC Topic 606	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	Effects of the Adoption of ASC Topic 606	Six Months Ended June 30, 2017
(in millions)	As Reported	As Adjusted	As Adjusted	As Reported	As Adjusted	As Adjusted
Net income	\$ 16.2	\$ (0.4)	\$ 15.8	\$ 33.4	\$ 0.1	\$ 33.5
Other comprehensive income (loss):						
Foreign currency translation adjustment	0.5	—	0.5	1.3	—	1.3
Income tax (expense) benefit on foreign currency translation adjustment	(0.1)	—	(0.1)	(0.2)	—	(0.2)
Comprehensive income	16.6	(0.4)	16.2	34.5	0.1	34.6
Comprehensive (income) loss attributable to noncontrolling interest	(0.2)	—	(0.2)	(0.4)	—	(0.4)
Comprehensive income attributable to Global Brass and Copper Holdings, Inc.	\$ 16.4	\$ (0.4)	\$ 16.0	\$ 34.1	\$ 0.1	\$ 34.2

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Notes to Consolidated Financial Statements (Unaudited)Consolidated Statement of Changes in Equity
(Unaudited)

(in millions, except share data)	Shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total Global Brass and Copper Holdings, Inc. stockholders' equity	Noncontrolling interest	Total equity
December 31, 2016 - as reported	21,633,067	\$ 0.2	\$ 45.0	\$ 51.2	\$ (1.5)	\$ (4.1)	\$ 90.8	\$ 4.4	\$ 95.2
Cumulative effect adjustment of ASC Topic 606 on January 1, 2017	—	—	—	—	—	—	—	—	—
December 31, 2016 - as adjusted	21,633,067	0.2	45.0	51.2	(1.5)	(4.1)	90.8	4.4	95.2
Six months ended June 30, 2017 - as reported	271,819	—	5.5	30.9	(5.0)	1.0	32.4	0.4	32.8
Effect of the adoption of ASC Topic 606	—	—	—	0.1	—	—	0.1	—	0.1
June 30, 2017 - as adjusted	21,904,886	\$ 0.2	\$ 50.5	\$ 82.2	\$ (6.5)	\$ (3.1)	\$ 123.3	\$ 4.8	\$ 128.1
December 31, 2017 - as reported	21,907,188	\$ 0.2	\$ 54.5	\$ 97.1	\$ (6.6)	\$ (2.9)	\$ 142.3	\$ 4.8	\$ 147.1
Cumulative effect adjustment of ASC Topic 606 on January 1, 2018	—	—	—	0.2	—	—	0.2	—	0.2
December 31, 2017 - as adjusted	21,907,188	\$ 0.2	\$ 54.5	\$ 97.3	\$ (6.6)	\$ (2.9)	\$ 142.5	\$ 4.8	\$ 147.3

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Notes to Consolidated Financial Statements (Unaudited)

Consolidated Statement of Cash Flows (Unaudited)	Six Months Ended June 30, 2017 As Reported	Effects of the Adoption of ASC Topic 606	Six Months Ended June 30, 2017 As Adjusted
(in millions)			
Cash flows from operating activities			
Net income	\$ 33.4	\$ 0.1	\$ 33.5
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Lower of cost or market adjustment to inventory	(0.1)	—	(0.1)
Unrealized (gain) loss on derivatives	1.4	—	1.4
Depreciation	9.0	—	9.0
Amortization of debt discount and issuance costs	0.6	—	0.6
Share-based compensation expense	4.3	—	4.3
Provision for bad debts, net of reductions	0.4	—	0.4
Change in assets and liabilities:			
Accounts receivable	(38.6)	—	(38.6)
Inventories	(5.2)	—	(5.2)
Prepaid expenses and other current assets	(21.7)	23.4	1.7
Accounts payable	17.6	—	17.6
Accrued liabilities	14.2	(23.6)	(9.4)
Income taxes, net	1.9	0.1	2.0
Other, net	(0.2)	—	(0.2)
Net cash provided by (used in) operating activities	17.0	—	17.0
Cash flows from investing activities			
Capital expenditures	(12.5)	—	(12.5)
Net cash used in investing activities	(12.5)	—	(12.5)
Cash flows from financing activities			
Borrowings on ABL Facility	0.4	—	0.4
Payments on ABL Facility	(0.4)	—	(0.4)
Payments on term loan	(1.6)	—	(1.6)
Principal payments under capital lease obligation	(0.7)	—	(0.7)
Dividends paid	(1.7)	—	(1.7)
Proceeds from exercise of stock options	0.7	—	0.7
Share repurchases	(5.0)	—	(5.0)
Net cash used in financing activities	(8.3)	—	(8.3)
Effect of foreign currency exchange rates	(0.5)	—	(0.5)
Net increase (decrease) in cash	(4.3)	—	(4.3)
Cash and cash equivalents at beginning of period	88.2	—	88.2
Cash and cash equivalents at end of period	\$ 83.9	\$ —	\$ 83.9

2. Revenue

On January 1, 2018, we adopted ASC Topic 606, Revenue from Contracts with Customers, using the full retrospective method. The adoption of ASC Topic 606 impacted the timing of recognition of revenue from unprocessed metal sales to toll customers. See Note 1, “Basis of Presentation and Principles of Consolidation,” for further discussion of the

adoption including the impact on our 2017 financial statements.

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. Revenue is recognized when performance obligations to our customers are satisfied; generally this occurs with the transfer of control to our customers. We recognize revenue when title and risk of loss are transferred to the customer, which is generally the date the product is shipped. Estimates for rebates, returns and payment discounts are recognized in the period in which the corresponding revenue is recorded based on historical experience. Our terms of shipping are generally FOB shipping point. We elect to account for the shipping costs incurred after transfer of control to the customer as fulfillment costs.

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Non-toll customers

We generate revenues primarily by procuring scrap metal, converting to a finished product, and charging customers a conversion fee and metal replacement fee. Non-toll customers generally assume title and risk of loss for product upon shipment, in accordance with FOB shipping terms.

Toll Customers

We also procure scrap metal for a small number of customers and sell it to them. Title to the scrap metal and risk of loss transfers to the customer upon sale. We then hold the scrap metal for them on our premises together with our metal. We also sell converted finished products to these customers. We charge the customer and earn a conversion fee when we transfer control of the processed metal to the customer upon shipment, which is generally FOB shipping point. We accept their scrap metal in place of charging a metal replacement fee.

The following table presents our revenues disaggregated by market based on the customer's primary market or the primary market for the shipped product:

(in millions)	Three Months		Six Months	
	Ended		Ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
Building and housing	\$ 156.3	\$ 114.2	\$ 313.9	\$ 238.9
Automotive and transportation	89.4	75.8	178.3	153.2
Munitions	41.1	49.2	87.4	122.6
Coinage	41.5	32.1	86.7	72.1
Industrial machinery and equipment	36.2	33.5	77.1	70.1
Electronics / electrical components	37.7	33.7	76.8	66.5
Other	57.2	36.3	111.0	70.9
Net sales	\$459.4	\$374.8	\$931.2	\$794.3

Generally, we bill customers when product is shipped in concurrence with revenue recognition. In some instances, we receive advance payment from customers prior to shipment and revenue recognition, at which time we record a liability for the advance payment. The expected duration from time of advance payment to time of shipment is less than one year. As of June 30, 2018, we had no advance payments in Accrued Liabilities. As of December 31, 2017, we had \$0.4 million of advance payments in Accrued Liabilities. There was no revenue recognized during the three months ended June 30, 2018 and 2017 that was included in Accrued Liabilities at the beginning of the quarter. Revenue recognized during the six months ended June 30, 2018 that was included in Accrued Liabilities at the beginning of the year was \$0.4 million. There was no revenue recognized during the six months ended June 30, 2017 that was included in Accrued Liabilities at the beginning of 2017.

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3. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of common shares outstanding and diluted earnings per share is computed based on the weighted-average number of common shares outstanding including the number of additional shares that would have been outstanding had potentially dilutive common shares been issued. Potentially dilutive securities include nonvested share awards and stock options for which the exercise price was less than the average market price of our outstanding common stock. Nonvested performance-based share awards are included in the average diluted shares outstanding for each period if established performance criteria have been met at the end of the respective periods.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2018	2017	2018	2017
Numerator				
Net income attributable to Global Brass and Copper Holdings, Inc.	\$21.0	\$15.7	\$36.8	\$33.2
Denominator				
Weighted-average common shares outstanding	22.0	21.8	21.9	21.6
Effect of potentially dilutive securities:				
Stock options and nonvested share awards	0.3	0.3	0.3	0.5
Weighted-average common shares outstanding, assuming dilution	22.3	22.1	22.2	22.1
Anti-dilutive shares excluded from above	0.1	0.2	0.1	0.2
Net income attributable to Global Brass and Copper Holdings, Inc. per common share:				
Basic	\$0.95	\$0.72	\$1.68	\$1.54
Diluted	\$0.94	\$0.71	\$1.66	\$1.50

On July 31, 2018, the Company's Board of Directors authorized a share repurchase program (the "2018 Share Repurchase Program"), whereby we may repurchase up to \$35.0 million of our common stock through September 30, 2020. There have been no shares repurchased under this program as of the date of this report. In addition, we frequently buy shares of our common stock from employees as an accommodation to them to satisfy their tax withholding obligations under our stock compensation plans; these transactions are not included as part of the authorization under our 2018 Share Repurchase Program.

4. Segment Information

Our Chief Operating Decision Maker allocates resources and evaluates performance at the divisional level. As such, we have determined that we have three reportable segments: Olin Brass, Chase Brass and A.J. Oster.

Olin Brass is a leading manufacturer, fabricator and converter of non-ferrous products, including sheet, strip, foil, tube and fabricated products. Olin Brass also rerolls and forms other alloys such as stainless steel, carbon steel and aluminum. Sheet and strip is generally manufactured from copper and copper-alloy scrap. Olin Brass's products are used in five primary markets: building and housing, munitions, automotive, coinage, and electronics / electrical components.

