

# HAYNES

## International

January 22, 2021

### To My Fellow Stockholders:

As fiscal year 2021 begins, we look back on a very unusual year. Fiscal 2020 was characterized not only by the challenging business and personal impacts of COVID-19, but also by the positive team-wide efforts to address the many challenges our company has faced, and continues to face, during this unprecedented time. I'm so very proud of how our employees worked to protect each other's health and safety and how our team set and accomplished goals related to significant cash generation and improvement of our long term cost structure and future profitability. Our team is continuing to strategically position our company to emerge from this downturn with a competitive advantage through the supply of our high-value differentiated products and services.

We are an industry leader in developing nickel- and cobalt-based high performance alloys, identifying applications for our existing and new alloys and providing support to our customers to help them meet their specialized and demanding requirements. While volumes in our first two quarters of fiscal 2020 were negatively impacted by the halt in production of the Boeing 737MAX, the final two quarters also bore the full impact of the pandemic. Our customers across all markets significantly pulled back on orders to conserve cash, and excess inventory existed across all relevant supply chains. Haynes experienced a 22.4% drop in our year on year revenues and a 34.8% reduction in our backlog. This revenue drop led to both a net loss for fiscal 2020 and a temporary halt of the significant momentum we had previously established with gross margin percentage improvement. We quickly addressed the COVID-19 issues directly, first instituting all appropriate safety protocols, then pivoting to a focus on cash generation and reducing our cost structure wherever possible, including salary decreases and an approximately 16% reduction in our overall workforce.

I firmly believe that the future for Haynes is bright. We are a strong company. In our nearly 109-year history, this company, in various ownership forms, has overcome several significant issues, including the Great Depression, the aftermath of the terrorist attacks of September 11, 2001 in the aerospace industry and the COVID-19 pandemic. Until last March, when the pandemic started to have a major effect on the economy, our aerospace growth was steady and strong. With the potential vaccines and the Boeing 737MAX approvals, we are expecting the pre-pandemic fundamentals to once again drive aerospace growth in the future.

While fiscal 2020 was a difficult year, our team executed very well. Examples of the progress made across our entire workforce are as follows:

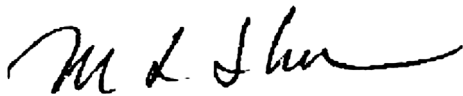
- Our safety rate has continued to improve throughout this past year. Our process improvement initiatives continue to keep safety front of mind for everyone within our company.
- We finished the year with strong liquidity, no debt and \$47.2 million in cash on our balance sheet. After the pandemic began, we generated \$24.8 million in cash in the second half of fiscal 2020, based, in large part, on our inventory reduction initiatives.
- We improved our gross margin percentage by 670 basis points, year on year, in our first quarter and 580 basis points, year on year, in our second quarter of fiscal 2020, achieving 18% in January and February. This margin improvement was based on bottom line price increases for our high-value differentiated products and a relentless focus on cost reduction.
- We've already invested the capital required to grow with our markets. Future capex needs are expected to be below depreciation for at least the next 3 years.

- Our alloy and applications development work and excellent technical support to our customers continue to be core competencies for our company. We work every day to continue to develop and sell alloys into unique applications requiring high temperature and/or corrosion resistance. Increasingly, our proprietary and specialty alloys are being specified in the next generation of engines in aerospace and industrial gas turbines, into demanding applications in the chemical process industry and technologies including renewable energy and others to help reduce the carbon footprint on our planet. Some examples include our newest alloy, HAYNES® 233™, in an aerospace engine platform, 282® alloy in increased uses in industrial gas turbines and HR-235® alloy in chemical and petro-chemical applications.
- We have improved procedures and processes across all aspects of our business, with our leaders and our teams delivering excellent results. This has resulted in improved pricing, reduced costs and significant progress on critical key initiatives, including our Environmental, Social and Governance and our Enterprise Risk Management processes.

Finally, my sincere thanks to our shareholders and everyone at Haynes. Our employees have set goals, established metrics, exhibited accountability for results and driven a performance-based mentality into our company. We look forward to our markets improving, and, in conjunction with our safety, cash, price, cost and growth initiatives, showing our shareholders what our business is capable of achieving.

We wish everyone a healthy and safe 2021.

Sincerely,

A handwritten signature in black ink, appearing to read "M L Shor". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael L. Shor  
President and Chief Executive Officer

# HAYNES International

January 22, 2021

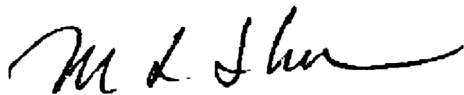
*Dear Stockholders of Haynes International, Inc.:*

You are cordially invited to attend the Annual Meeting of Stockholders of Haynes International, Inc. (“Haynes”) to be held Tuesday, February 23, 2021 at 10:00 a.m. (EST). This year’s annual meeting will be a completely “virtual” meeting of stockholders. You can attend the meeting online and vote shares electronically during the annual meeting by visiting [www.virtualshareholdermeeting.com/HAYN2021](http://www.virtualshareholdermeeting.com/HAYN2021) at the time of the meeting. Prior to the date of the annual meeting, you will be able to vote at [www.proxyvote.com](http://www.proxyvote.com) or by telephone as described in the accompanying Notice of Annual Meeting. The proposals to be voted upon are described in the accompanying Notice of Annual Meeting and Proxy Statement. You may also submit questions before the annual meeting. Questions will be subject to standard screening criteria such as relevancy, tone and elimination of redundancy.

We hope you are able to attend the annual meeting virtually. Whether or not you attend, it is important that your stock be represented and voted at the meeting. I urge you to please complete, date and return the proxy card in the enclosed envelope, visit [www.proxyvote.com](http://www.proxyvote.com) to vote your shares electronically or vote by telephone as described in the attached Notice of Annual Meeting. The vote of each stockholder is very important. You may revoke your proxy at any time before it is voted at the annual meeting by giving written notice to the Corporate Secretary of Haynes, by submitting a properly executed paper proxy bearing a later date or by attending the virtual annual meeting and voting online during the meeting. Stockholders may also revoke their proxies prior to the date of the meeting by entering a new vote over the Internet or by telephone.

On behalf of the Board of Directors and management of Haynes, I thank you for your continued support.

Sincerely,  
Haynes International, Inc.



Michael L. Shor  
President and Chief Executive Officer

(This page has been left blank intentionally.)

# **HAYNES**

## **International**

**HAYNES INTERNATIONAL, INC.  
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD FEBRUARY 23, 2021**

*Stockholders of Haynes International, Inc.:*

The Annual Meeting of Stockholders of Haynes International, Inc. (“Haynes”) will be held on Tuesday, February 23, 2021 at 10:00 a.m. (EST) for the following purposes:

1. To elect Donald C. Campion as a director of Haynes to serve for a one-year term;
2. To elect Robert H. Getz as a director of Haynes to serve for a one-year term;
3. To elect Dawne S. Hickton as a director of Haynes to serve for a one-year term;
4. To elect Michael L. Shor as a director of Haynes to serve for a one-year term;
5. To elect Larry O. Spencer as a director of Haynes to serve for a one-year term;
6. To ratify the appointment of Deloitte & Touche LLP as Haynes’ independent registered public accounting firm for the fiscal year ending September 30, 2021;
7. To hold an advisory vote on executive compensation; and
8. To transact such other business as may properly come before the meeting.

Only stockholders of record at the close of business on January 8, 2021 are entitled to notice of, and to vote at, the annual meeting.

**YOUR VOTE IS IMPORTANT. EVEN IF YOU EXPECT TO ATTEND THE VIRTUAL ANNUAL MEETING, PLEASE DATE, SIGN AND PROMPTLY MAIL THE ENCLOSED PROXY CARD. A RETURN ENVELOPE IS PROVIDED FOR THIS PURPOSE. YOU MAY ALSO VOTE YOUR PROXY PRIOR TO THE MEETING DATE BY VISITING [WWW.PROXYVOTE.COM](http://WWW.PROXYVOTE.COM) OR BY TELEPHONE AS DESCRIBED BELOW.**

You can attend the meeting online and vote shares electronically during the annual meeting by visiting [www.virtualshareholdermeeting.com/HAYN2021](http://www.virtualshareholdermeeting.com/HAYN2021) at the time of the meeting. Online check-in will begin at 9:45 EST, and you should allow approximately 15 minutes for the online check-in procedure. Please have the control number on your proxy card available for check-in. Prior to the date of the annual meeting, you will be able to vote at [www.proxyvote.com](http://www.proxyvote.com), and the proxy materials will be available at that site. You may also vote prior to the date of the meeting by telephone by calling 1-800-690-6903. Please consult your proxy card for additional information regarding these alternative methods. You may also submit questions before the annual meeting. Questions will be subject to standard screening criteria such as relevancy, tone and elimination of redundancy.

We hope you are able to attend the annual meeting virtually. Whether or not you attend, it is important that your stock be represented and voted at the meeting. I urge you to please complete, date and return the proxy card in the enclosed envelope, visit [www.proxyvote.com](http://www.proxyvote.com) prior to the annual meeting date to vote your shares electronically or vote by telephone prior to the meeting date using the information provided above. The vote of each stockholder is very important. You may revoke your written proxy at any time before it is voted at the annual meeting by giving written notice to the Corporate Secretary of Haynes, by submitting a properly executed paper proxy bearing a later date or by attending the virtual annual meeting and voting online during the meeting. Stockholders may also revoke their proxies by entering a new vote over the Internet or by telephone prior to the date of the annual meeting.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Janice Gunst", with a long horizontal flourish extending to the right.

Janice W. Gunst  
Corporate Secretary

January 22, 2021  
Kokomo, Indiana

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on February 23, 2021: This Notice of Annual Meeting and Proxy Statement and the Company's Fiscal 2020 Annual Report are available in the "Investor Relations" section of the Company's website at [www.haynesintl.com](http://www.haynesintl.com)**

# HAYNES INTERNATIONAL, INC. PROXY STATEMENT

## TABLE OF CONTENTS

	<u>Page</u>
<b>GENERAL INFORMATION</b> .....	1
<b>PROPOSALS FOR 2022 ANNUAL MEETING</b> .....	2
<b>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS</b> .....	3
<b>SECURITY OWNERSHIP OF MANAGEMENT</b> .....	4
<b>PROPOSALS TO BE VOTED UPON</b> .....	5
<b>ELECTION OF DIRECTORS</b> .....	5
Nominees .....	5
Business Experience of Nominated Directors .....	6
<b>CORPORATE GOVERNANCE</b> .....	7
Board Committee Structure .....	7
Meetings of the Board of Directors and Committees .....	9
Meetings of Non-Management Directors .....	10
Independence of the Board of Directors and Committee Members .....	10
Family Relationships .....	10
Conflict of Interest and Related Party Transactions .....	10
Governance Committee and Director Nominations .....	11
Code of Ethics .....	12
Board of Directors' Role in Risk Oversight .....	12
Communications with Board of Directors .....	13
Changes in 2020 Director Compensation Program .....	13
Compensation Committee Interlocks and Insider Participation .....	16
<b>EXECUTIVE COMPENSATION</b> .....	16
Compensation Committee Report .....	16
Compensation Discussion and Analysis .....	16
Compensation Tables and Narrative Disclosure .....	29
CEO Pay Ratio .....	42
Environmental, Social and Governance Matters .....	43
Human Capital Resources .....	45
<b>AUDIT COMMITTEE REPORT</b> .....	48
<b>RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</b> .....	48
<b>ADVISORY VOTE ON EXECUTIVE COMPENSATION</b> .....	49
<b>OTHER MATTERS</b> .....	50

(This page has been left blank intentionally.)



# **HAYNES**

## **International**

### **ANNUAL MEETING OF STOCKHOLDERS TO BE HELD FEBRUARY 23, 2021**

#### ***GENERAL INFORMATION***

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Haynes International, Inc. (“Haynes” or the “Company”) of proxies to be voted at the Annual Meeting of Stockholders to be held at 10:00 a.m. (EST) on Tuesday, February 23, 2021, and at any adjournment thereof. The meeting will be held completely virtual. This proxy statement and the accompanying form of proxy were first mailed to stockholders of the Company on or about January 22, 2021.

You may revoke your written proxy at any time before it is voted at the annual meeting by giving written notice to the Corporate Secretary of Haynes, by submitting a properly executed paper proxy bearing a later date or by attending the virtual annual meeting and voting online during the meeting. Stockholders may also revoke their proxies by entering a new vote over the Internet or by telephone prior to the date of the annual meeting.

All proxies returned prior to the annual meeting, and not revoked, will be voted in accordance with the instructions contained therein. Any executed proxy not specifying to the contrary will be voted as follows:

- (1) FOR the election of Donald C. Campion;
- (2) FOR the election of Robert H. Getz;
- (3) FOR the election of Dawne S. Hickton;
- (4) FOR the election of Michael L. Shor;
- (5) FOR the election of Larry O. Spencer;
- (6) FOR ratification of the selection of Deloitte & Touche LLP as the Company’s independent registered public accounting firm for its fiscal year ending September 30, 2021;
- (7) FOR the compensation of the Named Executive Officers described herein, in a non-binding, advisory capacity; and
- (8) IN the discretion of the proxy holders upon such other business as may properly come before the annual meeting.

The vote with respect to approval of the compensation of the Company’s Named Executive Officers is advisory in nature and will not be binding on the Company or the Board of Directors.

