DANA INC
Form 10-Q
October 29, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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: September 30, 2018
Commission File Number: 1-1063

Dana Incorporated
(Exact name of registrant as specified in its charter)

Delaware	26-1531856
(State of incorporation)	(IRS Employer Identification Number)
3939 Technology Drive, Maumee, OH	43537
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (419) 887-3000

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 þ No o

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 þ No o

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. (Check one):

Large accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
Accelerated filer o	(Do not check if a smaller reporting company)	Emerging growth company o

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. o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

There were 144,662,794 shares of the registrant's common stock outstanding at October 19, 2018.

DANA INCORPORATED – FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Dana Incorporated
Consolidated Statement of Operations (Unaudited)
(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$1,978	$1,831	$6,170	$5,372
Costs and expenses				
Cost of sales	1,692	1,562	5,269	4,562
Selling, general and administrative expenses	119	124	383	377
Amortization of intangibles	2	4	6	9
Restructuring charges, net	9	2	17	14
Impairment of indefinite-lived intangible asset			(20)	
Adjustment in fair value of disposal group held for sale			3	
Other expense, net	(9)		(19)	(12)
Earnings before interest and income taxes	147	139	459	398
Loss on extinguishment of debt		(13)		(19)
Interest income	3	3	8	8
Interest expense	24	25	71	79
Earnings before income taxes	126	104	396	308
Income tax expense	31	33	75	94
Equity in earnings of affiliates	1	2	13	12
Net income	96	73	334	226
Less: Noncontrolling interests net income	1	3	6	13
Less: Redeemable noncontrolling interests net income (loss)		1	1	(2)
Net income attributable to the parent company	$95	$69	$327	$215
Net income per share available to common stockholders				
Basic	$0.66	$0.47	$2.25	$1.46
Diluted	$0.65	$0.46	$2.23	$1.45
Weighted-average common shares outstanding				
Basic	144.7	145.0	145.1	144.8
Diluted	145.9	146.9	146.6	146.5
Cash dividends declared per share	$0.10	$0.06	$0.30	$0.18

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

Dana Incorporated
Consolidated Statement of Comprehensive Income (Unaudited)
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$96	$73	$334	$226
Other comprehensive income (loss), net of tax:				
Currency translation adjustments	(19)	(1)	(65)	(2)
Hedging gains and losses	3	(14)	(11)	(13)
Defined benefit plans	21	19	34	29
Other comprehensive income (loss)	5	4	(42)	14
Total comprehensive income	101	77	292	240
Less: Comprehensive income attributable to noncontrolling interests		(5)		(18)
Less: Comprehensive income attributable to redeemable noncontrolling interests		(1)		
Comprehensive income attributable to the parent company	$101	$71	$292	$222

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

4

Dana Incorporated
Consolidated Balance Sheet (Unaudited)
(In millions, except share and per share amounts)

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 322	$ 603
Marketable securities	36	40
Accounts receivable		
Trade, less allowance for doubtful accounts of $8 in 2018 and 2017	1,228	994
Other	173	172
Inventories	1,100	969
Other current assets	103	97
Current assets of disposal group held for sale		7
Total current assets	2,962	2,882
Goodwill	249	127
Intangibles	173	174
Deferred tax assets	443	420
Other noncurrent assets	76	71
Investments in affiliates	216	163
Property, plant and equipment, net	1,828	1,807
Total assets	$ 5,947	$ 5,644
Liabilities and equity		
Current liabilities		
Short-term debt	$ 16	$ 17
Current portion of long-term debt	20	23
Accounts payable	1,246	1,165
Accrued payroll and employee benefits	196	219
Taxes on income	67	53
Other accrued liabilities	254	220
Current liabilities of disposal group held for sale		5
Total current liabilities	1,799	1,702
Long-term debt, less debt issuance costs of $19 in 2018 and $22 in 2017	1,760	1,759
Pension and postretirement obligations	553	607
Other noncurrent liabilities	368	413
Noncurrent liabilities of disposal group held for sale		2
Total liabilities	4,480	4,483
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	103	47
Parent company stockholders' equity		
Preferred stock, 50,000,000 shares authorized, $0.01 par value, no shares outstanding	—	—
Common stock, 450,000,000 shares authorized, $0.01 par value, 144,662,794 and 144,984,050 shares outstanding	2	2
Additional paid-in capital	2,364	2,354
Retained earnings	371	86
Treasury stock, at cost (8,341,922 and 7,001,017 shares)	(119)	(87)

Accumulated other comprehensive loss	(1,379)	(1,342)
Total parent company stockholders' equity	1,239	1,013
Noncontrolling interests	125	101
Total equity	1,364	1,114
Total liabilities and equity	$ 5,947	$ 5,644

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

Dana Incorporated
Consolidated Statement of Cash Flows (Unaudited)
(In millions)

	Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net income	$334	$226
Depreciation	187	162
Amortization of intangibles	8	10
Amortization of deferred financing charges	3	4
Call premium on debt		15
Write-off of deferred financing costs		4
Earnings of affiliates, net of dividends received	5	2
Stock compensation expense	13	17
Deferred income taxes	(47)	10
Pension contributions, net	2	(4)
Impairment of indefinite-lived intangible asset	20	
Gain on sale of subsidiary		(3)
Adjustment in fair value of disposal group held for sale	(2)	
Change in working capital	(269)	(80)
Other, net	(17)	(2)
Net cash provided by operating activities	237	361
Investing activities		
Purchases of property, plant and equipment	(235)	(251)
Acquisition of businesses, net of cash acquired	(151)	(182)
Proceeds from previous acquisition	9	
Purchases of marketable securities	(36)	(23)
Proceeds from sales of marketable securities	6	1
Proceeds from maturities of marketable securities	30	16
Proceeds from sale of subsidiary, net of cash disposed	(6)	3
Other, net	(2)	(1)
Net cash used in investing activities	(385)	(437)
Financing activities		
Net change in short-term debt	(13)	(96)
Proceeds from long-term debt		676
Repayment of long-term debt	(8)	(640)
Call premium on debt		(15)
Deferred financing payments		(9)
Dividends paid to common stockholders	(43)	(26)
Distributions to noncontrolling interests	(7)	(7)
Contributions from noncontrolling interests	22	
Payments to acquire redeemable noncontrolling interests	(43)	
Repurchases of common stock	(25)	
Other, net	(5)	4
Net cash used in financing activities	(122)	(113)
Net decrease in cash, cash equivalents and restricted cash	(270)	(189)

Cash, cash equivalents and restricted cash – beginning of period	610	716
Effect of exchange rate changes on cash balances	(13)	41
Cash, cash equivalents and restricted cash – end of period (Note 6)	$327	$568
Non-cash investing activity		
Purchases of property, plant and equipment held in accounts payable	$93	$113

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

6

Dana Incorporated
Index to Notes to Consolidated Financial Statements

7

Notes to Consolidated Financial Statements (Unaudited)
(In millions, except share and per share amounts)

Note 1. Organization and Summary of Significant Accounting Policies

General

Dana Incorporated (Dana) is headquartered in Maumee, Ohio and was incorporated in Delaware in 2007. As a global provider of high technology driveline (axles, driveshafts and transmissions); sealing and thermal-management products; and motors, power inverters, and control systems for electric vehicles our customer base includes virtually every major vehicle manufacturer in the global light vehicle, medium/heavy vehicle and off-highway markets.

The terms "Dana," "we," "our" and "us," when used in this report, are references to Dana. These references include the subsidiaries of Dana unless otherwise indicated or the context requires otherwise.

Summary of significant accounting policies

Basis of presentation — Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. These statements are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results for the interim periods. The results reported in these consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year. The financial information included herein should be read in conjunction with the consolidated financial statements in Item 8 of our 2017 Form 10-K.

Foreign currency translation — We believe that Argentina's economy met the GAAP definition of a highly inflationary economy during the second quarter of 2018. As such, effective July 1, 2018 we began to remeasure the financial statements of our Argentine subsidiaries as if their functional currency was the U.S. dollar. In assessing Argentina's economy as highly inflationary we considered its three-year cumulative inflation rate along with other factors. We believe the National Wholesale Price Index (WPI) provides the most reliable calculation of cumulative inflation for Argentina as the WPI has consistently provided national coverage and historically has been viewed as the most relevant and reliable measure by practitioners. Argentina's three-year cumulative inflation rate through May 2018 based on the WPI was 109%. In addition, management considered the Central Bank of Argentina increasing annual interest rates to 30% in April 2018 and further increasing them to 40% in May 2018, the Argentine government requesting financial assistance from the International Monetary Fund and the significant depreciation of the Argentine peso against the U.S. dollar during the second quarter of 2018.

Recently adopted accounting pronouncements

On January 1, 2018, we adopted ASU 2017-12, Derivatives and Hedging – Targeted Improvements to Accounting for Hedging Activities, guidance that addresses effectiveness testing requirements, income statement presentation and disclosure and hedge accounting qualification criteria. Adoption of this standard results in a prospective change to the presentation of certain hedging-related gains and losses in our consolidated statement of operations. Effective with our permitted early adoption of this standard on January 1, 2018, realized gains and losses on forecasted transactions are recorded in the financial statement line item to which the underlying forecasted transaction relates (e.g., sales or cost of sales). Adoption also simplifies our ongoing effectiveness testing and reduces the complexity of hedge accounting requirements for new hedging contracts. The adoption of this standard, including the change in presentation within the consolidated statement of operations, did not have a material impact.