Chase Brass is a leading manufacturer of solid brass rod in North America. Chase Brass primarily manufactures solid rod in round and other shapes, ranging from 1/4 inch to 4.5 inches in diameter. The key attributes of brass rod include its machinability, corrosion resistance and moderate strength, making it especially suitable for forging and machining for products such as valves and fittings. Brass rod is generally manufactured from copper or copper-alloy scrap. Chase Brass produces brass rod used in production applications which can be grouped into four primary markets: building and housing, transportation, electronics / electrical components and industrial machinery and equipment.

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A.J. Oster is a processor and distributor of copper and copper-alloy sheet, strip, and foil, aluminum sheet, and coated aluminum products. A.J. Oster operates eleven strategically located service centers in the U.S., Puerto Rico, and Mexico. Each A.J. Oster service center reliably provides products at quick lead-times in small quantities. These capabilities, combined with A.J. Oster's operations of precision slitting, hot tinning, traverse winding, cutting and special packaging, provide value to a broad customer base. A.J. Oster's products are used in three primary markets: building and housing, automotive and electronics / electrical components.

Corporate includes compensation for corporate executives, corporate office and administrative salaries, and professional fees for accounting, tax and legal services. Corporate also includes interest expense and income, state and federal income taxes, certain overhead costs, share-based compensation expense, gains and losses associated with certain acquisitions and dispositions, unrealized gains and losses on hedging activities and the elimination of intercompany sales and balances.

The Chief Operating Decision Maker evaluates performance and determines resource allocations based on a number of factors, the primary performance measure being 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.

Each of these items are excluded because our management believes they are not indicative of the ongoing performance of our core operations.

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Below is a reconciliation of adjusted EBITDA of segments to income before provision for income taxes:

(in millions)	Three Months		Six Months	
	Ended June 30, 2018	2017	Ended June 30, 2018	2017
Net Sales, External Customers				
Olin Brass	\$175.8	\$158.8	\$354.5	\$349.6
Chase Brass	159.5	141.1	331.1	295.1
A.J. Oster	124.1	74.9	245.6	149.6
Total net sales, external customers	\$459.4	\$374.8	\$931.2	\$794.3
Intersegment Net Sales				
Olin Brass	\$22.4	\$20.0	\$43.8	\$44.0
Chase Brass	—	—	—	0.1
A.J. Oster	0.1	0.1	0.1	0.1
Total intersegment net sales	\$22.5	\$20.1	\$43.9	\$44.2
Adjusted EBITDA				
Olin Brass	\$20.1	\$14.4	\$34.1	\$26.9
Chase Brass	18.4	17.9	37.0	38.3
A.J. Oster	6.1	4.3	11.8	6.8
Total adjusted EBITDA of operating segments	44.6	36.6	82.9	72.0
Corporate (a)	(5.0)	0.2	(9.3)	(1.0)
Depreciation expense	(5.2)	(4.5)	(10.3)	(9.0)
Amortization expense	(0.1)	—	(0.2)	—
Interest expense, net	(4.3)	(4.7)	(8.6)	(9.4)
Net income attributable to noncontrolling interest	0.1	0.1	0.2	0.3
Unrealized (loss) gain on derivative contracts (b)	1.8	(0.6)	(0.6)	(1.4)
Refinancing costs (c)	(1.6)	—	(1.6)	—
Lower of cost or market adjustment to inventory (d)	0.2	(0.7)	1.1	0.1
Share-based compensation expense (e)	(1.4)	(1.8)	(3.1)	(4.3)
Step-up costs from acquisition accounting	—	—	(0.2)	—
Income before provision for income taxes	\$29.1	\$24.6	\$50.3	\$47.3

(a) The three and six months ended June 30, 2017 include \$4.4 million and \$7.4 million, respectively, of insurance proceeds recoveries relating to a production outage in 2016.

(b) Represents unrealized gains / losses on derivative contracts.

(c) Represents the loss on extinguishment of debt and other expenses associated with our refinancing activities.

(d) Represents the impact of lower of cost or market adjustments to domestic metal inventory.

(e) Represents compensation expense resulting from stock compensation awards to certain employees and our Board of Directors.

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5. Inventories

Inventories were as follows:

(in millions)	As of	
	June 30, 2018	December 31, 2017
Raw materials and supplies	\$31.1	\$ 23.2
Work-in-process	84.5	73.5
Finished goods	120.3	111.4
Total inventories	\$235.9	\$ 208.1

Inventories include costs attributable to direct labor and manufacturing overhead, but are primarily comprised of metal costs. The metals component of inventories that is valued on a LIFO basis comprised 68% and 65% of total inventory at June 30, 2018 and December 31, 2017, respectively. Other manufactured inventories, including the direct labor and manufacturing overhead components and certain non-U.S. inventories, are valued on a first-in, first-out ("FIFO") basis. During the three and six months ended June 30, 2018 and 2017, we recorded adjustments for certain domestic metal inventory from the fluctuations in market value of these metals. For the three months ended June 30, 2018 and 2017, these adjustments decreased cost of sales by \$0.2 million and increased cost of sales by \$0.7 million, respectively. For the six months ended June 30, 2018 and 2017, these adjustments decreased cost of sales by \$1.1 million and \$0.1 million, respectively.

Below is a summary of inventories valued at period-end market values compared to the as reported values:

(in millions)	As of	
	June 30, 2018	December 31, 2017
Market value	\$337.9	\$ 329.1
As reported	235.9	208.1
Excess of market over reported value	\$102.0	\$ 121.0

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were as follows:

(in millions)	As of	
	June 30, 2018	December 31, 2017
Workers' compensation plan deposits	\$3.3	\$ 3.8
Prepaid insurance	1.5	1.9
Derivative contract assets	1.4	2.0
Taxes	1.1	1.0
Other	2.1	3.0
Total prepaid expenses and other current assets	\$9.4	\$ 11.7

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7. Accrued Liabilities

Accrued liabilities consisted of the following:

(in millions)	As of	
	June 30, 2018	December 31, 2017
Compensation and benefits	\$16.4	\$ 19.2
Workers' compensation	3.1	2.9
Utilities	2.6	2.4
Professional fees	1.6	1.6
Taxes	1.3	1.4
Insurance	1.0	1.9
Derivative contract liabilities	0.1	0.2
Other	4.5	6.4
Total accrued liabilities	\$30.6	\$ 36.0

8. Financing

Long-term debt consisted of the following:

(in millions)	As of	
	June 30, 2018	December 31, 2017
Term Loan B Facility	\$314.4	\$ 316.0
Deferred financing fees and discount on debt	(5.4)	(5.9)
Obligations under capital lease	3.1	3.9
Total debt	312.1	314.0
Less: Current portion of debt	(5.0)	(5.0)
Noncurrent portion of debt	\$307.1	\$ 309.0

Term Loan B Facility

On July 18, 2016, we entered into a long-term credit agreement that matures July 18, 2023 (the "Term Loan B Credit Agreement" and the loans thereunder, the "Term Loan B Facility") and provides for borrowings of \$320.0 million. We may request an increase in the aggregate term loans, at our option and under certain circumstances, of up to an additional \$75.0 million or an unlimited amount so long as after giving effect to any incremental facility or incremental equivalent debt, the net senior secured leverage ratio does not exceed 2.50 to 1.00 (but the lenders, in either case, are not obligated to grant such an increase). On December 30, 2016, we began making quarterly payments of \$0.8 million with the balance expected to be due at maturity.

On each of July 18, 2017 and May 29, 2018, we amended the credit agreement governing our Term Loan B Facility ("Amended Term Loan B Credit Agreement"). The most recent refinancing reduced our interest rate by an additional 75 basis points, reduced the LIBO Rate floor from 1% to 0%, and extended the maturity date through May 29, 2025. The Amended Term Loan B Credit Agreement has a soft call prepayment penalty of 1% during the six months following the refinancing date. Amounts outstanding under this facility now bear interest at a rate per annum equal to, at our option, either (1) 1.50% plus an Alternate Base Rate (as defined in the Amended Term Loan B Credit Agreement) or (2) 2.50% plus the Adjusted LIBO Rate (as defined in the Amended Term Loan B Credit Agreement).

In order to minimize the variability in cash flows caused by fluctuations in market interest rates, we entered into an interest rate swap agreement on May 25, 2018, which expires on May 31, 2023. This swap agreement fixes the LIBOR rate on \$150.0 million of our floating rate LIBOR debt at 2.75%. At June 30, 2018, amounts outstanding under the Term Loan B Facility combined with our interest rate swap derivative accrued interest at a weighted average rate of 4.92%.

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The Term Loan B Credit Agreement requires mandatory prepayments based on various events and circumstances as are customary in such agreements. Since December 31, 2017, we are subject to a 50% excess cash flow sweep, subject to step-downs to 25% and 0% depending on the total net leverage ratio from time to time. We may, however, voluntarily prepay outstanding loans under the Term Loan B Facility at any time.

ABL Facility

We have an asset-based revolving loan facility (the “ABL Credit Agreement” and together with the facility thereunder, the “ABL Facility”) that matures on July 19, 2021 and provides for borrowings of up to the lesser of \$200.0 million or the borrowing base, in each case less outstanding loans and letters of credit.

As of June 30, 2018, we had no borrowings outstanding under the ABL Facility and available borrowings under the ABL Facility were \$195.4 million after giving effect to \$4.6 million of letters of credit outstanding, which are used to provide collateral for our insurance programs. We may request an increase in the maximum commitments, at our option and under certain circumstances, of up to \$200.0 million (but the lenders are not obligated to grant such an increase).

The Credit Agreements

The ABL Credit Agreement and the Term Loan B Credit Agreement (together, the “Credit Agreements”) contain various covenants consistent with debt agreements of this kind, such as restrictions on the amounts of dividends we can pay. As of June 30, 2018, we were in compliance with all of the covenants relating to the Credit Agreements.