As of the close of business on January 8, 2021, the record date for the annual meeting, there were outstanding and entitled to vote 12,682,147 shares of common stock of Haynes. Each outstanding share of common stock is entitled to one vote on each matter properly brought before the annual meeting and can be voted only if the record owner of that share, determined as of the record date, is present in person or represented by a properly completed proxy or a vote by any of the other authorized voting methods described herein at the annual meeting. For beneficial owners who are not record holders, the brokers, banks or nominees holding shares for beneficial owners must vote those shares as instructed. If the broker, bank or nominee has not received instructions from the beneficial owner, the broker, bank

or nominee generally has discretionary voting power only with respect to matters that are considered routine matters. If you are not the record holder of your shares and want to attend the virtual meeting and vote in person, you must obtain a legal proxy from your broker, bank or nominee and present it to the inspector of election with your ballot when you vote at the meeting. Haynes has no other voting securities outstanding. Stockholders do not have cumulative voting rights. All stockholders of record as of January 8, 2021 are entitled to notice of and to vote at the annual meeting.

A quorum will be present if holders of a majority of the outstanding shares of common stock are present, in person or by proxy, or other authorized voting method, at the annual meeting. Shares registered in the names of brokers or other “street name” nominees for which proxies are voted on some, but not all, matters will be considered to be present at the annual meeting for quorum purposes, but will be voted only as to those matters as to which a vote is indicated, and will not be voted as to the matters with respect to which no vote is indicated (commonly referred to as “broker non-votes”). If a quorum is present, the nominees for director will be elected by a majority of the votes cast. Abstentions and broker non-votes are treated as votes not cast and will have no effect on the election of directors. The affirmative vote of the majority of the shares present and entitled to vote on the matter is required for adoption of the proposal to ratify the appointment of Deloitte & Touche LLP as the Company’s independent registered public accounting firm and approval of the compensation of the Company’s Named Executive Officers. Accordingly, abstentions applicable to shares represented at the meeting will have the same effect as votes against these proposals. Broker non-votes will have no effect on the outcome of the advisory proposal with respect to the compensation of the Company’s Named Executive Officers because this is a non-routine matter for which brokers, banks or other nominees may not vote absent instructions, but will have the same effect as votes against the proposal to ratify the appointment of Deloitte & Touche LLP because this proposal is a routine matter for which brokers, banks or other nominees have discretionary voting power. With respect to any other proposals which may properly come before the annual meeting, proposals will be approved upon the affirmative vote of a majority of the shares of common stock present in person or represented by proxy or other authorized voting method and entitled to vote on such matters at the annual meeting.

A copy of the Haynes International, Inc. Fiscal Year 2020 Annual Report on Form 10-K, including audited financial statements and a description of operations for the fiscal year ended September 30, 2020, accompanies this proxy statement. The financial statements contained in the Form 10-K are not incorporated by reference in this proxy statement, but they do contain important information regarding Haynes.

This solicitation of proxies is being made by Haynes, and all expenses in connection with this solicitation of proxies will be borne by Haynes. Haynes expects to solicit proxies primarily by mail, but directors, officers and other employees of Haynes may also solicit proxies electronically, in person or by telephone.

#### ***PROPOSALS FOR 2022 ANNUAL MEETING***

Stockholders desiring to submit proposals to be included in the Proxy Statement for the 2022 Annual Meeting pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), will be required to submit them to the Company in writing on or before September 24, 2021, provided that if the date of the 2022 Annual Meeting is more than 30 days from the anniversary of the 2021 Annual Meeting, then the deadline would be a reasonable time before Haynes begins to print and send its proxy materials. Any such stockholder proposal must also be proper in form and substance, as determined in accordance with the Exchange Act and the rules and regulations promulgated thereunder.

Stockholder proposals other than those to be included in the proxy statement for the 2022 Annual Meeting of Stockholders, pursuant to Rule 14a-8 must be submitted in writing to the Corporate

Secretary of Haynes and received on or before November 25, 2021 and not earlier than October 26, 2021, provided however, that in the event that the 2022 Annual Meeting of Stockholders is called for a date that is not within twenty-five (25) days before or after the anniversary date of the 2021 Annual Meeting of Stockholders, notice by the stockholder in order to be timely must be submitted and received not later than the close of business on the tenth (10<sup>th</sup>) day following the day on which notice of the date of the 2022 Annual Meeting of Stockholders was mailed or public disclosure of the date of the 2022 Annual Meeting is made, whichever first occurs. In addition, any such stockholder proposal must be in proper written form. To be in proper written form, a stockholder proposal (i) other than with respect to director nominations must set forth as to each matter the stockholder proposes to bring before the 2022 Annual Meeting of Stockholders (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address of the stockholder, (c) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by the stockholder, (d) a description of all arrangements or understandings between the stockholder and any other person or persons (including their names) in connection with the proposal of such business by the stockholder and any material interest of the stockholder in such business and (e) a representation that the stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting and (ii) with respect to director nominations must set forth the information described under the heading “Governance Committee and Director Nominations” herein.

The mailing address of the principal executive offices of Haynes is 1020 West Park Avenue, P.O. Box 9013, Kokomo, Indiana 46904-9013.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

Listed below are the only individuals and entities known by the Company to beneficially own more than 5% of the outstanding common stock of the Company as of January 8, 2021 (assuming that their holdings have not changed from such other date as may be shown below):

<u>Name</u>	<u>Number</u>	<u>Percent<sup>(1)</sup></u>
BlackRock, Inc. <sup>(2)</sup> . . . . .	1,976,813	15.8%
T. Rowe Price Associates, Inc. <sup>(3)</sup> . . . . .	1,472,507	11.7%
The Vanguard Group <sup>(4)</sup> . . . . .	1,300,879	10.39%
Dimensional Fund Advisors LP <sup>(5)</sup> . . . . .	1,046,991	8.37%
Royce & Associates, LLC <sup>(6)</sup> . . . . .	784,301	6.27%
Edenbrook Capital <sup>(7)</sup> . . . . .	658,975	5.25%

<sup>(1)</sup> The percentage is calculated on the basis of 12,682,147 shares of common stock outstanding as of January 8, 2021.

<sup>(2)</sup> The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York 10022. Based solely on Schedule 13G/A, filed February 3, 2020 with the Securities and Exchange Commission. Represents sole voting power over 1,942,560 shares and sole dispositive power over 1,976,813 shares.

<sup>(3)</sup> The address of T. Rowe Price Associates, Inc. is 100 East Pratt Street, 10th floor, Baltimore, Maryland 21202. Based solely on Schedule 13G, filed December 31, 2019 with the Securities and Exchange Commission. Represents sole voting power over 283,508 shares and sole dispositive power over 1,472,507 shares.

<sup>(4)</sup> The address of The Vanguard Group is 100 Vanguard Blvd., Malvern, Pennsylvania 19355. Based solely on Schedule 13G, filed December 31, 2019 with the Securities and Exchange Commission.

Represents sole voting power over 13,543 shares, shared voting power over 1,182 shares, sole dispositive power over 1,289,225 shares and shared dispositive power over 11,654 shares.

- (5) The address of Dimensional Fund Advisors LP is Building One, 6300 Bee Cave Road, Austin, Texas 78746. Based solely on Schedule 13G, filed December 31, 2019 with the Securities and Exchange Commission. Represents sole voting power over 1,006,981 shares and sole dispositive power over 1,046,991 shares.
- (6) The address of Royce & Associates, LLC is 745 Fifth Avenue, New York, New York 10151. Based solely on Schedule 13G, filed December 31, 2019 with the Securities and Exchange Commission. Represents sole voting power over 784,301 shares and sole dispositive power over 784,301 shares.
- (7) The address of Edenbrook Capital is 116 Radio Circle, Suite 202, Mount Kisco, New York 10549. Based solely on Schedule 13G, filed April 20, 2020 with the Securities and Exchange Commission. Represents shared voting and dispositive power over 658,976 shares.

**SECURITY OWNERSHIP OF MANAGEMENT**

The following table shows the ownership of shares of the Company’s common stock as of January 8, 2021 (except as described in any associated footnote), by each director, the Chief Executive Officer, the Chief Financial Officer and the other three most highly compensated officers during fiscal year 2020 (the “Named Executive Officers”) and the directors and all executive officers as a group. Except as noted below, the directors and executive officers have sole voting and investment power over these shares of common stock. The business address of each person indicated is c/o Haynes International, Inc., 1020 West Park Avenue, P.O. Box 9013, Kokomo, Indiana 46904-9013.

<u>Name</u>	<u>Number</u>	<u>Percent<sup>(1)</sup></u>
Michael L. Shor <sup>(2)</sup> . . . . .	131,721	1.01
Robert H. Getz <sup>(3)</sup> . . . . .	30,206	*
Donald C. Campion <sup>(4)</sup> . . . . .	27,262	*
Dawne S. Hickton <sup>(5)</sup> . . . . .	15,007	*
Larry O. Spencer <sup>(6)</sup> . . . . .	7,221	*
Daniel W. Maudlin <sup>(7)</sup> . . . . .	71,320	*
David L. Strobel <sup>(8)</sup> . . . . .	31,183	*
Venkat R. Ishwar <sup>(9)</sup> . . . . .	63,531	*
Marlin C. Losch III <sup>(10)</sup> . . . . .	70,492	*
All directors and executive officers as a group (14 persons) <sup>(11)</sup> . . . . .	661,317	4.82%

\* Represents beneficial ownership of less than one percent of the outstanding common stock.

(1) The percentages are calculated on the basis of 12,682,147 shares of common stock outstanding as of January 8, 2021, plus the number of shares that such person or group has the right to acquire beneficial ownership of within sixty days of January 8, 2021, including applicable shares underlying stock options held by such person or group which may be exercised within sixty days of January 8, 2021.

(2) Shares of common stock beneficially owned by Mr. Shor include 49,814 shares of time-vesting restricted stock subject to forfeiture, all of which Mr. Shor has the right to vote, 60,887 shares underlying stock options which may be exercised within sixty days of January 8, 2021, 18,370 shares owned with no restrictions and 2,650 shares of restricted stock the receipt of which has been deferred to a future year as elected by the participant.

(3) Included in this amount are 7,910 shares of restricted stock the receipt of which has been deferred to a future year as elected by the participant.

- (4) Included in this amount are 5,150 shares of restricted stock the receipt of which has been deferred to a future year as elected by the participant.
- (5) Included in this amount are 8,369 shares of restricted stock the receipt of which has been deferred to a future year as elected by the participant
- (6) Shares of common stock beneficially owned by Mr. Maudlin include 15,857 shares of time-vesting restricted stock subject to forfeiture, all of which Mr. Maudlin has the right to vote, 47,873 shares underlying stock options which may be exercised within sixty days of January 8, 2021 and 7,590 shares owned with no restrictions.
- (7) Shares of common stock beneficially owned by Mr. Strobel include 14,324 shares of time-vesting restricted stock subject to forfeiture, all of which Mr. Strobel has the right to vote, 15,859 shares underlying stock options which may be exercised within sixty days of January 8, 2021 and 1,000 shares owned with no restrictions.
- (9) Shares of common stock beneficially owned by Dr. Ishwar include 11,832 shares of time-vesting restricted stock subject to forfeiture, all of which Mr. Ishwar has the right to vote, 44,497 shares underlying stock options which may be exercised within sixty days of January 8, 2021 and 7,202 shares owned with no restrictions.
- (10) Shares of common stock beneficially owned by Mr. Losch include 13,124 shares of time-vesting restricted stock subject to forfeiture, all of which Mr. Losch has the right to vote, 44,646 shares underlying stock options which may be exercised within sixty days of January 8, 2021 and 12,722 shares owned with no restrictions.
- (11) Includes 358,346 shares underlying stock options that may be exercised within sixty days of January 8, 2021, 160,244 shares of restricted stock and 31,300 shares of deferred restricted stock.

**PROPOSALS TO BE VOTED UPON**

**1 through 5. ELECTION OF DIRECTORS**

The Amended and Restated By-Laws of the Company provide that the number of directors constituting the whole board shall be fixed from time to time by resolutions of the Board of Directors, but shall not be less than three nor more than nine directors. By resolution, the Board of Directors has fixed the number of directors at five. The terms of all incumbent directors will expire at the annual meeting. Directors elected at the annual meeting will serve for a term ending at the 2022 annual meeting of stockholders and until their respective successors are elected and qualified.

**Nominees**

Upon the unanimous recommendation of the Corporate Governance and Nominating Committee (the “Governance Committee”), the Board of Directors has nominated five directors who served in fiscal 2020 for election at the annual meeting. The Board of Directors believes that all of its nominees will be available for re-election at the annual meeting and will serve if re-elected. The directors nominated for election (the “Nominated Directors”) are:

<u>Name</u>	<u>Age on 12/31/20</u>	<u>Current Position</u>	<u>Served as Director Since</u>
Robert H. Getz . . . . .	58	Chairman of the Board; Director	2006
Donald C. Campion . . . . .	72	Director	2004
Dawne S. Hickton . . . . .	63	Director	2017
Michael L. Shor . . . . .	61	President and Chief Executive Officer; Director	2012
Larry O. Spencer . . . . .	67	Director	2020

The Board of Directors recommends that stockholders vote FOR the election of all of the Nominated Directors. Unless authority to vote for any Nominated Director is withheld, the accompanying proxy or alternative method of voting will be voted FOR the election of all the Nominated Directors. However, the persons designated as proxies reserve the right to cast votes for another person designated by the Board of Directors in the event that any Nominated Director becomes unable to, or for any reason will not, serve. If a quorum is present, those nominees receiving a majority of the votes cast will be elected to the Board of Directors.