On January 1, 2018, we adopted ASU 2017-07, Retirement Benefits – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, guidance that changed the reporting of pension and other postretirement benefits (OPEB) costs in the income statement. The service cost components of net periodic pension and OPEB costs continue to be included in cost of sales and selling, general and administrative expenses as part of compensation cost and remain eligible for capitalization in inventory and other assets. The non-service components are now reported in other expense, net and are not eligible for capitalization. The impact of the new guidance on inventory at September 30, 2018 was not material. For the first nine months of 2017, we reclassified pension and OPEB costs of $2 from cost of sales and $2 from selling, general and administrative to other expense, net to conform to the 2018 presentation. We used the practical expedient in the guidance to quantify these impacts, which disregards the potential change in capitalized costs during the period. See Note 20 for information regarding the related impact on our segment reporting.

On January 1, 2018, we adopted ASU 2016-18, Statement of Cash Flows – Restricted Cash, guidance that requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending total amounts shown on the statement of cash flows. Retrospective presentation is required. For the nine months ended September 30, 2017, this change resulted in a $9 increase in cash, cash equivalents and restricted cash at the beginning and a $10 increase at the end of the period as presented on our consolidated statement of cash flow. In addition, removing the change in restricted cash from the consolidated statement of cash flows resulted in a change of $1 in our net cash used in investing activities for the nine months ended September 30, 2017. See Note 6 for additional information.

On January 1, 2018, we adopted ASU 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities, an amendment that addresses the recognition, measurement, presentation and disclosure of certain financial instruments. Investments in equity securities that were classified as available-for-sale and carried at fair value, with changes in fair value reported in other comprehensive income (OCI), are now carried at fair value determined on an exit price notion and changes in fair value are now reported in net income. The new guidance also affects the assessment of deferred tax assets related to available-for-sale securities, the accounting for liabilities for which the fair value option is elected and the disclosures of financial assets and financial liabilities in the notes to the financial statements. The adoption resulted in a release of the deferred gain in accumulated other comprehensive income (AOCI) directly to retained earnings of $2.

Effective January 1, 2018, we adopted ASU 2014-09, Revenue – Revenue from Contracts with Customers, which requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration a company expects to be entitled to in exchange for those goods or services. We have elected to use the modified retrospective approach to transition to the new standard. Comparative prior periods have not been restated. We assessed our products in combination with the provisions of our current customer contracts to determine the cumulative effect of initially applying ASU 2014-09. Based on our assessment, the adoption date financial statement impact was limited to balance sheet reclassifications required to establish the refund asset, refund liability and contract liability concepts provided for in ASU 2014-09. There was no cumulative effect adjustment required to be recorded to retained earnings. The cumulative effects of the changes made to our January 1, 2018 consolidated balance sheet for the adoption of ASU 2014-09 were as follows:

	Balance at December 31, 2017	Adjustments Due to ASU 2014-09	Balance at January 1, 2018
Assets			
Current assets			
Accounts receivable - Trade	$ 994	$ 15	$ 1,009
Other current assets	97	1	98
Liabilities			
Current liabilities			
Other accrued liabilities	$ 220	$ 16	$ 236

The follow table shows the impact adopting ASC 606 had on our consolidated balance sheet as of September 30, 2018:

	September 30, 2018		
	Balances Without Adoption of ASU 2014-09	Adjustments Due to ASU 2014-09	As Reported
Assets			
Current assets			
Accounts receivable - Trade	$1,214	$ 14	$ 1,228
Other current assets	101	2	103
Liabilities			
Current liabilities			
Other accrued liabilities	$238	$ 16	$ 254

See Note 19 for additional information.

During the third quarter of 2018, we early adopted ASU 2018-02, Income Statement - Reporting Comprehensive Income, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance allows entities the option of reclassifying stranded income tax effects resulting from the Tax Cuts and Jobs Act (the "Act") from AOCI to retained earnings in their consolidated financial statements. As a result of the Act, deferred taxes were adjusted to reflect the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate by means of a credit or charge to income from continuing operations, leaving the tax effects of items within AOCI stranded at historical tax rates. This guidance would have been effective January 1, 2019 without early adoption. The guidance is to be applied either in the period of adoption or retrospectively to each period that was affected by the change in the corporate tax rate under the Act. Due to the immaterial amount of the stranded tax effects, we have elected not to reclassify the income tax effects from AOCI to retained earnings.