9. Income Taxes

The effective income tax rate, which is the provision for income taxes as a percentage of income before provision for income taxes, was 26.4% and 29.2% for the six months ended June 30, 2018 and 2017, respectively. The decrease in the effective income tax rate for the six months ended June 30, 2018 is largely driven by the decreased federal tax rate. The effective income tax rates for the six months ended June 30, 2018 and 2017 also differed from the U.S. Federal statutory rate of 21% and 35%, respectively, due to state income taxes, stock compensation, utilization of tax credits, and the domestic manufacturing deduction in 2017.

On December 22, 2017, the Tax Act was signed into law. The Tax Act made broad and complex changes to the U.S. tax code which include: a lowering of the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, accelerated expensing of qualified capital investments for a specific period, and a transition from a worldwide to a territorial tax system which will require companies to pay a one-time transition tax on certain unrepatriated earnings from foreign subsidiaries that is payable over eight years.

The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

Our accounting for the Tax Act is still ongoing. As noted at year-end, however, we were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the transition tax, the re-measurement of deferred taxes, our reassessment of permanently reinvested earnings, excessive compensation, uncertain tax positions and valuation allowances. We have not made any additional measurement-period adjustments related to these items during the six months ended June 30, 2018. We continue to gather additional information related to the above items and we anticipate additional IRS guidance relative to the impacts of the Tax Act will be forthcoming throughout 2018.

As of both June 30, 2018 and December 31, 2017, we had \$25.2 million of unrecognized tax benefits, of which \$8.5 million would impact the effective tax rate, if recognized. Estimated interest and penalties related to the underpayment of income taxes are classified as a component of the provision for income taxes in the accompanying consolidated statements of operations. Accrued interest and penalties as of June 30, 2018 and December 31, 2017 were \$2.5 million and \$2.1 million, respectively. Our liability for uncertain tax positions, including accrued interest and penalties, of

\$27.7 million and \$27.3 million at June 30, 2018 and December 31, 2017, respectively, are presented in other noncurrent liabilities in the accompanying consolidated balance sheets.

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Our U.S. federal returns for the period ended December 31, 2014 and all subsequent periods remain open for audit. In addition, the majority of state returns for the period ended December 31, 2013 and all subsequent periods remain open for audit.

10. Derivative Contracts

We maintain a metal, energy and utility risk-management strategy that uses commodity derivative contracts to minimize significant, unanticipated gains or losses arising from fluctuations in commodity prices.

We are also exposed to credit risk and market risk through our use of derivative contracts. Credit risk is the risk that the counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. Market risk is the risk that the value of a derivative instrument might be adversely affected by a change in commodity price. We manage the market risk associated with derivative contracts by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

We use a cash flow hedge to minimize the variability in cash flows caused by fluctuations in market interest rates. This derivative, which is a designated cash flow hedge, is carried at fair value. The change in fair value is recorded to accumulated other comprehensive loss and reclassified to current earnings if hedge accounting cannot be applied because the hedge contract is not highly effective.

We manage credit risk associated with derivative contracts by executing derivative instruments with counterparties that we believe are credit-worthy. The amount of such credit risk is limited to the fair value of the derivative contract plus the unpaid portion of amounts due to us pursuant to terms of the derivative contracts, if any. If the credit-worthiness of these counterparties deteriorates, we believe the exposure is mitigated by provisions in the derivative arrangements which allow for the legal right of offset of amounts due to us from the counterparties, if any, with any amounts payable to the counterparties.

The following tables provide a summary of our outstanding derivative contracts:

(in millions)	As of	
	June 30, 2018	December 31, 2017
	Net	Net
	Notional Amount	Notional Amount
Cash flow hedge:		
Interest rate swap	\$ 150.0	\$ —
Commodity derivative contracts:		
Metal	(15.1)	12.8
Energy and utilities	3.2	3.8
Total	\$ 138.1	\$ 16.6

(in millions)	As of	
	June 30, 2018	December 31, 2017
	Notional Position	Notional Position
Commodity derivative contracts:		
Notional amount - long	\$ 35.8	\$ 46.1
Notional amount - (short)	(47.7)	(29.5)
Net long / (short)	\$(11.9)	\$ 16.6

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The fair values of derivative contracts in the consolidated balance sheets include the impact of netting derivative assets and liabilities when a legally enforceable master netting arrangement exists. The following tables summarize the gross amounts of open derivative contracts, the net amounts presented in the unaudited consolidated balance sheets, and the collateral deposited with counterparties:

(in millions)	As of June 30, 2018		Net Amounts of Assets Presented in Consolidated Balance Sheet
	Gross Amounts of Recognized Assets	Gross Amounts Offset in Consolidated Balance Sheet	
Commodity derivative contracts:			
Metal	\$0.9	\$ —	\$ 0.9
Energy and utilities	—	—	—
Collateral on deposit	0.5	—	0.5
Total	\$1.4	\$ —	\$ 1.4
Consolidated balance sheet location:			
Prepaid expenses and other current assets			\$ 1.4

(in millions)	As of June 30, 2018		Net Amounts of Liabilities Presented in Consolidated Balance Sheet
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in Consolidated Balance Sheet	
Cash flow hedge:			
Interest rate swap	\$0.2	\$ —	\$ 0.2
Commodity derivative contracts:			
Metal	—	—	—
Energy and utilities	0.2	—	0.2
Total	\$0.4	\$ —	\$ 0.4
Consolidated balance sheet location:			
Accrued liabilities			\$ 0.1
Other noncurrent liabilities			\$ 0.3

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(in millions)	As of December 31, 2017		
	Gross Amounts of Recognized Assets	Offset in Consolidated Balance Sheet	Net Amounts of Assets Presented in Consolidated Balance Sheet
Metal	\$5.3	\$ (3.2)	\$ 2.1
Energy and utilities	—	—	—
Total	\$5.3	\$ (3.2)	\$ 2.1
Consolidated balance sheet location:			
Prepaid expenses and other current assets			\$ 2.0
Other noncurrent assets			\$ 0.1

(in millions)	As of December 31, 2017		
	Gross Amounts of Recognized Liabilities	Offset in Consolidated Balance Sheet	Net Amounts of Liabilities Presented in Consolidated Balance Sheet
Metal	\$3.3	\$ (3.2)	\$ 0.1
Energy and utilities	0.3	—	0.3
Total	\$3.6	\$ (3.2)	\$ 0.4
Consolidated balance sheet location:			
Accrued liabilities			\$ 0.2
Other noncurrent liabilities			\$ 0.2

The following table summarizes the effects of derivative contracts in the consolidated statements of comprehensive income and the consolidated statements of operations:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cash flow hedge (losses) gains in other comprehensive income (loss) for:				
Interest rate swap	\$(0.2)	\$—	\$(0.2)	\$—
Commodity derivative contracts losses (gains) in cost of sales for:				
Metal	\$(1.7)	\$0.3	\$0.2	\$(0.2)
Energy and utilities	(0.1)	0.3	(0.1)	0.5
Total commodity derivative contract losses (gains) in cost of sales	\$(1.8)	\$0.6	\$0.1	\$0.3

As of June 30, 2018, there was \$0.1 million of cash flow hedge losses, net of tax, reported in accumulated other comprehensive loss on the consolidated balance sheet. There were no cash flow hedge gains or losses reported in accumulated other comprehensive loss on the consolidated balance sheet as of December 31, 2017.

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11. Fair Value Measurements

ASC 820 specifies a fair value framework and hierarchy based upon the observability of inputs used in valuation techniques. In accordance with this guidance, fair value measurements are classified under the following hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level 3 - Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

As of June 30, 2018 and December 31, 2017, the fair value of our commodity derivative contracts was a net asset of \$1.2 million and \$1.7 million, respectively. In accordance with ASC 820, our metal, energy and utility commodity derivative contracts are considered Level 2, as fair value measurements consist of both quoted price inputs and inputs provided by a third party that are derived principally from or corroborated by observable market data by correlation. These assumptions include, but are not limited to, those concerning interest rates, credit rates, discount rates, default rates and other factors. All of our derivative commodity contracts have a set term of 24 months or less.

As of June 30, 2018, the fair value of our interest rate swap was a liability of \$0.2 million. The interest rate swap is valued using quoted market prices at the balance sheet date and is a Level 1 fair value measurement.

We do not hold assets or liabilities requiring a Level 3 measurement and there have not been any transfers between the hierarchy levels during 2018 or 2017.

For purposes of financial reporting, we have determined that the carrying value of cash, accounts receivable, accounts payable, and accrued expenses approximates fair value due to their short term nature. As of June 30, 2018 and December 31, 2017, the fair value of our money market funds, which are presented in cash and cash equivalents, was \$51.1 million and \$17.1 million, respectively. These cash equivalents are valued using quoted market prices at the respective balance sheet dates and are Level 1 fair value measurements.

Additionally, given the revolving nature and the variable interest rates, we have determined that the carrying value of the ABL Facility also approximates fair value. As of June 30, 2018, the fair value of our Term Loan B Facility approximated \$313.6 million compared to a carrying value of \$314.4 million. As of December 31, 2017, the fair value of our Term Loan B Facility approximated \$318.7 million compared to a carrying value of \$316.0 million. The fair values of the Term Loan B Facility were based upon quotes from financial institutions (Level 2 in the fair value hierarchy as defined by ASC 820).

12. Commitments and Contingencies

Environmental Considerations

We are subject to a variety of environmental laws and regulations governing discharges to air and water, the handling, storage and disposal of hazardous or solid waste materials and the remediation of contamination associated with releases of hazardous substances. Although we believe we are in material compliance with all of the various regulations applicable to our business, there can be no assurance that requirements will not change in the future or that we will not incur significant costs to comply with such requirements. We are currently not aware of any environmental matters which may have a material impact on our financial position, results of operations, or liquidity. On November 19, 2007 (the date of inception of GBC), we acquired the assets and operations relating to the worldwide metals business of Olin Corporation. Olin Corporation agreed to retain liability arising out of the existing conditions on certain of our properties for any remedial actions required by environmental laws, and agreed to indemnify us for all or part of a number of other environmental liabilities. Since 2007, Olin Corporation has been performing remedial actions at the facilities in East Alton, Illinois and Waterbury, Connecticut related to environmental conditions at such facilities, and has been participating in remedial actions at certain other properties as well. If Olin Corporation were to stop its environmental remedial activities at our properties, we could be required to assume responsibility for these activities, the cost of which could be material.