### **Business Experience of Nominated Directors**

**Robert H. Getz** has been a director since March 31, 2006. Mr. Getz serves as Chairman of the Board and as a member of the Compensation and Corporate Governance and Nominating Committees. Mr. Getz is Managing Partner and Founder of Pecksland Capital Partners, a private investment firm. Prior to 2016, Mr. Getz served as a Managing Director and Partner of Cornerstone Equity Investors, LLC, a private equity investment firm which he co-founded in 1996. Prior to the formation of Cornerstone, Mr. Getz served as a Managing Director and Partner of Prudential Equity Investors and Prudential Venture Capital. Mr. Getz has invested in and served on the boards of numerous public and private technology, manufacturing and metals and mining companies. Mr. Getz currently serves on the Board of Directors of Techtronic Industries (HKG:0669), a leading developer and manufacturer of power tools and equipment. He also serves on the board of Ero Copper (TSX:ERO), a copper mining and exploration company. Mr. Getz formerly served as a Director of Jaguar Mining until 2019. He also served as a Director of NewMarket Gold Inc. until 2016 and as Chairman of Crocodile Gold Corp until its merger with NewMarket in 2015. The board believes that Mr. Getz's experience as an investor and extensive record as a director of other public and private companies, as well as his wide variety of operating experience, enable him to lead the board with his valuable perspective on a variety of strategic issues.

**Donald C. Campion** has been a director since August 31, 2004. Mr. Campion also serves as the Chairman of the Audit Committee and as a member of the Compensation Committee of the Board. Mr. Campion has also served on several company boards, both public and private. He currently serves on the board of MasterCraft Boat Holdings, Inc. (NASDAQ: MCFT), a public company, where he is Chairman of the Audit Committee and is a member of the Compensation Committee. Mr. Campion previously served as Chief Financial Officer of several companies, including VeriFone, Inc., Special Devices, Inc., Cambridge, Inc., Oxford Automotive, Inc. and Delco Electronics Corporation. The Board believes Mr. Campion's substantial tax and accounting experience built through his career in finance at several significant corporations, his work in engineering and lean manufacturing and his experience serving as a director of other companies make him well qualified to serve as a director. Mr. Campion's tax and accounting acumen also qualify him as the Company's Audit Committee financial expert.

**Dawne S. Hickton** has been a director since July 1, 2017. Ms. Hickton also serves as Chairperson of the Compensation Committee and a member of the Audit and Corporate Governance and Nominating Committees of the Board. Ms. Hickton is an Executive Vice President and Chief Operating Officer of Jacobs, Critical Missions Solutions line of business (NYSE:J). Serving now in an advisory role, Ms. Hickton is a Founding Partner of Cumberland Highstreet Partners, Inc., an executive strategic consulting firm for manufacturing businesses. Ms. Hickton previously served as Vice Chairman, President and Chief Executive Officer of RTI International Metals, Inc. from 2007 until its sale to Alcoa Corporation in 2015. She was Chair of the board of the Federal Reserve Bank of Cleveland from 2018 to 2020, and was a Director of Triumph Aerospace Group (NYSE:TGI) from 2015 to 2019 and a Director of FNB Corporation (NYSE:FNB) from 2006 to 2013. In addition, she serves on the University of Pittsburgh board of trustees and the board of the Smithsonian National Air & Space Museum. The Board believes that Ms. Hickton's leadership experience in specialty metals, her extensive experience on public boards, as well as her knowledge of Haynes' key markets are benefits to Haynes.

**Michael L. Shor** served as the Company's interim President and Chief Executive Officer from May 29, 2018 through August 31, 2018 and was elected as the Company's President and Chief Executive Officer effective September 1, 2018. Mr. Shor has been a director since August 1, 2012, and served as Chairman of the Board from February 2017 through August 2018. Mr. Shor retired as Executive Vice President—Advanced Metals Operations & Premium Alloys Operations of Carpenter Technology Corporation on July 1, 2011 after a thirty-year career with Carpenter Technology. At Carpenter, Mr. Shor held managerial positions in technology, marketing and operations before assuming full responsibility for the performance of Carpenter's operating divisions. From November 2016 through February 2018, Mr. Shor was a member of the board of AG&E Holdings Inc. (OTC-QB: AGNU), a leading parts distributor and service provider to the casino and gaming industry. The Board believes Mr. Shor's extensive management experience, and specific specialty materials experience, provides valuable insight to lead the Company in its strategic direction, operational excellence and growth initiatives.

**Larry O. Spencer, General, USAF (Ret.)** has served as a director since January 1, 2020 and serves as Chairman of the Corporate Governance and Nominating Committee and a member of the Audit Committee. Mr. Spencer currently serves as President of the Armed Forces Benefit Association and 5Star Life Insurance Company. Mr. Spencer served until March 1, 2019 as President of the United States Air Force Association, a position he held since his retirement as a four-star general in 2015 after serving 44 years with the United States Air Force. Mr. Spencer held positions of increasing responsibility with the Air Force, which included Vice Chief of Staff, the second highest-ranking military member in the Air Force. Mr. Spencer served as Vice Commander of the Oklahoma City Logistics Center where he led repair and overhaul operations for a myriad of Air Force aircraft and engines. Mr. Spencer was also the first Air Force officer to serve as the Assistant Chief of Staff in the White House Military Office, and he served as Chief Financial Officer and Director of Mission Support at a major command. Mr. Spencer has also been a board director of the Whirlpool Corporation since August 2016 and of Triumph Group, Inc. since February 2018. The Board believes it benefits from Mr. Spencer's experiences as a leader of large, complex organizations and global business operations and logistics and his knowledge of aerospace and insights into defense and government affairs.

**The Board of Directors unanimously recommends that stockholders vote *FOR* the election of each of the nominated directors.**

## **Corporate Governance**

### *Board Committee Structure*

The Board of Directors has three standing committees: (i) an Audit Committee; (ii) a Compensation Committee; and (iii) a Corporate Governance and Nominating Committee.

The Audit Committee is currently composed of three members, Messrs. Campion (who chairs the Committee), Spencer and Ms. Hickton, all of whom are independent under the definitions and interpretations of NASDAQ. Under the Audit Committee Charter, adopted by the Board of Directors and available in the investor relations section of the Company's website at [www.haynesintl.com](http://www.haynesintl.com), the Audit Committee is primarily responsible for, among other matters:

- Appointment, retention, termination and oversight, including the approval of compensation, of the Company's independent auditors;
- Pre-approving audit and non-audit services by the independent auditors;
- Reviewing the audit plan and the estimated fees;
- Reviewing and recommending approval to the full Board of securities disclosures and earnings press releases;

- Evaluating and making recommendations to the Board concerning the financial structure and financing strategy of the Company;
- Managing significant risks and exposures (including cybersecurity risks relating to financial reporting) and policies with respect to risk assessment and risk management relating to financial reporting;
- Reviewing operational and accounting internal controls, including any special procedures adopted in response to the discovery of material control deficiencies;
- Reviewing the action taken by management on the internal auditors' and independent auditors' recommendations;
- Reviewing and approving the appointment, reassignment and replacement of the senior internal audit executive;
- Reviewing the qualifications, performance and independence of the independent auditors;
- Reviewing the Company's Code of Business Conduct and Ethics;
- Reviewing and approving the existence and terms of any transactions between the Company and any related party; and
- Performing such additional activities, and considering such other matters, within the scope of its responsibilities, as the Audit Committee or the Board deems necessary or appropriate.

The Compensation Committee is currently composed of three members, Ms. Hickton (who chairs the Committee), and Messrs. Campion and Getz, all of whom are independent under the definitions and interpretations of NASDAQ. Under the Compensation Committee Charter, adopted by the Board of Directors and available in the investor relations section of the Company's website at [www.haynesintl.com](http://www.haynesintl.com), the Compensation Committee is primarily responsible for, among other matters:

- Establishing the Company's philosophy and policies regarding executive and director compensation, and overseeing the development and implementation of executive and director compensation programs;
- Setting the CEO's compensation level and performance goals and approving awards for the CEO under incentive compensation plans based on the performance evaluation conducted by the Board;
- Reviewing and approving the individual elements of total compensation for the executive management of the Company;
- Reviewing and approving revisions to the Company's executive officer salary range structure and annual salary increase guidelines;
- Assuring that the Company's executive incentive compensation program is administered in a manner consistent with the Committee's compensation philosophy and policies as to participation, target annual incentive awards, corporate financial goals and actual awards paid to executive officers;
- Reviewing the Company's employee benefit programs and approving changes, subject, where appropriate, to stockholder or Board approval;
- Overseeing regulatory compliance with respect to compensation matters;
- Reviewing performance of executive officers other than the CEO and overseeing succession planning;



- Overseeing and making recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans;
- Preparing and issuing compensation evaluations and reports; and
- Performing other duties or responsibilities expressly delegated by the Board from time to time relating to the Company's executive compensation programs.

The Corporate Governance and Nominating Committee is currently composed of three members, Mr. Spencer (who chairs the Committee), Mr. Getz and Ms. Hickton, all of whom are independent under the definitions and interpretations of NASDAQ. Under the Governance Committee Charter, adopted by the Board of Directors and available in the investor relations section of the Company's website at [www.haynesintl.com](http://www.haynesintl.com), the Governance Committee is responsible for overseeing the performance and composition of the Board of Directors to ensure effective governance. The Governance Committee identifies and recommends the nomination of qualified directors to the Board of Directors as well as develops and recommends governance principles for the Company. The Governance Committee is primarily responsible for, among other things:

- Overseeing the search for qualified individuals to serve on the Board;
- Recommending to the Board those director nominees who, in the Committee's opinion, the full Board should recommend for stockholder approval at the annual meeting or for election at such other times when vacancies exist or qualified candidates are identified and available;
- Assisting the Board in evaluating the continued suitability and effectiveness of incumbent director candidates, both individually and as a group;
- Overseeing the administration of the Board, including reviewing and recommending the appointment of directors to committees of the Board and monitoring and reviewing the functions of the committees;
- Developing, approving and reviewing the Company's Corporate Governance Guidelines;
- Recommending the organization and structure of the Board;
- Overseeing and reviewing annually the structure and effectiveness of the Board's committee system; and
- Performing any other duties assigned to it by the Board.

#### *Meetings of the Board of Directors and Committees*

The Board of Directors held eleven meetings during the fiscal year ended September 30, 2020. During fiscal 2020, no member of the Board of Directors attended fewer than 75% of the aggregate of meetings of the Board of Directors and meetings of any committee of the Board of Directors of which he or she was a member during his or her tenure as a director. Meetings include those held in person, by telephone or by any available electronic means. Scheduled meetings are supplemented by frequent informal exchanges of information and, on occasion, actions taken by unanimous written consent without meetings. All of the members of the Board of Directors are encouraged and expected to attend Haynes' annual meetings of stockholders. All of the members of the Board of Directors attended

Haynes' 2020 annual meeting in person. The following chart shows the number of meetings in fiscal 2020 of each of the standing committees of the Board of Directors at which a quorum was present:

<u>Committee</u>	<u>Meetings in Fiscal 2020</u>
Audit Committee . . . . .	9
Compensation Committee . . . . .	7
Corporate Governance and Nominating Committee . . . . .	5

*Meetings of Non-Management Directors*

Consistent with NASDAQ governance requirements, the non-management members of the Board of Directors meet in an executive session at least twice per year, and usually in connection with every regularly-scheduled in-person, telephonic or electronic board meeting, to: (a) review the performance of the management team; (b) discuss their views on management's strategic planning and its implementation; and (c) address any other matters affecting the Company that may concern individual directors. The executive sessions are designed to ensure that the Board of Directors is not only structurally independent, but also is given ample opportunity to exercise independent thought and action. In fiscal 2020, the non-management directors met in executive session six times. When meeting in executive session, the presiding person was the Chairman.

*Independence of the Board of Directors and Committee Members*

Except for Mr. Shor, all of the members of the Board of Directors, including each member of the Audit Committee, the Compensation Committee and the Governance Committee, meet the criteria for independence set forth in the rules and regulations of the Securities and Exchange Commission, including Rules 10A-3(b)(1) and 10C-1(b)(1) of the Exchange Act and the definitions and interpretations of NASDAQ. The Board of Directors has determined that Mr. Campion, the Chairman of the Audit Committee, is an "audit committee financial expert" (as defined by Item 407(d)(5)(ii) of Regulation S-K) and is "independent" (under the definitions and interpretations of NASDAQ).

The roles of Chairman and Chief Executive Officer are split into two positions. The Board of Directors believes that separating these roles aligns the Company with best practices for corporate governance of public companies and accountability to stockholders. The Board also believes that the separation of roles provides a leadership model that clearly distinguishes the roles of the Board and management. The separation of the Chairman and Chief Executive Officer positions allows the Company's Chief Executive Officer to direct his or her energy toward operational and strategic issues while the non-executive Chairman focuses on governance, leadership and providing counsel and advice to the Chief Executive Officer. The Company believes that separating the Chairman and Chief Executive Officer positions enhances the independence of the Board, provides independent business counsel for the Company's Chief Executive Officer and facilitates improved communications between Company management and Board members.