We also adopted the following standards during the first nine months of 2018, none of which had a material impact on our financial statements or financial statement disclosures:

Standard		Effective Date
2017-09	Stock Compensation – Scope of Modification Accounting	January 1, 2018
2017-01	Business Combinations – Clarifying the Definition of a Business	January 1, 2018
2016-15	Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments	January 1, 2018

Recently issued accounting pronouncements

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This guidance allows for capitalization of implementation costs associated with certain cloud computing arrangements. This guidance becomes effective January 1, 2020 and early adoption is permitted. The guidance is to be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We do not expect the adoption of this guidance to impact our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General, Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans. The guidance eliminated certain disclosures about defined benefit plans, added new disclosures, and clarified other requirements. This guidance becomes effective January 1, 2020 and early adoption is permitted. There were no changes to interim disclosure requirements. Adoption of this guidance will not have a material effect on our annual financial statement disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The guidance removed or modified some disclosures while others were added. The removal and amendment of certain disclosures can be adopted immediately with retrospective application. The additional disclosure guidance becomes effective January 1, 2020. Adoption of this guidance will not have a material effect on our financial statement disclosures.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share, Distinguishing Liabilities from Equity, Derivatives and Hedging – (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. This guidance is intended to reduce the complexity associated with accounting for certain financial instruments with characteristics of liabilities and equity. Specifically, a down round feature would no longer cause a freestanding equity-linked financial instrument (or an embedded conversion option) to be considered "not indexed to an entity's own stock" and therefore accounted for as a derivative liability at fair value with changes in fair value recognized in current earnings. Down round features are most often found in warrants and conversion options embedded in debt or preferred equity instruments. In addition, the guidance re-characterized the indefinite deferral of certain provisions on distinguishing liabilities from equity to a scope exception with no accounting effect. This guidance becomes effective January 1, 2019 and early adoption is permitted. We do not presently issue any equity-linked financial instruments and therefore this guidance has no impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Goodwill – Simplifying the Test for Goodwill Impairment, guidance that simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 of the goodwill impairment test. The new guidance quantifies goodwill impairment as the amount by which the carrying amount of a reporting unit, including goodwill, exceeds its fair value, with the impairment loss limited to the total amount of goodwill allocated to that reporting unit. This guidance becomes effective January 1, 2020 and will be applied on a prospective basis. Early adoption is permitted for impairment tests performed after January 1, 2017. We do not expect the adoption of this guidance to impact our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Credit Losses – Measurement of Credit Losses on Financial Instruments, new guidance for the accounting for credit losses on certain financial instruments. This guidance introduces a new approach to estimating credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. This guidance, which becomes effective January 1, 2020, is not expected to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, its new lease accounting standard. The primary focus of the standard is on the accounting by lessees. This standard requires lessees to recognize a right-of-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease) on the balance sheet. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern in the income statement. Quantitative and qualitative disclosures are required to provide insight into the extent of revenue and expense recognized and expected to be recognized from leasing arrangements. Approximately three-fourths of our global lease portfolio represents leases of real estate, including manufacturing, assembly and office facilities, while the remainder represents leases of personal property, including manufacturing, material handling and IT equipment.

Many factors will impact the ultimate measurement of the lease obligation to be recognized upon adoption. We continue to evaluate the impact this guidance will have on our consolidated financial statements. We expect to take advantage of the transition relief provided by the amendment to ASU 2016-02 which allows us to elect not to restate 2017 and 2018 comparative periods upon adoption and continue to apply ASC 840 to such periods. With respect to the available practical expedients, we expect to elect the primary package of expedients whereby we will reassess neither the existence, nor the classification nor the amount and treatment of initial direct costs of existing leases. We do not expect to apply hindsight to the evaluation of lease options (e.g., renewal) and, accordingly, do not expect to utilize the practical expedient that would allow such an approach. Finally, we plan to separate the lease components from the non-lease components of each lease arrangement and, therefore, do not expect to elect the expedient that would enable us not to separate them. This guidance becomes effective January 1, 2019 with early adoption permitted.

Note 2. Acquisitions

TM4 — On June 22, 2018, we acquired a 55% ownership interest in TM4 Inc. (TM4) from Hydro-Québec. TM4 designs and manufactures motors, power inverters, and control systems for electric vehicles, offering a complementary portfolio to Dana's electric gearboxes and thermal-management technologies for batteries, motors, and inverters. The transaction establishes Dana as the only supplier with full e-Drive design, engineering, and manufacturing capabilities – offering electro-mechanical propulsion solutions to each of its end markets. The transaction further strengthens Dana's position in China, the world's fastest-growing market for electric vehicles. TM4 owns a 50% interest in Prestolite E-Propulsion Systems Limited (PEPS), a joint venture in China with Prestolite Electric Beijing Limited, which offers electric mobility solutions throughout China and Asia.

The terms of the agreement provide Hydro-Québec with the right to put all, and not less than all, of its shares in TM4 to Dana at fair value any time after June 22, 2021.

We paid $125 at closing, using cash on hand. The purchase consideration and the related provisional allocation to the acquisition date fair values of the assets acquired and liabilities assumed are presented in the following table:

Total purchase consideration	$125