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Global Brass and Copper Holdings, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Although we are not currently subject to any material claims with respect to clean-up or remediation under CERCLA or similar laws for contamination at our leased or owned properties or at any off-site location, it is possible that we may be in the future. For example, in January 2018, one of our Olin Brass operations experienced a leak of mineral oil at its Waterbury, Connecticut facility. Our personnel, the Waterbury fire department, the US EPA, the Connecticut DEEP, and remediation contractors responded immediately. While we have reached a final settlement with the US EPA, we remain in discussions with the Connecticut DEEP regarding ongoing remediation activity. We do not believe this incident will materially affect our long-term financial stability or cash flows.

Legal Considerations

We are party to various legal proceedings arising in the ordinary course of business. We believe that none of our legal proceedings are individually material or that the aggregate exposure of all of our legal proceedings, including those that are probable and those that are only reasonably possible, is material to our financial condition, results of operations or cash flows.

Insurance Recoveries

In May 2016, the East Alton facility of our Olin Brass segment temporarily reduced production due to an equipment failure impacting an intermediate segment of the production process. The disruption resulted in a temporary reduction in customer shipments and in Olin Brass securing support via toll processing from other strip industry participants. We sustained losses from this event. The equipment remained out of service for several weeks and resumed production in mid-June 2016. We are insured for property and business interruption losses related to these events subject to a deductible of up to \$2.5 million per incident. We filed a claim with our insurance carrier to recover these losses. For the three months ended June 30, 2017, we recorded recoveries of \$4.4 million related to the claim as a reduction to cost of sales of \$0.5 million and an increase to other income of \$3.9 million. For the six months ended June 30, 2017, we recorded total recoveries of \$7.4 million related to the claim as a reduction to cost of sales of \$3.5 million and an increase to other income of \$3.9 million. All proceeds from the insurance recoveries were received as of June 30, 2017.

13. Acquisition

On November 1, 2017, our A.J. Oster subsidiary acquired certain assets and assumed certain liabilities of Alumet. Headquartered in Parsippany, New Jersey, Alumet is a non-ferrous metals service center that provides coated aluminum, aluminum, copper and brass sheet, and strip products to the building and housing and automotive markets through its cut to length, slitting, and coating capabilities. The acquisition of Alumet expands A.J. Oster's geographic presence into the South and Southeast through Alumet's facilities in Atlanta and Texas while also providing additional outlets for Alumet's products through A.J. Oster's facilities in Chicago and Mexico. The Alumet acquisition was part of our strategic efforts to profitably grow through acquisitions and expands our geographic presence in targeted regions, strengthens our position in the aluminum market, and enhances our position in the non-ferrous metals distribution business. We accounted for the Alumet acquisition as a business combination using the acquisition method in accordance with ASC Topic 805, Business Combinations.

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Notes to Consolidated Financial Statements (Unaudited)

We acquired certain assets and assumed certain liabilities of Alumet for approximately \$41.6 million. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

(in millions)	As of June 30, 2018
Purchase price to allocate	\$ 41.6

Fair value of assets acquired and liabilities assumed:

Accounts receivable	\$ 16.9
Inventories	30.6
Prepaid expenses and other current assets	0.3
Property, plant and equipment	5.7
Intangible assets	1.7
Other noncurrent assets	0.1
Accounts payable	(8.1)
Accrued liabilities	(4.0)
Capital lease liability	(1.7)
Total fair value of assets acquired and liabilities assumed	\$ 41.5

Goodwill \$ 0.1

The \$1.7 million of acquired intangible assets consists of customer relationships of \$1.0 million (15-year useful life), trade name of \$0.3 million (15-year useful life), non-compete agreements of \$0.2 million (2-year useful life), and leasehold interests of \$0.2 million (2.5-year useful life). The \$0.1 million of goodwill was assigned to the A.J. Oster reporting segment. As we elected to treat the Alumet acquisition as an asset acquisition for tax purposes, the goodwill is deductible for tax purposes over 180 months.

Pro Forma Information

The following unaudited pro forma results of operations reflect the November 1, 2017 Alumet acquisition as if it had occurred on January 1, 2017. The pro forma information is not necessarily indicative of the results that actually would have occurred, nor does it indicate future operating results.

(in millions, except per share data)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Net sales:		
As reported	\$ 374.8	\$ 794.3
Pro forma	409.4	861.0
Net income attributable to Global Brass and Copper Holdings, Inc.:		
As reported	\$ 15.7	\$ 33.2
Pro forma	17.0	35.4
Net income attributable to Global Brass and Copper Holdings, Inc. per common share - Basic:		
As reported	\$ 0.72	\$ 1.54
Pro forma	\$ 0.78	\$ 1.64
Net income attributable to Global Brass and Copper Holdings, Inc. per common share - Diluted:		
As reported	\$ 0.71	\$ 1.50
Pro forma	\$ 0.77	\$ 1.60

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This report contains “forward-looking statements” that involve risks and uncertainties. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our 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. All forward-looking statements contained in this report are based upon information available to us on the date of this report.

Important factors that could cause actual results to differ materially from our expectations, include general economic conditions, market demand, pricing and competitive factors, the ability to implement business and acquisition strategies, the ability to address unexpected operational issues and the ability to continue to implement our balanced book approach, among others, which are disclosed under the “Risk Factors” section in Item 1A of our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 1, 2018, including, without limitation, in conjunction with the forward-looking statements included in this Report on Form 10-Q and in our other SEC filings. All forward-looking information in this report and subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

We undertake 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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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017. In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those discussed in the section entitled "Cautionary Statement Concerning Forward-Looking Statements" included elsewhere in this Quarterly Report on Form 10-Q.

Overview

Our Company

Global Brass and Copper Holdings, Inc. ("Holdings," "GBC," the "Company," "we," "us," or "our") was incorporated in Delaware on October 10, 2007. We commenced commercial operations on November 19, 2007 following the acquisition of the metals business from Olin Corporation.

We are a leading value-added converter, fabricator, processor and distributor of specialized non-ferrous products, including a wide range of sheet, strip, foil, rod, tube and fabricated metal component products. While we primarily process copper and copper alloys, we also reroll and form certain other metals such as stainless steel, carbon steel and aluminum. Using processed scrap, virgin metals and other refined metals, we engage in metal melting and casting, rolling, drawing, extruding, welding and stamping to fabricate finished and semi-finished alloy products. Key attributes of copper and copper alloys are conductivity, corrosion resistance, strength, malleability, cosmetic appearance and bactericidal properties.

Unlike traditional metals companies, particularly those that engage in mining, smelting and refining activities, we are purely a metal converter, fabricator, processor and distributor, and we do not attempt to generate profits from fluctuations in metal prices. Our financial performance is primarily driven by metal conversion economics, not by the underlying movements in the price of copper and the other metals we use. Through our "balanced book" approach, we strive to match the timing, quantity and price of our metal sales with the timing, quantity and price of our replacement metal purchases. This practice, along with our toll processing operations and last-in, first-out ("LIFO") inventory accounting methodology, substantially eliminates the financial impact of fluctuating metal commodity prices on our earnings and operating margins.

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, signage, and general consumer markets. We access these markets through direct mill sales, our captive distribution network and third-party distributors. We hold the exclusive production and distribution rights in North America for a lead-free brass rod product, which we sell under the Green Dot® and Eco Brass® brand names. We believe we are the only domestic copper and brass sheet manufacturer with captive distribution and service center operations, a competitive advantage which allows us to service and access customers with a wide variety of volume and service needs.

For a discussion of Key Factors Affecting our Results of Operations, including the "balanced book" approach, refer to our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 1, 2018.

Management's View of Performance

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 sales," "adjusted gross profit," "adjusted selling, general and administrative expenses," "adjusted EBITDA" and "adjusted diluted earnings per common share" which are non-GAAP financial measures as defined below.

Adjusted sales, adjusted gross profit, adjusted selling, general and administrative expenses, 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 sales, adjusted gross profit, adjusted selling, general and administrative expenses, adjusted EBITDA, adjusted diluted earnings per common share, or any ratios calculated using them. The most comparable US GAAP-based measure for each respective non-GAAP financial measure can be found in our unaudited consolidated financial statements and the related notes thereto included elsewhere in this report.

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The following discussions present an analysis of certain US GAAP and non-GAAP measures for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017. These discussions should be read in conjunction with the accompanying unaudited consolidated financial statements and the notes thereto.

Net sales and adjusted sales

Net sales is the most directly comparable US GAAP measure to adjusted sales, which represents the value-added premium we earn over the cost to replace our sold metal. Adjusted sales is defined as net sales less the metal cost recovery component of products sold. The metal cost recovery component, which is deducted from Net sales, equals the cost of metal, which is included within Cost of sales. We use adjusted sales on a consolidated basis to monitor the revenues that are generated excluding the effects of fluctuations in metal costs. We believe that adjusted sales supplements our US GAAP results because it provides 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.