*Family Relationships*

There are no family relationships among the directors and executive officers of the Company.

*Conflict of Interest and Related Party Transactions*

It is the Company's policy to require that all conflict of interest transactions between the Company and any of its directors, officers or 5% or greater beneficial owners (each, an "insider") and all transactions where any insider has a direct or indirect financial interest, including related party transactions required to be reported under Item 404(a) of Regulation S-K, must be reviewed and approved or ratified by the Audit Committee of the Board of Directors. Management discloses the

existence of any such transaction to the Audit Committee. In addition, the material terms of any such transaction, including the nature and extent of the insider's interest therein, must be disclosed to the Audit Committee. The Audit Committee will then review the terms of the proposed transaction to determine whether the terms of the proposed transaction are fair to the Company and are no less favorable to the Company than those that would be available from an independent third party. Following the Audit Committee's review and discussion, the proposed transaction will be approved or ratified only if it receives the affirmative votes of a majority of the members of the Audit Committee who have no direct or indirect financial interest in the proposed transaction, even though the disinterested directors may represent less than a quorum. Interested directors may be counted in determining the presence of a quorum at a meeting of the Audit Committee which authorizes the contract or transaction. Haynes did not enter into any transactions in fiscal 2020 with any insider.

#### *Governance Committee and Director Nominations*

Nominees for the Board of Directors are currently recommended for nomination to the Board of Directors by the Governance Committee. The Governance Committee bases its recommendation for nomination on criteria that it believes will provide a broad perspective and depth of experience in the Board of Directors. In general, when considering independent directors, the Governance Committee will consider the candidate's experience in areas central to the Company, such as operational experience in a manufacturing environment, aerospace or specialty metals industry experience, general business management experience, finance and legal acumen and experience and demonstrated leadership capabilities as well as considering the candidate's personal qualities and accomplishments and their ability to devote sufficient time and effort to their duties as directors. Important areas of experience and expertise include manufacturing, international operations, finance and the capital markets, accounting and experience as a director or executive of other companies, or similar experience in a governmental or non-profit setting. The Governance Committee does not have a formal diversity policy but considers diversity as one criteria evaluated as a part of the total package of attributes and qualifications a particular candidate possesses. The Governance Committee construes the notion of diversity broadly, considering differences in viewpoint, professional experience, education, skills and other individual qualities, including gender identity and similar matters, in addition to race, gender, age, ethnicity and cultural background as elements that contribute to a diverse Board. As of September 30, 2020, diverse persons constituted 50% of the independent members of the Board of Directors, and the same directors are nominees for 2021.

The Governance Committee has adopted Corporate Governance Guidelines which establish, among other matters, a mandatory retirement age for Board members of 72, subject to exceptions that may be granted by the Board. An exception was granted for Mr. Champion. In recent years, two directors have retired pursuant to the Board's retirement age policy, which the Board believes demonstrates the Board's adherence to proper board refreshment. In keeping with its commitment to enhancing diversity of viewpoints and background on the Board, the two most recent directors appointed to the Board, each of whom brings substantial experience in the form of executive leadership in the specialty metals industry and the U.S. Air Force, respectively, further the Board's goals of enhancing diversity of viewpoints and experience. The Company benefits from their valuable perspectives on the competitive landscape confronting the Company, emerging trends in the defense and aerospace industry as well as their general leadership skills.

Although the Governance Committee has no formal policy regarding the consideration of director candidates recommended by stockholders, the Committee will consider candidates recommended by stockholders, provided the names of such persons, accompanied by relevant biographical information, are properly submitted in writing to the Secretary of the Company in accordance with the procedure described below for stockholder nominations. Candidates recommended by stockholders are evaluated in the same manner using the same criteria as candidates recommended by the Board or Governance

Committee or individual directors or officers. In any case, the Governance Committee encourages the proposal of diverse candidates.

Stockholders may nominate directors by providing timely notice thereof in proper written form to the Secretary of Haynes. To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at Haynes' principal executive offices (a) in the case of an annual meeting, not less than ninety days nor more than one hundred twenty days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting is called for a date that is not within twenty-five days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which notice of the date of the annual meeting is mailed or public disclosure of the date of the annual meeting is made, whichever first occurs; and (b) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth day following the day on which notice of the date of the special meeting is mailed or public disclosure of the date of the special meeting is made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder, (ii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serving as a director if elected.

#### *Code of Ethics*

The Company has adopted a Code of Business Conduct and Ethics that applies to its Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as well as to its directors and other officers and employees. This Code is posted on the Company's website at [www.haynesintl.com/investor-relations/our-company/code-of-business-conduct-and-ethics](http://www.haynesintl.com/investor-relations/our-company/code-of-business-conduct-and-ethics). The Audit Committee of the Board regularly reviews the Code of Business Conduct and Ethics and is informed of any whistleblower complaints provided thereunder. In addition, the Chief Executive Officer discusses the importance of ethical conduct and compliance with the Code in each quarterly employee meeting or update.

#### *Board of Directors' Role in Risk Oversight*

As a part of its oversight function, the Board of Directors monitors how management operates the Company. The full Board is engaged in the Company's Enterprise Risk Management program, including through regular reporting and discussion, and by working with management to identify and prioritize enterprise risks—the specific financial, operational, business and strategic risks that the

Company faces, whether internal or external. These functions are distributed among the full Board, the committees of the Board and management, as appropriate. Certain strategic and business risks, such as those relating to the Company's products, markets and capital investments (including environmental and social risks), are overseen by the entire Board of Directors. The Audit Committee oversees management of market and operational risks that could have a financial impact, such as those relating to internal controls or liquidity. The Corporate Governance and Nominating Committee manages the risks associated with governance issues, such as the independence of the Board of Directors, and the Compensation Committee manages risks relating to the Company's compensation plans and policies.

In addition to the formal compliance program, the Board of Directors encourages management to promote a corporate culture that understands risk management and incorporates it into the overall corporate strategy and day-to-day business operations of the Company. The Company's risk management structure also includes a standing enterprise risk management committee comprised of members of the executive team and led by the CEO, collectively undertaking an ongoing effort to assess and analyze the most likely areas of future risk for the Company and to address them in its long-term planning process. This committee, or individual members thereof, periodically reports to the Board, and individual members of the committee may also do so on an informal basis.

#### *Communications with Board of Directors*

Stockholders may communicate with the full Board of Directors by sending a letter to Haynes International, Inc. Board of Directors, c/o Corporate Secretary, 1020 West Park Avenue, P.O. Box 9013, Kokomo, Indiana 46904-9013. The Company's Corporate Secretary will review the correspondence and forward it to the chairman of the appropriate committee or to any individual director or directors to whom the communication is directed, unless the communication is unduly hostile, threatening, illegal, does not reasonably relate to the Company or its business or is similarly inappropriate. In addition, interested parties may contact the non-management directors as a group by sending a written communication to the Corporate Secretary as directed above. Such communication should be clearly addressed to the non-management directors.

#### *Changes in 2020 Director Compensation Program*

Directors who are also Company employees do not receive compensation for their services as directors. Following is a description of the Company's compensation program for non-management directors in fiscal 2020. In consultation with its independent compensation consultant, Total Rewards Strategies, the Compensation Committee reviews the compensation paid to non-management directors and recommends changes to the Board of Directors, as appropriate.

In consultation with Total Rewards Strategies, for fiscal 2020, the Compensation Committee initially established a target equity grant amount of \$105,000 for the Chairman of the Board and \$85,000 for each remaining non-employee Director. On November 19, 2019, the Chairman of the Board was granted 2,838 shares of restricted stock and each remaining non-employee director was granted 2,297 shares of restricted stock, pursuant to the Haynes International, Inc. 2016 Incentive Compensation Plan. In December 2019, after reviewing the Company's director compensation program and consulting with its compensation consultant, the Committee recommended and the Board approved an increase in the equity grant amount by \$10,000 in order to increase the equity portion of the total amount of compensation paid to the Company's directors in line with its comparator group. Pursuant to the Haynes International, Inc. 2016 Incentive Compensation Plan, on February 5, 2020, each non-employee director was granted 272 of restricted stock, except for Mr. Spencer who received 2,583 shares of restricted stock, the difference being reflective of the timing of Mr. Spencer's election to the Board of Directors during a blackout period in which his initial grant upon election could not be made. In granting the awards, the Compensation Committee considered information provided by Total

Rewards Strategies on methods of encouraging long-term stock ownership by directors, as well as information regarding how comparator group companies utilized restricted or deferred stock.

In December 2019, after reviewing the Company’s director compensation program and consulting with its compensation consultant, the Board approved a reduction in the annual committee retainer fees, effective January 1, 2020, to \$10,000 each for the Audit Committee members, \$7,500 each for the Compensation Committee members and \$5,000 each for the Corporate Governance and Nominating Committee members

Effective in April 2020, the Board of Directors temporarily reduced all of its cash fees (including committee service-related fees) by 10% in response to the economic impacts of COVID-19. Such reductions will remain in place until otherwise determined.

#### Director Compensation Table

The following table provides information regarding the compensation paid to the Company’s non-employee members of the Board of Directors in fiscal 2020, giving effect to the changes discussed above.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Restricted Stock Awards (\$)<sup>(1)</sup></u>	<u>Dividends on Stock Awards (\$)</u>	<u>Total (\$)</u>
R. H. Getz, Chairman . . . . .	\$108,688	\$112,508	\$7,209	\$228,404
D. C. Campion, Director . . . . .	\$ 93,375	\$ 92,491	\$6,733	\$192,599
J. C. Corey, Director <sup>(2)</sup> . . . . .	\$ 35,417	\$ 84,989	\$3,904	\$124,310
D. S. Hickton, Director . . . . .	\$ 88,250	\$ 92,491	\$7,305	\$188,046
L. O. Spencer, Director . . . . .	\$ 57,063	\$ 71,239	\$1,705	\$130,006
W. P. Wall, Director <sup>(3)</sup> . . . . .	\$ 74,500	\$ 92,491	\$6,613	\$173,604

(1) Represents restricted stock with a grant date fair value equal to \$37.00 per share and \$27.58 per share, which was the closing price of the Company’s common stock on the trading days prior to the date of the grant computed in accordance with FASB ASC Topic 718. The shares of restricted stock are subject to vesting as described more fully under “Director Compensation Program—Equity Compensation”.

(2) Mr. Corey retired as a director at the 2020 Annual Meeting of Stockholders.

(3) Mr. Wall retired as a director on May 1, 2020.

#### Annual Cash Retainer

In fiscal 2020, non-management members of the Board of Directors received a reduced \$57,000 annual retainer related to their Board of Directors duties and responsibilities, which reflects the COVID-related reduction discussed above. The retainer was paid in four installments of \$15,000, \$15,000, \$13,500 and \$13,500. Additionally, there was a \$42,750 annual retainer for serving as Chairman of the Board, similarly reduced, paid in four quarterly installments of \$11,250, \$11,250, \$10,125 and \$10,125.

#### Committee Fees

As noted above, committee service fees were further reduced in April 2020 by the COVID-related reductions in April 2020. In fiscal 2020, directors received an additional annual retainer of \$9,500 for each standing committee on which they served, paid in four quarterly installments of \$2,500, \$2,500, \$2,250 and \$2,250. In addition, there was a \$16,625 annual retainer for serving as the chairman of the Audit Committee, a \$11,875 annual retainer for serving as the chairman of the Compensation Committee and a \$9,500 annual retainer for serving as the chairman of the Corporate Governance and Nominating Committee of the Board of Directors. Each of the amounts noted above reflects the COVID-related reductions effective in April 2020.

### Equity Compensation

Members of the Board of Directors are granted shares of time-based restricted stock annually. Such amounts were adjusted in fiscal 2020 as set forth under “Director Compensation Program”. The shares of restricted stock will vest in full on the earlier of (i) the first anniversary of the grant date, or (ii) the failure of the director to be re-elected at an annual meeting of the stockholders of the Company as a result of the director being excluded from the nominations for any reason other than “cause” as defined in the 2016 Incentive Compensation Plan. Upon their respective retirements, 2,569 restricted shares owned by Mr. Wall vested and 2,297 restricted shares owned by Mr. Corey vested.

The Company has a deferred compensation plan for directors and executives that permits directors to defer up to 100% of their cash retainers and up to 100% of their annual equity grant. Several non-employee directors elected to defer the receipt of shares upon vesting to a later date. Any deferral election also results in deferral of the receipt of dividends throughout the deferral period on deferred restricted stock.

### Director Stock Retention Guidelines

The Board of Directors approved stock ownership guidelines for non-employee members of the Board of Directors effective January 1, 2014. The guidelines provide that directors own common stock equal to 400% of their annual cash retainer within five (5) years of their date of election to the Board. For purposes of this calculation, shares owned by an individual include shares or other equity interests owned directly or indirectly, including those subject to risk of forfeiture (but not forfeited) under the Company’s 2009 Restricted Stock Plan, the 2016 Incentive Compensation Plan, or the 2020 Incentive Compensation Plan, as applicable, and shares subject to a deferral election. The guidelines also provide that directors retain a certain amount of stock (based upon the value of shares owned) after meeting the ownership goal. As of January 8, 2021, given that the guidelines allow for a five (5) year accumulation period, all of the directors to whom the ownership guideline applied met the guideline.

The share ownership amount for each non-employee director as of January 8, 2021 is summarized below and is based on the closing price of the Company’s stock as of January 8, 2021.