Net sales is reconciled to adjusted sales as follows:

	Three Months Ended		Six Months Ended		2018 vs. 2017			
	June 30,		June 30,		QTR Change:		YTD Change:	
(in millions, except per pound values)	2018	2017	2018	2017	Amount	Percent	Amount	Percent
Pounds shipped (a)	147.5	126.2	291.3	260.2	21.3	16.9 %	31.1	12.0 %
Net sales	\$459.4	\$374.8	\$931.2	\$794.3	\$84.6	22.6 %	\$136.9	17.2 %
Metal component of net sales	(297.6)	(243.2)	(616.1)	(523.6)	(54.4)	22.4 %	(92.5)	17.7 %
Adjusted sales	\$161.8	\$131.6	\$315.1	\$270.7	\$30.2	22.9 %	\$44.4	16.4 %
Net sales per pound	\$3.11	\$2.97	\$3.20	\$3.05	\$0.14	4.7 %	\$0.15	4.9 %
Less: Metal component of net sales per pound	2.01	1.93	2.12	2.01	0.08	4.1 %	0.11	5.5 %
Adjusted sales per pound	\$1.10	\$1.04	\$1.08	\$1.04	\$0.06	5.8 %	\$0.04	3.8 %
Average copper price per pound (b)	\$3.09	\$2.58	\$3.12	\$2.62	\$0.51	19.8 %	\$0.50	19.1 %

(a) Amounts exclude quantity of metal sold under toll arrangements which we have not yet processed for the customer.

(b) Copper prices reported by the Commodity Exchange ("COMEX").

The following table presents our revenue disaggregated by the type of arrangement with the customer:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in millions)	2018	2017	2018	2017
Non-toll revenue	\$446.2	\$357.6	\$899.4	\$736.6
Unprocessed metal sales	30.9	33.0	66.5	93.8
Toll processing revenue	4.8	4.3	9.2	8.1
Intersegment net sales elimination	(22.5)	(20.1)	(43.9)	(44.2)
Net sales	\$459.4	\$374.8	\$931.2	\$794.3

Three months ended June 30, 2018 compared to three months ended June 30, 2017

Net sales increased by \$84.6 million, or 22.6%, primarily due to a \$54.4 million increase in the metal cost recovery component stemming from increased commodity prices and the Alumet acquisition volumes (\$36.9 million). Adjusted sales increased by \$30.2 million, or 22.9%, primarily due to Alumet (\$16.4 million) and other organic volume increases.

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Six months ended June 30, 2018 compared to six months ended June 30, 2017

Net sales increased by \$136.9 million, or 17.2%, primarily due to a \$92.5 million increase in the metal cost recovery component stemming from increased commodity prices and Alumet (\$69.5 million), partially offset by reduced sales of unprocessed metal, as reflected in the previous table. Adjusted sales increased by \$44.4 million, or 16.4%, primarily due to Alumet (\$30.1 million) and favorable scrap spreads, better metal margins, and improved raw material sourcing.

Gross profit and adjusted gross profit

Gross profit is the most directly comparable US GAAP measure to adjusted gross profit. Adjusted gross profit is defined as gross profit less items excluded from the calculation of adjusted EBITDA, as detailed in the following table. We believe that adjusted gross profit supplements our US GAAP results to provide a more complete understanding of the results of our business as it provides period-to-period comparisons of our core operations that are more consistent and more easily understood.

Gross profit is reconciled to adjusted gross profit as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,		2018 vs. 2017	
	2018	2017	2018	2017	QTR Change:	YTD Change:
Total gross profit	\$57.9	\$44.2	\$106.9	\$94.8	\$13.7	\$12.1
Unrealized loss (gain) on derivative contracts	(1.8)	0.6	0.6	1.4	(2.4)	(0.8)
Lower of cost or market adjustment to inventory	(0.2)	0.7	(1.1)	(0.1)	(0.9)	(1.0)
Step-up costs from acquisition accounting	—	—	0.2	—	—	0.2
Share-based compensation expense	0.1	—	0.2	—	0.1	0.2
Depreciation expense	4.3	3.7	8.3	7.3	0.6	1.0
Adjusted gross profit	\$60.3	\$49.2	\$115.1	\$103.4	\$11.1	\$11.7

Three months ended June 30, 2018 compared to three months ended June 30, 2017

Gross profit increased by \$13.7 million (31.0%) and was primarily impacted by favorable fluctuations in unrealized gains / losses on derivative contracts and lower of cost or market adjustments to inventory, and increased depreciation expense. Adjusted gross profit increased by \$11.1 million (22.6%) primarily due to the addition of Alumet (\$4.8 million) and \$5.1 million from favorable metal mix and sourcing along with improved metal margins.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Gross profit increased by \$12.1 million (12.8%) and was impacted by favorable fluctuations in lower of cost or market adjustments to inventory and unrealized gains / losses on derivative contracts as well as increased depreciation expense. Adjusted gross profit increased by \$11.7 million (11.3%) primarily due to the combination of the following:

the addition of Alumet (\$8.8 million);

favorable metal mix and sourcing along with improved metal margins (\$6.5 million);

the fact that the first quarter of 2017 includes \$1.3 million more of costs associated with transitioning to a health savings account (“HSA”), increased cost of sales due to the reduction of inventories at Olin Brass and additional costs from the implementation of A.J. Oster’s fully integrated Enterprise Resource Planning (“ERP”) system;

the absence of a \$3.5 million benefit recognized in the prior year resulting from the recovery of insurance proceeds related to our 2016 production outage; and

\$0.4 million of costs incurred related to an environmental incident at an Olin Brass facility.

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Selling, general and administrative expenses and adjusted selling, general and administrative expenses
Selling, general and administrative expenses are the most directly comparable US GAAP measure to adjusted selling, general and administrative expenses. Adjusted selling, general and administrative expenses are defined as selling, general and administrative expenses less items excluded from the calculation of adjusted EBITDA. We believe that adjusted selling, general and administrative expenses supplement our US GAAP results and provides a more complete understanding of the results of our business as it provides period-to-period comparisons of our core operations that are more consistent and more easily understood.

Selling, general and administrative expenses are reconciled to adjusted selling, general and administrative expenses as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,		2018 vs. 2017	
	2018	2017	2018	2017	QTR Change	YTD Change
Total selling, general and administrative expenses	\$23.1	\$19.3	\$46.5	\$42.2	\$3.8	\$ 4.3
Share-based compensation expense	(1.3)	(1.8)	(2.9)	(4.3)	0.5	1.4
Depreciation and amortization expense	(1.0)	(0.8)	(2.2)	(1.7)	(0.2)	(0.5)
Adjusted selling, general and administrative expenses	\$20.8	\$16.7	\$41.4	\$36.2	\$4.1	\$ 5.2

Three months ended June 30, 2018 compared to three months ended June 30, 2017

Selling, general and administrative expenses increased by \$3.8 million (19.7%) primarily due to an increase in depreciation expense, offset by a decrease in share-based compensation expense. Adjusted selling, general and administrative expenses increased largely due to the Alumet acquisition (\$2.6 million) and an increase in employee and employee related costs.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Selling, general and administrative expenses increased by \$4.3 million (10.2%) and were unfavorably impacted by an increase in depreciation expense and favorably impacted by a decrease in share-based compensation expense.

Adjusted selling, general and administrative expenses increased due to the Alumet acquisition (\$5.1 million), an increase in employee and employee related costs, and \$0.3 million of costs incurred related to an environmental incident at an Olin Brass facility, partially offset by the fact that the prior year includes \$1.0 million more of expenses associated with transitioning to the HSA medical plan and consulting fees associated with the implementation of A.J. Oster's ERP system.

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Net income and 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 to evaluate the 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.

Adjusted EBITDA 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.

Net income attributable to Global Brass and Copper Holdings, Inc. is reconciled to adjusted EBITDA as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,		2018 vs. 2017	
	2018	2017	2018	2017	QTR Change	YTD Change
Net income attributable to Global Brass and Copper Holdings, Inc.	\$21.0	\$15.7	\$36.8	\$33.2	\$5.3	\$3.6
Interest expense, net	4.3	4.7	8.6	9.4	(0.4)	(0.8)
Provision for income taxes	8.0	8.8	13.3	13.8	(0.8)	(0.5)
Depreciation expense	5.2	4.5	10.3	9.0	0.7	1.3
Amortization expense	0.1	—	0.2	—	0.1	0.2
Unrealized loss (gain) on derivative contracts	(1.8)	0.6	0.6	1.4	(2.4)	(0.8)
Refinancing costs	1.6	—	1.6	—	1.6	1.6
Lower of cost or market adjustment to inventory	(0.2)	0.7	(1.1)	(0.1)	(0.9)	(1.0)
Share-based compensation expense	1.4	1.8	3.1	4.3	(0.4)	(1.2)
Step-up costs from acquisition accounting	—	—	0.2	—	—	0.2
Adjusted EBITDA	\$39.6	\$36.8	\$73.6	\$71.0	\$2.8	\$2.6

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Three months ended June 30, 2018 compared to three months ended June 30, 2017

Net income attributable to Global Brass and Copper Holdings, Inc. increased by \$5.3 million mainly due to the combination of the following:

favorable metal mix and sourcing along with improved metal margins (\$5.1 million);

- favorable fluctuations in unrealized gains / losses on derivative contracts of \$2.4 million;

\$2.1 million of income generated from Alumet, a business we acquired in November 2017;

favorable lower of cost or market adjustment to inventory of \$0.9 million;

a decrease in tax expense of \$0.8 million, driven by a reduction in the effective tax rate from 35.8% to 27.5%;

a decrease in interest expense of \$0.4 million;

a decrease in share based compensation expense of \$0.4 million;

refinancing costs of \$1.6 million associated with our May 2018 debt refinancing;

increased depreciation expense of \$0.7 million; and

the absence of a \$4.4 million benefit recorded in the prior year related to the recovery of insurance proceeds associated with our 2016 production outage.

Adjusted EBITDA increased by \$2.8 million, or 7.6%, primarily due to \$5.1 million of favorable metal mix and sourcing along with improved metal margins and \$2.1 million from our Alumet acquisition, partially offset by the \$4.4 million of income related to insurance proceeds recorded in the 2017 period.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Net income attributable to Global Brass and Copper Holdings, Inc. increased by \$3.6 million mainly due to the combination of the following:

favorable metal mix and sourcing along with improved metal margins (\$6.5 million);

\$3.6 million of income generated from Alumet, a business we acquired in November 2017;

a decrease in share based compensation expense of \$1.2 million;

favorable lower of cost or market adjustment to inventory of \$1.0 million;

- favorable fluctuations in unrealized gains / losses on derivative contracts of \$0.8 million;

a decrease in interest expense of \$0.8 million;

a decrease in tax expense of \$0.5 million, driven by a reduction in the effective tax rate from 29.2% to 26.4%;

approximately \$2.3 million more of expense recorded in the prior year for unusual costs associated with our transition to an HSA medical plan, increased cost of sales due to inventory reductions at Olin Brass, and costs incurred at A.J.