<u>Name</u>	<u>Number of Non-vested Shares</u>	<u>All Other Shares</u>	<u>Total Share Ownership</u>	<u>Ownership Value as of 1/8/2021</u>
R. H. Getz . . . . .	5,521	24,685	30,206	\$747,599
D. C. Campion . . . . .	4,638	22,624	27,262	\$674,735
D. S. Hickton . . . . .	4,638	10,369	15,007	\$371,423
L. O. Spencer . . . . .	4,638	2,583	7,221	\$178,720

### Total Compensation

In accordance with the 2020 Incentive Compensation Plan the annual maximum equity award for each director is \$250,000, and the maximum annual total compensation (cash and equity) limit is \$350,000 for each director.

### Expenses

The Company reimburses directors for their reasonable out-of-pocket expenses incurred in attending meetings of the Board of Directors or any committee thereof and other expenses incurred by directors in connection with their service to the Company.

## Indemnification Agreements

Pursuant to individual written agreements, the Company indemnifies all of its directors against loss or expense arising from such individuals' service to the Company and its subsidiaries and affiliates and advances attorneys' fees and other costs of defense to such individuals in respect of claims that may be eligible for indemnification under certain circumstances.

### *Compensation Committee Interlocks and Insider Participation*

The members of the Compensation Committee as of September 30, 2020 were Ms. Hickton, Mr. Campion and Mr. Getz. None of the members of the Compensation Committee are now serving or previously have served as employees or officers of the Company or any subsidiary, and none of the Company's executive officers serve as directors of, or in any compensation related capacity for, companies with which members of the Compensation Committee are affiliated.

## **Executive Compensation**

### *Compensation Committee Report*

The Compensation Committee of the Board of Directors has reviewed and discussed the following Compensation Discussion and Analysis with management and, based on such review and discussion, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

SUBMITTED BY THE COMPENSATION COMMITTEE

Dawne S. Hickton, Chair  
Donald C. Campion  
Robert H. Getz

### *Compensation Discussion and Analysis*

#### 2020 Business Summary

In fiscal 2020, the Company results, which were heavily impacted by both the COVID-19 pandemic and the issues relating to the grounding of the Boeing 737 MAX, were as follows.

- Net revenues of \$380.5 million in fiscal 2020 as compared to \$490.2 million in fiscal 2019 and net loss of \$6.5 million in fiscal 2020 compared to net income of \$9.7 million in fiscal 2019 (which included \$20.9 million in special non-recurring charges).
- Backlog decrease to \$153.3 million at the end of fiscal 2020, down \$81.9 million from \$235.2 million at the end of fiscal 2019.
- Net cash provided from operating activities of \$36.2 million in fiscal 2020 compared to net cash provided from operating activities of \$43.0 million in fiscal 2019, a decrease of \$6.9 million.

#### Overview

This Compensation Discussion and Analysis describes the key principles and approaches used to determine the compensation in fiscal 2020 for Michael L. Shor, the Company's principal executive officer; Daniel W. Maudlin, the Company's principal financial officer; and David L. Strobel, Venkat R. Ishwar and Marlin C. Losch III, the Company's other three most highly compensated executive officers in fiscal 2020, as well as other senior executives. Detailed information regarding the compensation of these named executive officers, who are referred to as "Named Executive Officers" or "NEOs",



appears in the tables following this Compensation Discussion and Analysis. This Compensation Discussion and Analysis should be read in conjunction with those tables.

This Compensation Discussion and Analysis consists of the following parts:

*Responsibility for Executive Compensation Decisions*

*Role of Executive Officers in Compensation Decisions*

*Executive Compensation Philosophy and Principles*

*Committee Procedures*

*Setting Named Executive Officer Compensation in Fiscal 2020*

#### Responsibility for Executive Compensation Decisions

The Compensation Committee of the Board of Directors, whose membership is limited to independent directors, acts pursuant to a Board-approved charter. The Compensation Committee is responsible for approving the compensation programs for all executive officers, including the Named Executive Officers, and making decisions regarding specific compensation to be paid or awarded to them. The Compensation Committee has responsibility for establishing and monitoring adherence to the Company's compensation philosophies and objectives. The Compensation Committee aims to ensure that the total compensation paid to the Company's executives, including the NEOs, is fair, reasonable and competitive. Although the Compensation Committee approves all elements of an executive officer's compensation, it approves equity grants and certain other incentive compensation subject to approval by the full Board of Directors.

#### Role of Executive Officers in Compensation Decisions

No Named Executive Officer participates directly in the determination of his or her compensation. For Named Executive Officers other than himself, the Company's Chief Executive Officer provides the Compensation Committee with performance evaluations and presents individual compensation recommendations to the Compensation Committee, as well as compensation program design recommendations. The Chief Executive Officer's performance is evaluated by the Board of Directors. Mr. Shor's salary was established by the Executive Employment Agreement between Mr. Shor and the Company entered into on September 1, 2018 (as reduced by the 10% temporary salary reduction put in place in April 2020 for the Named Executive Officers and other executive officers of the Company discussed below). The Chief Executive Officer and the Chief Financial Officer work closely with the Compensation Committee on the development of the financial targets and overall compensation awardable to the Named Executive Officers under the Company's Management Incentive Plan ("MIP") as those amounts are determined by reference to the Company's annual operating budget. The Compensation Committee retains the full authority to modify, accept or reject all compensation recommendations provided by management.

#### Executive Compensation Philosophy and Objectives

The Company's compensation program is designed to attract, motivate, reward and retain key executives who drive the Company's success and enable it to consistently achieve corporate performance goals in the competitive high-performance alloy business and increase stockholder value. The Company seeks to achieve these objectives through a compensation package that:

- **Pays for performance:** The MIP provides incentives to the Company's executive officers based upon meeting or exceeding specified short-term financial goals, taking into consideration the ability of the Company's executives to influence financial results. In addition, grants of restricted stock, performance shares and stock options provide an appropriate incentive to produce

stockholder returns through long-term corporate performance, including through the attainment of performance targets applicable to performance share grants.

- Supports the Company's business strategy: The annual bonus provided by the MIP focuses the Company's executive officers on short-term goals, while the Company's equity compensation plans aim to engage management in the Company's long-term performance. The Company believes both of those elements serve to align management interests with creating stockholder value.
- Pays competitively: The Company sets compensation levels so that they are in line with those of individuals holding comparable positions and producing similar results at other multi-national corporations of similar size, value and complexity.
- Values stockholder input: In setting compensation levels, the Company takes into account the outcome of stockholder advisory votes regarding executive compensation.

In addition to aligning management's interests with the interests of the stockholders, a key objective of the Company's compensation plan is mitigating the risk in the compensation package by ensuring that a significant portion of compensation is based on the long-term performance of the Company. This reduces the risk that executives will place too much focus on short-term achievements to the detriment of the long-term sustainability of the Company. The Compensation Committee also values and seeks diversity in the executive team, including the Named Executive Officers. As of September 30, 2020, the ten-person executive team included three diverse members.

As part of its oversight responsibilities, the Compensation Committee, along with a cross-functional team with representatives from Human Resources, Legal and Finance, annually evaluates the risks arising from the Company's compensation policies and practices, with the assistance of its independent compensation consultant. The Committee considered, among other factors, the design of the incentive compensation programs, which are closely linked to corporate performance, the mix of short-term and long-term compensation, the maximum payout levels for short-term and long-term incentives, the distribution of compensation between equity and cash and other factors that mitigate risk. The Committee concluded that the Company's compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

At the Company's 2019 annual meeting of stockholders, the stockholders voted on a non-binding advisory proposal to approve the compensation of the Named Executive Officers. Approximately 96.59% of the shares voted on the proposal were voted in favor of the proposal. In light of the approval by a substantial majority of stockholders of the compensation programs described in the Company's 2019 proxy statement, the Compensation Committee did not implement material changes to the executive compensation programs as a result of the stockholders' advisory vote.

## 2020 Compensation Plan Highlights

The design of the Company's executive compensation program for 2020 was generally consistent with the design of the 2019 program. The following table highlights the features of the program:

- Pay-for-performance philosophy
- Pay positioning philosophy relative to comparator group and mix of base salary and annual and long-term incentive compensation
- Annual incentive compensation metrics
- Change-in-control agreements with best practice features (double-trigger severance, less than three times base salary and target bonus, no tax gross-up, no enhanced retirement benefits)
- Compensation risk assessment
- Performance share awards to enhance the balance of the long-term incentive program, together with stock options and restricted stock
- Relative total shareholder return (TSR) as performance share metric to ensure alignment with shareholders
- Clawback policy consistent with SEC proposed regulations mandated by Dodd Frank
- Share ownership and retention requirement for management and directors
- Limited perquisites

## Committee Procedures

The Compensation Committee retains the services of Total Rewards Strategies, an independent compensation consulting firm, to analyze the compensation and financial data of a comparator group of companies. Total Rewards Strategies also provides the Compensation Committee with alternatives to consider when making compensation decisions and provides opinions on compensation recommendations the Compensation Committee receives from management. Total Rewards Strategies provided analyses and opinions regarding executive compensation trends and practices to the Compensation Committee during fiscal 2019 and fiscal 2020. Total Rewards Strategies did not provide any services to the Company other than compensation consulting to the Compensation Committee in fiscal 2019 or fiscal 2020. Total Rewards Strategies' work for the Company in fiscal 2020 did not raise any conflicts of interest.

## Comparator Group

- The Company uses the comparator group as a reference for its executive compensation program. The Compensation Committee believes the comparator group is representative of the labor market from which the Company recruits executive talent. Factors used to select the comparator group companies include industry segment, market capitalization, revenue, profitability, labor markets, business model, customer markets, institutional ownership and number of employees.
- The Compensation Committee reviews and approves the composition of the comparator group annually. For the 2020 fiscal year, the Committee approved the fiscal 2020 comparator group which is comprised of 24 companies, including industrial metals, mineral and manufacturing companies.

Ampco-Pittsburgh	Insteel Industries	Olympic Steel
CECO Environmental	L.B. Foster	Shiloh Industries
CIRCOR International	Lindsay Corp.	Skyline Champion
Columbus-McKinnon	LSB Industries	Stoneridge
Core Molding Technologies	Materion	Synalloy Corp.
CTS	Myers Industries	Timken Steel
Ducommun	NN	Titan International
Global Brass and Copper	Northwest Pipe	Universal Stainless & Alloy Products

## Market Rates

Among other analyses, Total Rewards Strategies provides the 50<sup>th</sup> percentile, or median, of the comparator group for base salary, cash bonus, long-term incentives and total overall compensation, or the Median Market Rate. The Compensation Committee uses the Median Market Rate as a primary reference point when determining compensation targets for each element of pay. As noted, by changing the composition of its comparator group, the Committee believes it adjusted the Median Market Rate to a level more consistent with the Company's revenue base, market capitalization and performance. When individual and targeted company financial performance is achieved, the objective of the executive compensation program is to provide overall compensation near the Median Market Rate of pay practices of the comparator group of companies. Actual target pay for an individual may be more or less than the Median Market Rate based on the Compensation Committee's evaluation of the individual's performance, experience and potential.

Consistent with the Compensation Committee's philosophy of pay for performance, incentive payments can exceed target levels only if overall Company financial targets are exceeded and will fall below target levels if overall financial goals are not achieved. The Compensation Committee requires appropriate targets to achieve incentive payments in order to promote alignment of interests with the Company's stockholders. In recent years, the Company's financial performance and stock price performance fell below the Compensation Committee's targets, which resulted in the Company's executives foregoing significant incentive payments and equity compensation. The Compensation Committee believes this best ensures that the Company's executives are properly aligned with stockholders. The effectiveness of this approach is demonstrated by the fact that (i) in three of the last five fiscal years, no incentive payments were earned by management due to the Company's underperformance versus the financial targets established by the Compensation Committee, (ii) in two years less than the target was paid out due to underperformance versus target, (iii) approximately 24,550 shares of restricted stock were forfeited as unearned for failure to achieve required performance targets, (iv) 14,993 performance share awards expired without resulting in the earning of shares and (v) 115,500 options expired worthless. The Committee believes its philosophy, and the implementation of that philosophy, is in the best interests of the Company's stockholders, and has resulted in a significant transformation in the focus and effort of its management team under the leadership of Michael Shor, its Chief Executive Officer who began service in May 2018.

## Setting Named Executive Officer Compensation in Fiscal 2020

Michael L. Shor was appointed President and Chief Executive Officer of the Company on September 1, 2018, after serving as interim President and Chief Executive Officer since May 29, 2018. The disclosures regarding Mr. Shor's fiscal 2020 compensation within this section should be read with that background and in conjunction with the disclosures provided under the "CEO Compensation" section and the notes to the "Summary Compensation Table" provided herein.

### *Components of Compensation*

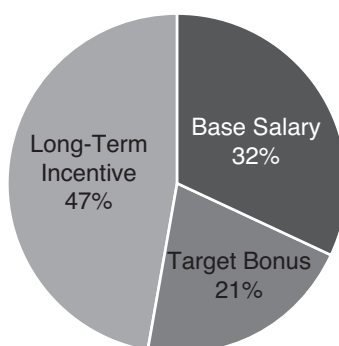
The chief components of each Named Executive Officer's compensation in fiscal 2020 were:

- base salary;
- a performance-based annual incentive award under the MIP;
- long-term compensation awards that include a combination of stock options, time-based restricted stock and performance shares;
- employee benefits, such as life, health and disability insurance benefits, and a qualified savings (401(k)) plan; and

- limited perquisites.