Oster related to its ERP implementation;

refinancing costs of \$1.6 million associated with our May 2018 debt refinancing;

an increase in depreciation expense of \$1.3 million;

costs incurred of \$0.7 million associated with an environmental incident at an Olin Brass facility; and

the absence of a \$7.4 million benefit recorded in the prior year related to the recovery of insurance proceeds associated with our 2016 production outage.

Adjusted EBITDA increased by \$2.6 million, or 3.7%, primarily due to \$6.5 million from favorable metal mix and sourcing along with improved metal margins, our Alumet acquisition (\$3.6 million), and approximately \$2.3 million more of unusual costs in the prior year, as mentioned above, partially offset by \$7.4 million of income related to insurance proceeds recorded in the 2017 period related to our 2016 production outage, an increase in employee and employee related costs, and \$0.7 million of costs associated with an environmental incident at an Olin Brass facility.

Diluted earnings per common share and 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. Diluted income per common share increased by \$0.23 and \$0.16 for the three and six months ended June 30, 2018, respectively, as compared to the same periods in 2017 for the same reasons driving the fluctuations in net income.

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. Adjusted diluted earnings per common share increased by \$0.17 and \$0.28 for the three and six months ended June 30, 2018, respectively, as compared to the same periods in 2017 for the same reasons driving the fluctuations in adjusted EBITDA. There was a \$0.01 impact on diluted earnings per share from the increase in weighted average diluted common shares outstanding for both the three and six months ended June 30, 2018.

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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, and thus is more useful to and 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 a key metric used to evaluate our performance, and in turn, incentivize members of management and certain employees.

Diluted net income attributable to Global Brass and Copper Holdings, Inc. per common share is reconciled to adjusted diluted earnings per common share as follows:

	Three Months		Six Months		2018 vs. 2017	
	Ended June 30,	Ended June 30,	Ended June 30,	Ended June 30,	QTR change:	YTD Change:
	2018	2017	2018	2017		
Diluted net income attributable to Global Brass and Copper Holdings, Inc. per common share	\$0.94	\$0.71	\$1.66	\$1.50	\$0.23	\$0.16
Unrealized loss (gain) on derivative contracts	(0.08)	0.03	0.03	0.06	(0.11)	(0.03)
Refinancing costs	0.07	—	0.07	—	0.07	0.07
Lower of cost or market adjustment to inventory	(0.01)	0.03	(0.05)	—	(0.04)	(0.05)
Share-based compensation expense	0.06	0.09	0.14	0.20	(0.03)	(0.06)
Step-up costs from acquisition accounting	—	—	0.01	—	—	0.01
Tax impact on above adjustments (a)	(0.01)	(0.06)	(0.05)	(0.23)	0.05	0.18
Adjusted diluted earnings per common share	\$0.97	\$0.80	\$1.81	\$1.53	\$0.17	\$0.28

(a) Calculated based on our estimated tax rate, including tax benefits related to share award vestings and option exercises, as described more fully in Note 9, "Income Taxes."

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Results of Operations

Consolidated Results of Operations for the Three Months Ended June 30, 2018, Compared to the Three Months Ended June 30, 2017.

(in millions)	Three Months Ended				Change:	
	June 30,		2017		2018 vs. 2017	
	2018	% of Net Sales	2017	% of Net Sales	Amount	Percent
Net sales	\$459.4	100.0 %	\$374.8	100.0 %	\$84.6	22.6 %
Cost of sales	(401.5)	87.4 %	(330.6)	88.2 %	(70.9)	21.4 %
Gross profit	57.9	12.6 %	44.2	11.8 %	13.7	31.0 %
Selling, general and administrative expenses	(23.1)	5.0 %	(19.3)	5.2 %	(3.8)	19.7 %
Operating income	34.8	7.6 %	24.9	6.6 %	9.9	39.8 %
Interest expense	(4.3)	0.9 %	(4.8)	1.3 %	0.5	(10.4)%
Loss on extinguishment of debt	(0.5)	0.2 %	—	—	(0.5)	N/A
Other (expense) income, net	(0.9)	0.2 %	4.5	1.2 %	(5.4)	(120.0)%
Income before provision for income taxes	29.1	6.3 %	24.6	6.5 %	4.5	18.3 %
Provision for income taxes	(8.0)	1.7 %	(8.8)	2.3 %	0.8	(9.1)%
Net income	21.1	4.6 %	15.8	4.2 %	5.3	33.5 %
Net income attributable to noncontrolling interest	(0.1)	— %	(0.1)	— %	—	— %
Net income attributable to Global Brass and Copper Holdings, Inc.	\$21.0	4.6 %	\$15.7	4.2 %	\$5.3	33.8 %
Adjusted EBITDA (a)	\$39.6	8.6 %	\$36.8	9.8 %	\$2.8	7.6 %

N/A - not applicable

(a) See “Management’s View of Performance —Net income and adjusted EBITDA.”

The following discussions present an analysis of our results of operations for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. See “Management’s View of Performance” for discussions of net sales, adjusted sales, gross profit, adjusted gross profit, selling, general and administrative expenses, adjusted selling, general and administrative expenses, net income attributable to Global Brass and Copper Holdings, Inc., adjusted EBITDA, diluted net income attributable to Global Brass and Copper Holdings, Inc. per common share and adjusted diluted earnings per common share. These discussions should be read in conjunction with the accompanying unaudited consolidated financial statements and the notes thereto.

Interest expense

Interest expense decreased by \$0.5 million primarily due to increased interest income and a lower principal balance in 2018. Our average interest rate on our debt principal was unchanged from the prior year at 5.3%.

The following table summarizes the components of interest expense:

(in millions)	Three Months Ended		Change:
	2018	2017	
Interest on principal	\$4.2	\$4.3	\$ (0.1)
Amortization of debt discount and issuance costs	0.3	0.3	—
Capitalized interest	(0.1)	—	(0.1)
Other borrowing costs (a)	0.2	0.2	—
Interest income	(0.3)	—	(0.3)
Total interest expense	\$4.3	\$4.8	\$ (0.5)

(a) Includes fees related to letters of credit and unused line of credit fees.

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Provision for income taxes

The provision for income taxes decreased by \$0.8 million due to a decrease in the effective tax rate (\$2.0 million), partially offset by the increase in income before provision for income taxes (\$1.2 million). The effective income tax rate, which is the provision for income taxes as a percentage of income before provision for income taxes, was 27.5% and 35.8% for the three months ended June 30, 2018 and 2017, respectively. The effective tax rates differ from the statutory rates of 21% and 35% for the three months ended June 30, 2018 and 2017, respectively, primarily due to state income taxes, interest on unrecognized tax benefits, utilization of tax credits, and the domestic manufacturing deduction in 2017.

Segment Results of Operations

Segment Results of Operations for the Three Months Ended June 30, 2018, Compared to the Three Months Ended June 30, 2017.

The following discussions present an analysis of our results by segment for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017. This discussion should be read in conjunction with the accompanying unaudited consolidated financial statements and the notes thereto.

(in millions)	Three Months Ended		Change:		
	June 30, 2018	June 30, 2017	Amount	Percent	
Pounds shipped (a)					
Olin Brass	68.8	63.4	5.4	8.5	%
Chase Brass	54.0	54.5	(0.5)	(0.9)	%
A.J. Oster	35.1	18.9	16.2	85.7	%
Corporate and other (b)	(10.4)	(10.6)	0.2	1.9	%
Total	147.5	126.2	21.3	16.9	%
Net sales					
Olin Brass	\$198.2	\$178.8	\$19.4	10.9	%
Chase Brass	159.5	141.1	18.4	13.0	%
A.J. Oster	124.2	75.0	49.2	65.6	%
Corporate and other (b)	(22.5)	(20.1)	(2.4)	(11.9)	%
Total	\$459.4	\$374.8	\$84.6	22.6	%
Adjusted EBITDA					
Olin Brass	\$20.1	\$14.4	\$5.7	39.6	%
Chase Brass	18.4	17.9	0.5	2.8	%
A.J. Oster	6.1	4.3	1.8	41.9	%
Total adjusted EBITDA of operating segments	\$44.6	\$36.6	\$8.0	21.9	%
Corporate and other (c)	(5.0)	0.2	(5.2)	N/M	
Total consolidated adjusted EBITDA	\$39.6	\$36.8	\$2.8	7.6	%

N/M - not meaningful

(a) Amounts exclude quantity of unprocessed metal sold.

(b) Amounts represent intercompany eliminations.

(c) The three months ended June 30, 2017 includes a \$4.4 million recovery of insurance proceeds relating to a production outage in 2016.

See Note 4, "Segment Information," of our unaudited consolidated financial statements, which are included elsewhere in this report, for a reconciliation of adjusted EBITDA of segments to income before provision for income taxes and equity income.

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Olin Brass

Net sales increased by \$19.4 million due mostly to increased volumes (\$12.5 million) and increased commodity prices (\$9.3 million), partially offset by decreased unprocessed metal sales (\$2.4 million). Adjusted EBITDA increased by \$5.7 million from the prior year period due primarily to favorable metal mix and sourcing along with increased coinage and automotive volumes, partially offset by increased employee and employee-related expenses.

Chase Brass

Net sales increased by \$18.4 million primarily due to increased commodity prices (\$19.8 million). Adjusted EBITDA increased by \$0.5 million due to better metal margins and improved raw material sourcing, partially offset by increased production costs as a result of operational inefficiencies.