Each element of compensation is designed to achieve a specific purpose and to contribute to a total package that is competitive, appropriately performance-based and valued by the Company's executives. The Compensation Committee reviews information provided by Total Rewards Strategies and the Company's historical pay practices to determine the appropriate level and mix of compensation. In allocating compensation among elements, the Company believes the compensation of the Company's most senior executives, including the Named Executive Officers, who have the greatest ability to influence Company performance, should be predominately performance-based. As a result of this strategy, 68% of the Named Executive Officers' total target compensation, including the Chief Executive Officer's compensation, was allocated to performance-based pay in fiscal 2020.

#### Fiscal 2020 Target Compensation



#### *Base Salary*

The Company provides executives with a base salary that is intended to attract and retain the quality of executives needed to lead the Company's complex businesses. Base salaries for executives are generally targeted at the Median Market Rate of the comparator group, although individual performance, experience, internal equity, compensation history and contributions of the executive are also considered. The Committee reviews base salaries for Named Executive Officers annually and may make adjustments based on individual performance, experience, market competitiveness, internal equity and the scope of responsibilities.

The base salaries of the Named Executive Officers were generally increased at the beginning of fiscal 2020, prior to the implementation of a 10% temporary salary reduction put in place in April 2020 for the Named Executive Officers and other executive officers of the Company in response to the adverse financial impacts of the COVID-19 pandemic. These reductions were reversed effective as of January 1, 2021 for all of the Named Executive Officers other than the Chief Executive Officer, whose salary will remain at the reduced amount until determined otherwise. Other than the reversal of previous reductions, no Named Executive Officer (or other executive officer of the Company) received any salary increase at the beginning of fiscal 2021. More widely across the Company, furloughs and layoffs occurred in fiscal 2020, resulting in the reduction of the Company's workforce by approximately 16%. In addition, most employees were required to take a week of unpaid furlough in the fourth quarter of fiscal 2020 and were required to choose between a 7.7% reduction in pay or a week of unpaid furlough in the first quarter of fiscal 2021. The furlough requirement did not apply to the Named Executive Officers, or any other executive officers of the Company, due to the previous 10% reduction of their base salaries in April 2020.

The following table provides annualized base salary information for the Named Executive Officers effective July 1, 2019 and base salary as of July 1, 2020 as a percentage of the Median Market Rate for 2020:

<u>Named Executive Officer</u>	<u>Base Salary as of July 1, 2019</u>	<u>Base Salary Prior to April 1, 2020</u>	<u>Base Salary as of July 1, 2020</u>	<u>Base Salary as a Percentage of Median Market Rate for 2020</u>
Michael L. Shor . . . . .	\$580,000	\$637,500	\$573,750	77%
Daniel W. Maudlin . . . . .	\$305,000	\$312,000	\$280,800	76%
David L. Strobel . . . . .	\$280,000	\$295,000	\$265,500	86%
Venkat R. Ishwar . . . . .	\$286,000	\$293,000	\$263,700	92%
Marlin C. Losch III . . . . .	\$275,000	\$285,000	\$256,500	87%

*Management Incentive Plan—Annual Cash Incentive*

The purpose of the MIP is to provide an annual cash bonus based on the achievement of specific operational and financial performance targets, tying compensation to the creation of value for stockholders. Target cash bonus awards are determined for each executive position by competitive analysis of the comparator group. In general, the median annual cash bonus opportunity of the comparator group is used to establish target bonus opportunities, but consideration is given to the individual executive’s responsibilities and contributions to business results and internal equity. The MIP allows the Board of Directors discretion to administer the plan, including not paying out any compensation thereunder, accounting for unforeseen one-time transactions or adjusting the performance measures based on external economic factors. No such adjustments were made for fiscal 2020, and no MIP payments were earned. MIP payments are made on a sliding scale in accordance with established performance targets and are earned as of the end of the applicable fiscal year. MIP payments are sometimes referred to herein as a “bonus”.

For fiscal 2020, the target performance level was established by reference to the Company’s consolidated annual operating budget. The annual operating budget is developed by management and presented by the CEO and the CFO to the Board of Directors for its review and approval. The bonus target was intended to represent corporate performance which the Board of Directors believed was more likely than not to be achieved based upon management’s presentation of the annual operating budget. For fiscal 2020, the Compensation Committee established a target by reference to the Company’s net income (loss) as the sole financial goal for MIP payouts. The Board of Directors did not make any changes to the 2020 net income targets or thresholds in response to the economic effects of COVID-19.

The Board of Directors establishes income and performance goals in order the align the interests of management with those of the Company’s stockholders. Based upon fiscal 2019’s net income and 2020’s net loss, MIP payments in excess of the minimum threshold but less than target were made for fiscal year 2019, and no payment was made for fiscal 2020.

The table below lists the 2020 MIP incentive awards that could have been earned at the minimum, target and maximum levels by each Named Executive Officer as a percentage of his base salary:

<u>Named Executive Officer</u>	<u>MIP Incentive as % of Base Salary</u>		
	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Michael L. Shor . . . . .	40.0%	80.0%	120.0%
Daniel W. Maudlin . . . . .	32.5%	65.0%	97.5%
David L. Strobel . . . . .	30.0%	60.0%	90.0%
Venkat R. Ishwar . . . . .	25.0%	50.0%	75.0%
Marlin C. Losch III. . . . .	25.0%	50.0%	75.0%

The following table sets forth the targets for net income (loss), as well as actual net income (loss) for fiscal 2020:

<u>(\$ in thousands)</u>	<u>Net Income</u>
Threshold . . . . .	\$10,500
Target . . . . .	\$21,000
Maximum . . . . .	\$28,000
Fiscal 2020 Actual Net Loss . . . . .	\$(6,478)

The Compensation Committee and the Board of Directors made some changes to the MIP structure for fiscal 2021 in response to the economic effects of the COVID-19 pandemic. The fiscal 2021 MIP program includes operating cash flow and net income metrics.

*Long-Term Incentives*

Stockholders approved the 2016 Incentive Compensation Plan on March 1, 2016, and the 2020 Incentive Compensation Plan on February 25, 2020. In fiscal 2020, grants were made under the 2016 Plan until stockholder approval of the 2020 Plan. The plans provide the Company with a means to grant compensation awards designed to attract and retain key management, including the Named Executive Officers. The Compensation Committee administers the plans and believes awards available under the plans provide an appropriate incentive to produce superior returns to stockholders over the long term by offering participants an opportunity to benefit from stock appreciation through stock ownership.

Competitive benchmarking to the comparator group, the executive’s responsibilities and the individual’s contributions to the Company’s business results determine the level of long-term compensation. In general, the median value of long-term compensation in the comparator group is used to determine the approximate value of long-term incentives. Fair value methodologies, which are consistent with the Company’s expensing of equity awards under Financial Accounting Standards Board ASC Topic 718 Compensation—Stock Compensation, were used in fiscal 2020 to determine the value of stock options.

The Company currently does not have any formal plan requiring it to grant equity compensation on specified dates. With respect to newly hired or promoted executives, the Company’s practice is typically to consider stock equity grants at the first meeting of the Compensation Committee and Board of Directors following such executive’s hire date. The recommendations of the Compensation Committee are subsequently submitted to the Board of Directors for approval. The Company’s policy is to issue equity grants at a time when the Company is in an “open window” for trading purposes, which customarily occurs two days after the filing of the Company’s required quarterly and annual reports with the Securities and Exchange Commission, and that the grant value of all equity awards is equal to

the fair market value on the date of grant, which is determined using the closing price on the trading day prior to the grant date. The Compensation Committee considers whether or not to grant additional equity awards to the management team on an annual basis. In addition, a pool of shares (initially in the amount of 5,000 shares but decreasing over time as grants are made) is available for management to provide “spot grants” to employees based upon performance.

The amount of equity compensation for the Named Executive Officers and other executive officers is determined by the Committee as part of the total mix of compensation, including base salary, long-term incentive compensation and short-term incentive compensation. The Committee uses information provided by its compensation consultant regarding the composition and median value of equity compensation for equivalent executive officers in the comparator group as a reference point in its analysis of appropriate equity compensation for the CEO and the other Named Executive Officers. The Committee then applies its judgment and experience to balance the following factors in determining equity compensation for the CEO and the other Named Executive Officers:

- responsibilities and duties of the relevant officer;
- individual performance;
- Company performance;
- stockholder return;
- internal pay equity;
- individual potential; and
- retention risk.

The Committee believes that a combination of performance shares, time-based restricted stock and stock options aligns the executive’s interests with those of the stockholders and provides an appropriate balance between long-term stock price appreciation and executive retention. In fiscal 2020, the regular annual equity grants to the NEOs consisted of thirty-three percent (33%) stock options, thirty-three percent (33%) performance shares and thirty-three percent (33%) time-based restricted stock.

#### *Clawback Policy*

The Board of Directors has adopted a clawback policy that is consistent with the currently proposed SEC regulations mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The clawback policy provides for recoupment of performance-based executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under federal securities laws. The policy applies to current and former executives and requires reimbursement or forfeiture of any excess performance-based compensation received by an executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement.

If needed to comply with the final regulations when issued, the Board of Directors will make changes to that policy.

#### *Anti-Pledging and Anti-Hedging Policies*

Pledging is the practice in which a director or executive secures a loan by using equity compensation obtained from the Company as collateral to secure the loan (“Pledging”). Any director, executive officer or other employee of the Company is prohibited from Pledging. In addition, directors, executive officers and key employees of the Company are prohibited from trading in any interest or position relating to the future price of the Company’s securities, such as a put, call or short sale.



### *Stock Ownership and Retention Guidelines*

The Board of Directors has approved stock ownership guidelines applicable to executive officers and members of the Board of Directors. The guidelines established the goal that, within five (5) years from the date of hiring, promotion or election, executive officers and directors each own an amount of the Company's common stock determined based upon a multiple of base salary, in the case of executive officers, or annual retainer, in the case of board members. The multiples are as follows: in the case of the Chief Executive Officer, 300% of base salary; in the case of all other Named Executive Officers, 200% of base salary; in the case of other executive officers, 100% of base salary; and in the case of non-employee members of the Board of Directors, 400% of annual cash retainer. The calculation of shares owned by an individual includes shares or other equity interests owned directly or indirectly, including those subject to risk of forfeiture (but not forfeited) under the Company's 2016 or 2020 Incentive Compensation Plan, as applicable, including performance shares at target amount, whether or not then earned, shares subject to a deferral election and shares subject to exercisable stock options with exercise prices lower than then current market value. The guidelines also require that executive officers and directors retain at all times the required amount of stock (based upon value of shares owned) after first meeting the ownership goal. As of September 30, 2020, given the five (5) year accumulation period permitted by the guidelines, all of the executive officers of the Company, including the Named Executive Officers, to whom the guidelines are applicable were in compliance with the guidelines.

### *Stock Options*

All options granted to the Company's NEOs vest in three equal annual installments on the first, second and third anniversaries of the grant date. The Company currently grants stock option awards under the 2020 Incentive Compensation Plan. Upon departure from the Company, executives retain the options; provided that, in the event of termination of employment due to death, disability (as defined in the 2016 and 2020 Plans) or retirement (as defined in the 2016 and 2020 Plans), the options remain exercisable for five years following the date of the event; in the case of termination for cause (as defined in the 2016 and 2020 Plans), the options are forfeited and no longer exercisable; and in the case of termination of employment for any reason other than those noted above, the options remain exercisable for a period of, in the case of the CEO, six months following the date of termination, or in the case of any other NEO, ninety days following the date of termination.

The Compensation Committee granted stock options to the management team, including the Named Executive Officers, in November 2019. The Compensation Committee believes that the stock options, in conjunction with the other elements of compensation described herein, align management's interests with those of the stockholders and will provide no return whatsoever if stockholders do not also realize gains. In determining the number of shares underlying the options to be granted to the Named Executive Officers, the Compensation Committee established the value of such shares underlying the options at \$9.66 for the November 2019 grant using a fair value methodology. The Compensation Committee then set a total pool of options for grant to all executive officers of approximately \$0.9 million for the November 2019 grant.

### *Restricted Stock and Performance Shares*

Grants of restricted stock and performance shares vest in accordance with the terms and conditions established by the Compensation Committee. In fiscal 2020, the Compensation Committee set restrictions on the vesting of the performance share grants based on the achievement of specific performance goals, while vesting of the restricted stock grants is time-based.

Restricted stock and performance share grants are subject to forfeiture if employment or service terminates prior to the end of the vesting period or, in the case of performance shares, if performance

goals are not met. The Company assesses, on an ongoing basis, the probability of whether performance criteria will be achieved. The Company will recognize compensation expense over the performance period if it is deemed probable that the goal will be achieved. The fair value of the Company's restricted stock is determined based upon the closing price of the Company's common stock on the trading day before the grant date. The plan provides for the adjustment of the number of shares covered by an outstanding grant and the maximum number of shares for which restricted stock may be granted in the event of a stock split, extraordinary dividend or distribution or similar recapitalization event. Outstanding shares of restricted stock are entitled to receive dividends on shares of common stock after the grant date, but no other type of equity compensation award is entitled to receive dividends until after vesting or exercise, as applicable.