A.J. Oster

We experienced fluctuations in our performance due to both base operations and the acquisition of Alumat as shown in the following table, which reflects increases or decreases for each category for three months ended June 30, 2018 over prior year amounts:

(in millions)	Base	Acquisition	Total
Pounds shipped	0.8	15.4	16.2
Net sales	\$12.3	\$ 36.9	\$49.2
Adjusted EBITDA \$(0.3)	\$ 2.1		\$ 1.8

On November 1, 2017, we acquired Alumat, and the above table shows the impact of this acquisition on our performance. Note that the volume impact occurred mostly in the building and housing market due to Alumat's sales of signage and roofing products.

Regarding base operations, net sales increased by \$12.3 million due to increased commodity prices (\$9.5 million) and volumes (\$2.8 million). Volumes increased in the automotive and electronics / electrical components markets due to fluctuations in demand.

Adjusted EBITDA from base operations decreased by \$0.3 million due to unfavorable production costs and increased employee and employee related costs, partially offset by favorable selling prices and product mix.

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Results of Operations

Consolidated Results of Operations for the Six Months Ended June 30, 2018, Compared to the Six Months Ended June 30, 2017.

(in millions)	Six Months Ended				Change:	
	June 30,		2017		2018 vs. 2017	
	2018	% of Net Sales	2017	% of Net Sales	Amount	Percent
Net sales	\$931.2	100.0 %	\$794.3	100.0 %	\$136.9	17.2 %
Cost of sales	(824.3)	88.5 %	(699.5)	88.1 %	(124.8)	17.8 %
Gross profit	106.9	11.5 %	94.8	11.9 %	12.1	12.8 %
Selling, general and administrative expenses	(46.5)	5.0 %	(42.2)	5.3 %	(4.3)	10.2 %
Operating income	60.4	6.5 %	52.6	6.6 %	7.8	14.8 %
Interest expense	(8.6)	0.9 %	(9.5)	1.2 %	0.9	(9.5)%
Loss on extinguishment of debt	(0.5)	0.1 %	—	—	(0.5)	N/A
Other (expense) income, net	(1.0)	0.1 %	4.2	0.5 %	(5.2)	(123.8)%
Income before provision for income taxes	50.3	5.4 %	47.3	5.9 %	3.0	6.3 %
Provision for income taxes	(13.3)	1.4 %	(13.8)	1.7 %	0.5	(3.6)%
Net income	37.0	4.0 %	33.5	4.2 %	3.5	10.4 %
Net income attributable to noncontrolling interest	(0.2)	—	(0.3)	—	0.1	(33.3)%
Net income attributable to Global Brass and Copper Holdings, Inc.	\$36.8	4.0 %	\$33.2	4.2 %	\$3.6	10.8 %
Adjusted EBITDA (a)	\$73.6	7.9 %	\$71.0	8.9 %	\$2.6	3.7 %

N/A - not applicable

(a) See “Management’s View of Performance—Net income and adjusted EBITDA.”

The following discussions present additional analysis of our results of operations for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. See “Management’s View of Performance” for discussions of net sales, adjusted sales, gross profit, adjusted gross profit, selling, general and administrative expenses, adjusted selling, general and administrative expenses, net income attributable to Global Brass and Copper Holdings, Inc., adjusted EBITDA, diluted net income attributable to Global Brass and Copper Holdings, Inc. per common share and adjusted diluted earnings per common share. These discussions should be read in conjunction with the accompanying unaudited consolidated financial statements and the notes thereto.

Interest expense

Interest expense decreased by \$0.9 million primarily due to lower average interest rates resulting from our July 2017 refinancing and increased interest income. Our average interest rate on our debt principal decreased from 5.3% to 5.1%.

The following table summarizes the components of interest expense:

(in millions)	Six Months		
	Ended	Ended	Change:
	June 30,	June 30,	2018 vs.
	2018	2017	2017
Interest on principal	\$8.1	\$8.6	\$(0.5)
Amortization of debt discount and issuance costs	0.6	0.6	—
Capitalized interest	(0.1)	(0.1)	—
Other borrowing costs (a)	0.4	0.4	—
Interest income	(0.4)	—	(0.4)
Total interest expense	\$8.6	\$9.5	\$(0.9)

(a) Includes fees related to letters of credit and unused line of credit fees.

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Provision for income taxes

The provision for income taxes decreased by \$0.5 million due to a decrease in the effective tax rate (\$1.3 million), partially offset by the increase in income before provision for income taxes (\$0.8 million). The effective income tax rate, which is the provision for income taxes as a percentage of income before provision for income taxes, was 26.4% and 29.2% for the six months ended June 30, 2018 and 2017, respectively. The effective tax rate for the six months ended June 30, 2018 differs from the statutory rate of 21% primarily due to state income taxes. For the six months ended June 30, 2017, the effective tax rate differed from the statutory rate of 35% primarily due to the adoption of ASU 2016-09 on January 1, 2017. For the six months ended June 30, 2018, the benefit generated by ASU 2016-09 was offset by the new IRS code Section 162(m) rules passed under tax reform.

Segment Results of Operations

Segment Results of Operations for the Six Months Ended June 30, 2018, Compared to the Six Months Ended June 30, 2017.

The following discussions present an analysis of our results by segment for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017. This discussion should be read in conjunction with the accompanying unaudited consolidated financial statements and the notes thereto.

(in millions)	Six Months		Change:	
	Ended June 30, 2018	2017	Amount	Percent
Pounds shipped (a)				
Olin Brass	132.1	130.3	1.8	1.4 %
Chase Brass	111.1	114.0	(2.9)	(2.5)%
A.J. Oster	68.9	37.1	31.8	85.7 %
Corporate and other (b)	(20.8)	(21.2)	0.4	1.9 %
Total	291.3	260.2	31.1	12.0 %
Net sales				
Olin Brass	\$398.3	\$393.6	\$4.7	1.2 %
Chase Brass	331.1	295.2	35.9	12.2 %
A.J. Oster	245.7	149.7	96.0	64.1 %
Corporate and other (b)	(43.9)	(44.2)	0.3	0.7 %
Total	\$931.2	\$794.3	\$136.9	17.2 %
Adjusted EBITDA				
Olin Brass	\$34.1	\$26.9	\$7.2	26.8 %
Chase Brass	37.0	38.3	(1.3)	(3.4)%
A.J. Oster	11.8	6.8	5.0	73.5 %
Total adjusted EBITDA of operating segments	\$82.9	\$72.0	\$10.9	15.1 %
Corporate and other (c)	(9.3)	(1.0)	(8.3)	N/M
Total consolidated adjusted EBITDA	\$73.6	\$71.0	\$2.6	3.7 %

N/M - not meaningful

(a) Amounts exclude quantity of unprocessed metal sold.

(b) Amounts represent intercompany eliminations.

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

See Note 4, "Segment Information," of our unaudited consolidated financial statements, which are included elsewhere in this report, for a reconciliation of adjusted EBITDA of segments to income before provision for income taxes.

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Olin Brass

Net sales increased by \$4.7 million primarily due to increased commodity prices (\$29.1 million) and volumes (\$4.3 million), partially offset by decreased unprocessed metal sales (\$28.7 million). Adjusted sales increased by \$8.2 million due to favorable scrap spreads, better metal margins, and improved raw material sourcing (\$4.1 million) and increased volumes (\$2.1 million). Volumes increased in the reroll channel, coinage, and building and housing market due to underlying demand.

Adjusted EBITDA increased by \$7.2 million, mostly due to favorable scrap prices, better metal margins, and improved raw material sourcing (\$4.1 million) and volumes, partially offset by increased employee and employee related expenses and \$0.7 million of costs incurred related to an environmental incident at an Olin Brass facility.

Chase Brass

Net sales increased by \$35.9 million due to increased commodity prices (\$43.5 million), partially offset by decreased volumes and unprocessed metal sales (\$7.6 million). Volumes decreased in the building and housing and industrial machinery and equipment markets due to underlying demand from our customers.

Adjusted EBITDA decreased by \$1.3 million, predominantly due to decreased volumes and unfavorable production costs as a result of operational inefficiencies, partially offset by better metal margins and metal mix (\$2.4 million).

A.J. Oster

We experienced fluctuations in our performance due to both base operations and the acquisition of Alumet as shown in the following table, which shows increases or decreases for each category for the six months ended June 30, 2018 over prior year amounts:

(in millions)	Base	Acquisition	Total
Pounds shipped	2.2	29.6	31.8
Net sales	\$26.5	\$ 69.5	\$96.0
Adjusted EBITDA	\$1.4	\$ 3.6	\$5.0

Regarding base operations, net sales increased by \$26.5 million due to increased commodity prices (\$17.5 million) and increased volumes (\$9.0 million). Volumes increased in the automotive and electronics / electrical components markets primarily due to volumes in the prior year being hampered by the implementation of a new ERP system.

Adjusted EBITDA from base operations increased by \$1.4 million due to favorable product mix and selling prices, increased volumes, and the absence of costs incurred in the prior year associated with transitioning to the HSA medical plan and consulting fees associated with the implementation of a new ERP system.

Changes in Financial Condition

The following discussion presents an analysis of fluctuations in certain accounts within our consolidated balance sheet as of June 30, 2018 as compared to the amounts as of December 31, 2017. This discussion should be read in conjunction with the accompanying unaudited consolidated financial statements and the notes thereto.

June 30, 2018 compared to December 31, 2017

Inventories increased by \$27.8 million due to toll sales occurring in late December 2017 and an inventory build in preparation for our July 2018 shutdown.

Accounts payable increased by \$21.7 million mostly due to the timing of receipts and vendor payments between the periods and increased volumes in 2018.

Accrued liabilities decreased by \$5.4 million primarily due to the payment of annual incentive compensation awards during the first quarter of 2018.

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Liquidity and Capital Resources

Sources and Uses of Cash

Our primary uses of cash are to fund working capital, operating expenses, service our debt, make capital expenditures, facilitate stock compensation awards, and execute strategic acquisitions. Historically, our primary sources of short-term liquidity and long-term liquidity have been cash flow from operations and borrowings under our ABL Facility.

At June 30, 2018, cash and cash equivalents held by our foreign subsidiaries totaled \$9.2 million. We believe cash held by our foreign subsidiaries provides these operations with the necessary liquidity to meet future obligations and allows them to reinvest in their operations. We do not expect restrictions on repatriation of cash held outside of the United States for domestic purposes to have a material effect on our overall liquidity, financial condition, or the results of operations for the foreseeable future.

On each of July 18, 2017 and May 29, 2018, we amended the credit agreement governing our Term Loan B Facility that matures on May 29, 2025 (the “Term Loan B Credit Agreement” and the loans thereunder, the “Term Loan B Facility”), and on July 18, 2017, we amended our credit agreement governing our asset-based revolving facility that matures on July 19, 2021 (the “ABL Credit Agreement” and the facility thereunder, the “ABL Facility,” together, the “Credit Agreements”), as further discussed in Note 8, “Financing.” The Credit Agreements contain various customary covenants that limit or prohibit our ability, among other things, to (i) incur or guarantee additional indebtedness; (ii) pay certain dividends on our capital stock or redeem, repurchase, retire or make distributions in respect of our capital stock or subordinated indebtedness or make certain other restricted payments; (iii) make certain loans, acquisitions, capital expenditures or investments; (iv) sell certain assets, including stock of our subsidiaries; (v) enter into certain sale and leaseback transactions; (vi) create or incur certain liens; (vii) consolidate, merge, sell, transfer or otherwise dispose of all or substantially all of our assets; (viii) enter into certain transactions with our affiliates; and (ix) engage in certain business activities.

We do not believe that the limitations imposed by the terms of our debt agreements have any significant impact on our liquidity, financial condition or results of operations. We believe that these resources will be sufficient to meet our working capital, debt service, dividend obligations and capital investment obligations for the foreseeable future, including costs that we may incur in connection with our growth strategy.

On July 31, 2018, the Company’s Board of Directors authorized a share repurchase program (the “2018 Share Repurchase Program”), whereby we may repurchase up to \$35.0 million of our common stock through September 30, 2020. There have been no shares repurchased under this program as of the date of this report. In addition, we frequently buy shares of our common stock from employees as an accommodation to them to satisfy their tax withholding obligations under our stock compensation plans; these transactions are not included as part of the authorization under our 2018 Share Repurchase Program.

Cash Flows

The following table presents the summary components of net cash provided by (used in) operating, investing and financing activities for the periods indicated. The following discussion presents an analysis of cash flows for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 and should be read in conjunction with our consolidated statements of cash flows in our unaudited consolidated financial statements included elsewhere in this report.

Cash Flow Analysis	Six Months		Change
	Ended		
	June 30,		
(in millions)	2018	2017	2018 vs. 2017
Cash flows provided by operating activities	\$55.3	\$17.0	\$38.3
Cash flows used in investing activities	\$(14.3)	\$(12.5)	\$(1.8)
Cash flows used in financing activities	\$(8.4)	\$(8.3)	\$(0.1)
Cash flows from operating activities			

Net cash provided by operating activities increased by \$38.3 million as changes in working capital resulted in decreased cash outflows in the first half of 2018 as compared to 2017. Inventory, accounts receivable and accounts payable accounted for \$25.6 million of the \$38.3 million improvement in cash flows. Accounts receivable were impacted by the timing of toll sales while inventory was impacted by a customer production outage in the first half of 2017. Additionally, cash from operations was favorably impacted by the timing of vendor and customer payments. Cash from operations also benefited from increased net income and other adjustments thereto.

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Cash flows from financing activities

Net cash used in financing activities increased by \$0.1 million primarily due to a \$1.1 million increase in dividend payments, \$0.4 million of debt issuance costs associated with the May 2018 debt refinancing, and increased capital lease payments from Alumet, partially offset by a \$1.6 million decrease in stock buy-backs as compared to the prior year. Our stock buy backs are done as an accommodation to employees to satisfy payroll tax withholding obligations on vestings and exercises of share-based compensation awards.

Outstanding Indebtedness

Term Loan B Facility

On July 18, 2016, we entered into a long-term credit agreement that matures July 18, 2023 (the “Term Loan B Credit Agreement” and the loans thereunder, the “Term Loan B Facility”) and provides for borrowings of \$320.0 million. We may request an increase in the aggregate term loans, at our option and under certain circumstances, of up to an additional \$75.0 million or an unlimited amount so long as after giving effect to any incremental facility or incremental equivalent debt, the net senior secured leverage ratio does not exceed 2.50 to 1.00 (but the lenders, in either case, are not obligated to grant such an increase). On December 30, 2016, we began making quarterly payments of \$0.8 million with the balance expected to be due at maturity.

On each of July 18, 2017 and May 29, 2018, we amended the credit agreement governing our Term Loan B Facility (“Amended Term Loan B Credit Agreement”). The most recent refinancing reduced our interest rate by an additional 75 basis points, reduced the LIBO Rate floor from 1% to 0%, and extended the maturity date through May 29, 2025. The Amended Term Loan B Credit Agreement has a soft call prepayment penalty of 1% during the six months following the refinancing date. Amounts outstanding under this facility now bear interest at a rate per annum equal to, at our option, either (1) 1.5% plus an Alternate Base Rate (as defined in the Amended Term Loan B Credit Agreement) or (2) 2.5% plus the Adjusted LIBO Rate (as defined in the Amended Term Loan B Credit Agreement).

In order to minimize the variability in cash flows caused by fluctuations in market interest rates, we entered into an interest rate swap agreement on May 25, 2018, which expires on May 31, 2023. This swap agreement fixes the LIBOR rate on \$150.0 million of our floating rate LIBOR debt at 2.75%. At June 30, 2018, amounts outstanding under the Term Loan B Facility combined with our interest rate swap derivative accrued interest at a weighted average rate of 4.92%.

The Term Loan B Credit Agreement requires mandatory prepayments based on various events and circumstances as are customary in such agreements. Since December 31, 2017, we are subject to a 50% excess cash flow sweep, subject to step-downs to 25% and 0% depending on the total net leverage ratio from time to time. We may, however, voluntarily prepay outstanding loans under the Term Loan B Facility at any time.

ABL Facility

We have an asset-based revolving loan facility (the “ABL Credit Agreement” and together with the facility thereunder, the “ABL Facility”) that matures on July 19, 2021 and provides for borrowings of up to the lesser of \$200.0 million or the borrowing base, in each case less outstanding loans and letters of credit.

As of June 30, 2018, we had no borrowings outstanding under the ABL Facility and available borrowings under the ABL Facility were \$195.4 million after giving effect to \$4.6 million of letters of credit outstanding, which are used to provide collateral for our insurance programs. We may request an increase in the maximum commitments, at our option and under certain circumstances, of up to \$200.0 million (but the lenders are not obligated to grant such an increase).

The Credit Agreements

The ABL Credit Agreement and the Term Loan B Credit Agreement (together, the “Credit Agreements”) contain various covenants consistent with debt agreements of this kind, such as restrictions on the amounts of dividends we can pay. As of June 30, 2018, we were in compliance with all of the covenants relating to the Credit Agreements. For additional information regarding our ABL Facility, our Term Loan B Facility and our capital lease obligations, see Note 8, “Financing,” to our unaudited consolidated financial statements, which are included elsewhere in this report.

Recently Issued and Recently Adopted Accounting Pronouncements

For information on recently issued and recently adopted accounting pronouncements, see the notes to our unaudited consolidated financial statements, which are included elsewhere in this report.

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Item 3. Quantitative and Qualitative Disclosure about Market Risk

There is no material change in the information reported under Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” contained in our Annual Report on Form 10-K filed with the SEC on March 1, 2018.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Under applicable SEC regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the Company’s “disclosure controls and procedures,” which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the SEC (such as this Form 10-Q) is i) recorded, processed, summarized, and reported on a timely basis, and ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

The Company’s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures as of June 30, 2018. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2018, the design and operation of our disclosure controls and procedures were effective to provide reasonable assurance that the desired control objectives were achieved.

(b) Changes in internal controls

There was no change in our internal controls over financial reporting that occurred during the quarter ended June 30, 2018 that have materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are currently, and from time to time, involved in a variety of claims, lawsuits and other disputes arising in the ordinary course of business, none of which management currently believes are, or will be, material to our business. For a discussion of risks related to various legal proceedings and claims, see the risk factors described in our Annual Report on Form 10-K filed with the SEC on March 1, 2018.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K under “Item 1A — Risk Factors” filed with the SEC on March 1, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Sales of Unregistered Securities

None.

Purchases of Equity Securities

Period	Issuer Purchases of Equity Securities			Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
	Total Number of Shares Purchased (1)	Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	
April 1, 2018 through April 30, 2018	—	\$ —	*	*
May 1, 2018 through May 31, 2018	475	\$ 31.95	*	*
June 1, 2018 through June 30, 2018	—	\$ —	*	*
Total	475	\$ 31.95	*	*

* These amounts are not applicable as we did not have a share repurchase program in effect as of the date of this report.

Common stock purchased during the three months ended June 30, 2018 represented shares which were surrendered (1) to the Company by participants under share-based compensation plans to satisfy tax withholding obligations relating to the vesting of equity awards.

On July 31, 2018, the Company’s Board of Directors authorized a share repurchase program (the “2018 Share Repurchase Program”), whereby the Company may repurchase up to \$35.0 million of its common stock through September 30, 2020. There have been no shares repurchased under this program as of the date of this report.

Limitations Upon the Payment of Dividends

Our agreements governing the ABL Facility and the Term Loan B Facility both contain restrictions as to the payment of dividends.

Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Description
<u>10.1</u>	Amendment Number 2 to Term Loan Agreement
<u>31.1</u>	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
<u>31.2</u>	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
<u>32.1</u>	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GLOBAL BRASS AND
COPPER HOLDINGS, INC

By: /s/ Christopher J. Kodosky
Christopher J. Kodosky
Chief Financial Officer

Date: August 2, 2018