#### ***2018 Fiscal Year Performance Share Awards***

On November 21, 2017, executives, including the Named Executive Officers (other than Mr. Shor and Mr. Strobe who were not then NEOs), were also granted awards of a target amount of performance shares. The actual number of shares that were ultimately earned, as well as the number of shares of common stock that would be distributed in settling those performance shares, was determined at the end of a three-year performance period starting on October 1, 2017 and ending on September 30, 2020 based on the relative total shareholder return (TSR) of the Company compared to the 2018 TSR Peer Group. The total number of performance shares earned and shares of common stock distributed could range from 0% to 200% of the target amount of performance shares granted. Participants were required to be employees at the end of the performance period to receive a payout, except in the event of death, disability or a change in control. Participants received shares equal to 86.11% of the award amount based upon the Company's stock performance versus the stock of other companies in the TSR Peer Group.

The 2018 TSR Peer Group for the 2018 fiscal year performance share granted consisted of the following companies: Allegheny Technologies, Carpenter Technology, Commercial Metals, Global Brass & Copper, Insteel Industries, Kaiser Aluminum, Materion Corporation, Olympic Steel, Timken Steel and Universal Stainless & Alloy Products.

#### ***2020 Fiscal Year Grants***

On November 19, 2019, executives, including the Named Executive Officers, were granted time-based restricted stock. Participants must be employees at the end of the three year vesting period to have continuing rights to the awarded stock, except in the event of death, disability or a change in control.

On September 15, 2020, executives, including the Named Executive Officers were granted additional time-based restricted stock. For these shares, participants must be employees at the end of a one year vesting period for 50% of this grant and at the end of a two year vesting period for the remaining 50% of this grant. These grants were not made in replacement of any potential cash bonus payments foregone due to the Company's performance during fiscal 2020. In fact, at the time these grants were made, it was still possible that cash bonus payments could have been earned. Instead, the grants were made in part to reward the Named Executive Officers for performance during the downturn and promote retention during difficult historically unprecedented economic times and particularly challenging circumstances in the Company's industry, recognizing the value of the participants to the Company and the difficulty of replacing any of them at that time. In addition, the grants were made to motivate continued focus on safety, operations improvements and cost reduction during the difficult economic conditions resulting from the COVID-19 pandemic, further aligning the participants' interests with the Company's shareholders. The number of shares of time-based restricted stock granted in fiscal 2020 are listed in the "Grants of Plan-Based Awards Table" on page 32.

On November 21, 2019, executives, including the Named Executive Officers, were also granted awards of a target amount of performance shares. The actual number of shares that may ultimately be earned, as well as the number of shares of common stock that may be distributed in settling those performance shares, are determined at the end of a three-year performance period starting October 1, 2019 and ending September 30, 2022, based on the relative total shareholder return (TSR) of the Company compared to the 2020 TSR Peer Group. The total number of performance shares earned and shares of common stock distributed can range from 0% to 200% of the target amount of performance shares granted. Participants must be employees at the end of the performance period to receive a payout, except in the event of death, disability or a change in control.

Relative TSR compares the results of investing in common stock of the Company versus the stock of other companies in the TSR Peer Group considering both the appreciation or depreciation in share price as well as the value of dividends distributed during the three-year time period. Share price is calculated at the beginning and end of the period using the average closing price for the twenty (20) business days immediately prior to the start of the performance period (October 1) and immediately prior to the end of the performance period (September 30).

The relative TSR performance metric for the 2020 - 2022 performance period is determined as follows:

<u>Haynes TSR Versus TSR Peer Group</u>	<u>Payout % of Target Award</u>
50th %ile to 100th %ile	2.0x Haynes Percentile Ranking
30th %ile to 49th %ile	50% + (2.5x {Haynes Percentile Ranking—30%})
<30th percentile	0.0%

The 2020 TSR Peer Group is comprised of the following companies: Arconic, Inc.; Allegheny Technologies Incorporated; Carpenter Technology Corporation; Commercial Metals Company; Insteel Industries Inc.; Kaiser Aluminum Corporation; Materion Corporation; Olympic Steel, Inc; and Universal Stainless & Alloy Products, Inc.

On November 19, 2019, executives, including the Named Executive Officers, were granted stock options that expire after ten years. The options vest 33⅓% per year over three years from the date of grant. The number of options and exercise prices are listed in the “Grants of Plan-Based Awards Table” on page 32.

#### *Benefits*

The Named Executive Officers are eligible for the same level and offering of benefits made available to other employees, including the Company’s 401(k) plan (which provides for a matching contribution to be made by the Company), health care plan, life insurance plan and other welfare benefit programs. The Company pays premiums for life insurance for each of the Named Executive Officers. The Company’s benefits are designed to be competitive with other employers in the central/northern Indiana region to enable it to compete for and retain employees.

In addition, the Company maintains the Haynes International, Inc. Pension Plan, a defined benefit pension plan for the benefit of certain eligible domestic employees, including certain of the Named Executive Officers who were hired prior to December 31, 2005. As of December 31, 2005, the Pension Plan was closed to new salaried employees and, as of December 31, 2007, the benefits of all salaried participants in the Pension Plan were frozen, and no further benefits will accumulate.

#### *Perquisites*

The Company historically provided limited perquisites to certain executives to allow those executives to increase their efficiency in business and community development opportunities. In recent

years, the Company determined that those perquisites were not required and decided to eliminate them over time. All perquisites were eliminated before or during fiscal 2020. In fiscal 2020, those perquisites consisted of a country club membership for Mr. Losch, which membership was canceled in January of 2020, and automobile allowances for Mr. Losch and Mr. Ishwar, which were cancelled in January of 2020. In fiscal 2020, no single perquisite exceeded \$10,000 per person.

#### *Non-Qualified Deferred Compensation Plan*

The Compensation Committee approved implementation of a non-qualified deferred compensation plan for independent directors and executive officers effective November 20, 2017. The plan provides the opportunity to defer current compensation and taxes until a future date, and to receive tax deferred investment returns on deferred amounts. The plan allows directors to defer up to 100% of their annual cash retainers and up to 100% of their annual equity grants. The plan allows eligible employees to defer up to 80% of their base salary, up to 100% of MIP and up to 100% of Long Term Incentive awards.

#### *CEO Compensation*

The Company entered into an Employment Agreement on September 1, 2018, under which Mr. Shor agreed to serve as the President and Chief Executive Officer of the Company on a full-time basis for an initial term ending on September 30, 2020, provided that the initial employment term automatically extends for additional one-year periods commencing on October 1, 2020 and on each anniversary thereafter, unless the Board or Mr. Shor provides written notice to the other to the contrary at least 90 days prior to the end of the then current term.

Under the terms of Mr. Shor's September 1, 2018 Employment Agreement, Mr. Shor is (a) entitled to receive a base salary at a rate of \$580,000 per year, subject to adjustment as approved by the Compensation Committee (b) eligible to receive an annual bonus ranging from 40% to 120% of Mr. Shor's base salary (with the target amount set at 80%), based upon the achievement by the Company of specific performance requirements measured over the Company's fiscal year, as determined by the Compensation Committee, (c) eligible for grants of equity awards under the Company's equity incentive plans in the sole and absolute discretion of the Board and (d) entitled to reimbursement for certain travel and relocation expenses. Mr. Shor is also entitled to participate in the Company's benefit plans and programs provided to Company executives generally, subject to eligibility requirements and other terms and conditions of those plans. In addition, the Company must use reasonable efforts to secure term life insurance coverage for Mr. Shor in an amount not less than four times his annual salary, subject to certain stipulations. The September 1, 2018 Employment Agreement terminated Mr. Shor's interim Employment Agreement, provided that the equity awards granted to Mr. Shor pursuant to his interim Employment Agreement dated May 29, 2018, remained outstanding on the terms of the relevant award agreements and, to the extent earned, Mr. Shor remained entitled to payment of the MIP bonus provided under the interim agreement. All of the incentive compensation payable pursuant to the September 1, 2018 Employment Agreement is subject to recoupment under the terms of the Company's Clawback Policy.

Mr. Shor's salary, as well as those of the other Named Executive Officers, was reduced by 10% as of April 2020. His salary will remain at that reduced rate until determined otherwise by agreement of Mr. Shor and the Compensation Committee.

#### *Tax Implications of the Compensation Committee's Compensation Decisions*

Section 162(m) of the Internal Revenue Code ("Code") generally limits tax deductibility of compensation paid by a public company to its chief executive officer and certain other executive officers in any year to \$1 million in the year compensation becomes taxable to the executive. Prior to

the 2017 Tax Cuts and Jobs Act, certain compensation was exempt from the deduction limit to the extent it met the requirements to be considered “qualified performance-based compensation” as previously defined in Section 162(m). The 2017 Tax Cuts and Jobs Act eliminated that exemption. Certain arrangements entered into prior to November 2, 2017 are considered “grandfathered” and compensation paid under such arrangements will continue to be deductible until the arrangements are materially modified.

The Compensation Committee has historically considered Section 162(m) in the design of incentive plans to preserve the corporate tax deductibility of compensation. However, in light of the changes to Section 162(m), the Committee anticipates that a larger portion of future compensation paid to the Company’s NEOs will be subject to a tax deduction disallowance under Section 162(m). The Compensation Committee recognizes that factors other than tax deductibility should be considered in determining the forms and levels of executive compensation most appropriate and in the best interests of the Company and its stockholders. Annually, the Compensation Committee reviews all compensation programs and payments, including the tax impact on the Company.

#### *Compensation Tables and Narrative Disclosure*

The following tables, footnotes and narratives provide information regarding the compensation, benefits and equity holdings in the Company for the persons who acted as CEO, CFO and the other Named Executive Officers in fiscal 2020.

##### Summary Compensation Table

The narrative and footnotes below describe the total compensation disclosed in the below Summary Compensation Table for fiscal 2018, 2019 and 2020 to the Named Executive Officers. For information on the role of each element of compensation within the total compensation package, please see the discussion above under “Compensation Discussion and Analysis”.

*Salary*—This column represents the base salary earned during fiscal 2018, 2019 and 2020, including any amounts invested by the Named Executive Officers in the Company’s 401(k) plan. Base salary for fiscal 2020 reflects the 10% reduction in salary effective as of April 2020.

*Stock Awards*—This column represents the fair value of the restricted stock and performance share grants, computed in accordance with FASB ASC Topic 718.

*Option Awards*—This column represents the compensation expense the Company recognized for financial statement reporting purposes, computed in accordance with Financial Accounting Standards Board ASC Topic 718, with respect to stock options granted in fiscal 2018, 2019 and 2020. For options issued in fiscal 2018, 2019 and 2020, compensation expense was calculated using a fair value methodology and recognized over the vesting period of the stock option.

*Non-Equity Incentive Plan Compensation*—This column represents cash bonuses earned in fiscal 2018, 2019 and 2020 by the Named Executive Officers under the 2017, 2018 and 2019 MIP.

*Change in Pension Value and Nonqualified Deferred Compensation Earnings*—This column represents the actuarial increase during fiscal 2018, 2019 and 2020 in the pension value for the Named Executive Officers under the Haynes International, Inc. Pension Plan. A description of the Pension Plan can be found below under “Pension Benefits”.

*All Other Compensation*—This column represents all other compensation paid or provided to the Named Executive Officers for fiscal 2018, 2019 and 2020 not reported in previous columns, such as the

Company's matching contributions to 401(k) plans, payment of insurance premiums and costs of providing certain perquisites and benefits.

Name and Principal Position	Year	Salary	Stock Awards <sup>(2)</sup>	Options <sup>(3)</sup>	Non-Equity Incentive Plan Compensation <sup>(4)</sup>	Change in Pension	All Other Comp <sup>(5)</sup>	Total
M. L. Shor <sup>(1)</sup> President & CEO	2020	\$606,750	\$1,049,958	\$339,964	—	—	\$ 46,459	\$2,043,131
	2019	\$579,616	\$ 718,341	\$659,292	\$352,971	—	\$108,898	\$2,419,118
	2018	\$138,462	\$ 297,064	\$208,800	\$ 46,167	—	\$102,426	\$ 792,919
D. W. Maudlin VP of Finance & CFO	2020	\$297,438	\$ 325,140	\$ 93,586	—	\$ 13,421	\$ 26,072	\$ 755,657
	2019	\$304,530	\$ 212,460	\$210,240	\$150,812	\$ 18,645	\$ 24,843	\$ 921,525
	2018	\$280,395	\$ 186,591	\$ 56,492	\$ 93,229	—	\$ 24,882	\$ 641,589
D. L. Strobel VP of Manufacturing	2020	\$281,039	\$ 270,864	\$ 68,828	—	—	\$ 22,514	\$ 643,244
	2019	\$279,903	\$ 151,744	\$209,072	—	—	\$ 14,893	\$ 655,612
	2018	\$ 5,288	\$ 35,340	\$ 55,150	—	—	—	\$ 95,778
V. R. Ishwar VP Marketing and Technology	2020	\$279,315	\$ 242,178	\$ 68,364	—	\$117,399	\$ 26,684	\$ 733,940
	2019	\$285,865	\$ 154,979	\$185,476	\$108,787	\$142,969	\$ 34,905	\$ 912,976
	2018	\$278,895	\$ 162,025	\$ 49,187	\$ 77,275	—	\$ 35,893	\$ 603,275
M. C. Losch III VP Sales and Distribution	2020	\$271,615	\$ 265,753	\$ 66,490	—	\$ 65,173	\$ 30,885	\$ 699,916
	2019	\$274,867	\$ 149,016	\$207,905	\$104,598	\$ 93,517	\$ 33,972	\$ 863,875
	2018	\$267,996	\$ 156,927	\$ 47,239	\$ 74,256	—	\$ 26,624	\$ 573,042

(1) Mr. Shor became interim President and Chief Executive Officer on May 29, 2018 and became permanent President and Chief Executive Officer on September 1, 2018.

(2) The amounts listed in the table include restricted stock and performance share awards (PSAs) as valued in accordance with FASB ACS Topic 718. PSAs are valued based on the target number of share awards at grant date which is less than the maximum potential share awards that may be granted at the end of the performance period. If the maximum number of share awards is granted, the stock award amount granted in fiscal 2020 will be \$1,455,425 for M. Shor, \$436,745 for D. Maudlin, \$352,946 for D. Strobel, \$323,730 for M. Losch III, and \$345,054 for V. Ishwar.

(3) The options issued in fiscal 2018, 2019 and 2020 were valued pursuant to FASB ASC Topic 718 using a fair value methodology.

(4) No amounts were earned in fiscal 2020 under the 2020 MIP. Please see the discussion of the MIP under "Compensation Discussion and Analysis".

(5) Amounts shown in the "All Other Compensation" column include the following:

Name	Year	Dividends On Restricted Stock	Life Insurance	Disability Insurance	401(k) Company Match	401(m) Company Match	Other	Total
M. L. Shor	2020	\$22,062	\$3,960	\$8,697	\$11,740	—	—	\$ 46,459
	2019	\$12,544	\$3,960	\$6,368	\$13,480	\$2,326	\$70,220	\$108,898
	2018	\$ 6,732	\$ 570	\$1,017	—	—	\$94,107 <sup>(1)</sup>	\$102,426
D. W. Maudlin	2020	\$ 8,534	\$2,135	\$5,657	\$ 9,746	—	—	\$ 26,072
	2019	\$ 6,792	\$2,196	\$5,497	\$10,358	—	—	\$ 24,838
	2018	\$ 7,502	\$2,023	\$5,492	\$ 9,865	—	—	\$ 24,882
D. L. Strobel	2020	\$ 5,640	\$2,020	\$4,870	\$ 9,984	—	—	\$ 22,514
	2019	\$ 2,572	\$1,764	\$1,623	\$ 8,934	—	—	\$ 14,893
	2018	—	—	—	—	—	—	—
V. R. Ishwar	2020	\$ 6,655	\$2,005	\$6,045	\$ 9,579	—	\$ 2,400	\$ 26,684
	2019	\$ 5,578	\$2,059	\$5,886	\$ 9,536	\$ 204	\$11,642	\$ 34,905
	2018	\$ 6,842	\$2,009	\$6,858	\$ 9,449	\$ 802	\$ 9,933	\$ 35,893
M.C. Losch III	2020	\$ 6,787	\$1,951	\$6,452	\$11,436	—	\$ 4,259	\$ 30,885
	2019	\$ 5,380	\$1,980	\$6,281	\$ 5,668	\$2,133	\$12,530	\$ 33,972
	2018	\$ 6,622	\$1,937	\$6,281	\$ 4,584	—	\$ 7,200	\$ 26,624

(1) Included, in the case of Mr. Shor only, relocation expenses of \$68,013 as well as rent reimbursement of \$2,206.

## Grants of Plan-Based Awards in Fiscal 2020

During fiscal 2020, the Named Executive Officers received four types of plan-based awards:

*Management Incentive Plan*—On November 19, 2019, the Named Executive Officers were awarded grants under the Company's 2020 MIP. Under the plan, certain employees of the Company, including the Named Executive Officers, were eligible for cash awards if the Company met certain net income targets established by the Compensation Committee for fiscal 2020. The amount of the cash awards could range between 40% and 120% of base salary for Mr. Shor, 25% and 75% of base salary for Messrs. Ishwar and Losch; 32.5% and 97.5% for Mr. Maudlin and 30% and 90% for Mr. Strobel, depending on the level of net income earned by the Company compared to the targeted amount.

*Stock Options*—Non-qualified options were granted to the Named Executive Officers on November 19, 2019 under the Haynes International, Inc. 2016 Incentive Compensation Plan. Each option vests in three equal installments on the first, second and third anniversaries of the grant date, remains exercisable for ten years and has an exercise price equal to the closing stock price on the trading day prior to the date of grant.

*Restricted Stock*—On November 19, 2019, executives, including the Named Executive Officers, were granted restricted stock under the Haynes International, Inc. 2016 Incentive Compensation Plan which are subject to time-based vesting and will vest on the third anniversary of the date of grant, if the participant is then employed by the Company, except in the event of death, disability or a change in control.

On September 15, 2020, executives, including the Named Executive Officers were granted restricted stock under the Haynes International, Inc. 2020 Incentive Compensation Plan which are subject to time-based vesting and will vest on the first and second anniversary of the date of the grant for 50% of the grant, each.

*Performance Share Awards*—On November 19, 2019, executives, including the Named Executive Officers, were granted awards of a target amount of performance shares. The actual number of performance shares that may ultimately be earned, as well as the number of shares of common stock that may be distributed in settling those performance shares, are determined at the end of a three-year performance period and will depend on the calculated total shareholder return of the Company at the end of the performance period as compared to the total shareholder return of a peer group of ten companies. The total performance shares earned and shares of common stock distributed can range from 0% to 200% of the target amount granted. Participants must be employees at the end of the performance period to receive a payout, except in the event of death, disability or a change in control.

## Grants of Plan-Based Awards Table

Name and Princ Pos	Grant Type	Date	Est. Future Pay Under Inc. Plan			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock	All Other Options	Ex or Base Price of Option <sup>(2)</sup>	Grant Date FV of Stock & Option <sup>(3)</sup>
			Threshold	Target	Max	Threshold	Target	Max				
M. L. Shor . . . . .	MIP	11/19/19	\$255,000	\$510,000	\$765,500							
	Option	11/19/19							35,193	\$37.00	\$339,964	
	Restr. Stock-Time based	11/19/19						9,191			\$644,492	
	Performance Share Awards <sup>(1)</sup>	11/19/19				—	9,188	18,376	—		\$405,466	
	Restr. Stock-Time based	09/15/20							16,500			
D. Maudlin . . . . .	MIP	11/19/19	\$101,400	\$202,800	\$304,200							
	Option	11/19/19							7,125	\$37.00	\$ 68,828	
	Restr. Stock-Time based	11/19/19						2,530			\$213,535	
	Performance Share Awards <sup>(1)</sup>	11/19/19				—	2,529	5,058			\$111,605	
	Restr. Stock-Time based	09/15/20							6,500			
D. L. Strobel . . . . .	MIP	11/19/19	\$ 88,500	\$177,000	\$265,500							
	Option	11/19/19							7,125	\$37.00	\$ 68,828	
	Restr. Stock-Time based	11/19/19						1,861			\$188,782	
	Performance Share Awards <sup>(1)</sup>	11/19/19				—	1,860	3,720			\$ 82,082	
	Restr. Stock-Time based	09/15/20							6,500			
V. R. Ishwar . . . . .	MIP	11/19/19	\$ 73,250	\$146,500	\$219,750							
	Option	11/19/19							7,077	\$37.00	\$ 68,364	
	Restr. Stock-Time based	11/19/19						1,848			\$160,626	
	Performance Share Awards <sup>(1)</sup>	11/19/19				—	1,848	3,696			\$ 81,552	
	Restr. Stock-Time based	09/15/20							5,000			
M. C. Losch III . . . . .	MIP	11/19/19	\$ 71,250	\$142,500	\$213,750							
	Option	11/19/19							6,883	\$37.00	\$ 66,490	
	Restr. Stock-Time based	11/19/19						1,798			\$186,451	
	Performance Share Awards <sup>(1)</sup>	11/19/19				—	1,797	3,594			\$ 79,302	
	Restr. Stock-Time based	09/15/20							6,500			

<sup>(1)</sup> Target number of performance shares that have not vested. This column represents the target number of performance share to be earned over a three-year performance period and settled in shares of common stock.

<sup>(2)</sup> The exercise price of each option is equal to the closing market price of shares of common stock on the trading day prior to the grant date.

<sup>(3)</sup> Represents the grant date fair value calculated in accordance with FASB ASC Topic 718, but excludes any forfeiture assumptions related to service-based vesting conditions as prescribed by SEC rules.

## Outstanding Equity Awards at Fiscal Year-End

The table below provides information on the Named Executive Officers' outstanding equity awards as of September 30, 2020. The equity awards consist of stock options, shares of restricted stock (with time-based vesting) and performance share awards. The table includes the following:

*Number of Securities Underlying Unexercised Options (Exercisable)*—This column represents options to buy shares of common stock which are fully vested and subject to forfeiture only with respect to a break in service.

*Number of Securities Underlying Unexercised Options (Unexercisable)*—This column represents options to buy shares of common stock which are not fully vested. All options vest in three equal annual installments on the first, second and third anniversaries of the grant date.

*Option Exercise Price*—All outstanding option exercise prices are equal to the closing market price of shares of common stock on the day prior to grant date.

*Option Expiration Date*—This is the date upon which an option will expire if not yet exercised by the option holder. In all cases, this is ten years from the date of grant.

*Number of Shares or Units of Stock that Have Not Vested and Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested*—All shares of restricted stock and performance share awards granted to the Named Executive Officers in fiscal 2020 are unvested.

*Market Value of Shares or Units of Stock that Have Not Vested and Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested*—The market



value of unvested shares of restricted stock is based upon the September 30, 2020 closing price of the Company's common stock of \$17.09 and is calculated in accordance with FASB ASC Topic 718.

Name	Grant Date	Option Awards				Restricted Stock Awards		Performance Share Awards	
		Number of securities underlying unexercised options (Exercisable) <sup>(1)</sup>	Number of securities underlying unexercised options (Unexercisable)	Option Exercise Price	Option Expiration Date	Number of Shares that Have Not Vested	Market Value of Shares That Have Not Vested	Number of Awards Not Vested <sup>(4)</sup>	Market Value of Shares that Have Not Vested
M. L. Shor	06/01/18	15,000	—	\$42.58	06/01/28	—	—	—	—
	11/21/18	9,717	19,435	\$33.98	11/21/28	9,105 <sup>(2)</sup>	\$155,604	9,102	\$133,949
	05/24/19(a)	4,444	8,889	\$30.54	05/24/29	—	—	—	—
	05/24/19(b)	4,898	9,795	\$33.59	05/24/29	—	—	—	—
	05/24/19(c)	5,379	10,757	\$36.65	05/24/29	—	—	—	—
	11/19/19	—	35,193	\$37.00	11/19/29	9,191 <sup>(2)</sup>	\$157,074	9,188	\$ 91,597
	9/15/20	—	—	—	—	16,500 <sup>(3)</sup>	\$281,985	—	—
D. W. Maudlin	11/25/11	1,200	—	\$55.88	11/25/21	—	—	—	—
	11/20/12	3,300	—	\$47.96	11/20/22	—	—	—	—
	11/26/13	4,000	—	\$52.78	11/26/23	—	—	—	—
	11/25/14	7,500	—	\$46.72	11/25/24	—	—	—	—
	11/24/15	7,300	—	\$37.75	11/24/25	—	—	—	—
	11/22/16	4,800	—	\$40.86	11/22/26	—	—	—	—
	11/21/17	3,867	1,933	\$31.76	11/21/27	2,850 <sup>(2)</sup>	\$ 48,707	—	—
	11/21/18	2,874	5,749	\$33.98	11/21/28	2,693 <sup>(2)</sup>	\$ 46,023	2,692	\$ 39,617
	05/24/19(a)	1,508	3,016	\$30.54	05/24/29	—	—	—	—
	05/24/19(b)	1,662	3,323	\$33.59	05/24/29	—	—	—	—
	05/24/19(c)	1,825	3,650	\$36.65	05/24/29	—	—	—	—
	11/19/19	—	9,688	\$37.00	11/19/29	2,530 <sup>(2)</sup>	\$ 43,238	2,529	\$ 25,212
9/15/20	—	—	—	—	6,500 <sup>(3)</sup>	\$111,085	—	—	
D. L. Strobel	09/17/18	1,667	3,333	\$35.34	9/17/28	1,000 <sup>(2)</sup>	\$ 17,090	—	—
	11/21/18	2,052	4,105	\$33.98	11/21/28	1,923 <sup>(2)</sup>	\$ 32,864	1,923	\$ 28,300
	05/24/19(a)	1,825	3,651	\$30.54	05/24/29	—	—	—	—
	05/24/19(b)	2,012	4,023	\$33.59	05/24/29	—	—	—	—
	05/24/19(c)	2,209	4,418	\$36.65	05/24/29	—	—	—	—
	11/19/19	—	7,125	\$37.00	11/19/29	1,861 <sup>(2)</sup>	\$ 31,804	1,860	\$ 18,543
	9/15/20	—	—	—	—	6,500 <sup>(3)</sup>	\$111,085	—	—
V. R. Ishwar	11/24/10	2,100	—	\$40.26	11/24/20	—	—	—	—
	11/25/11	1,900	—	\$55.88	11/25/21	—	—	—	—
	11/20/12	3,500	—	\$47.96	11/20/22	—	—	—	—
	11/26/13	4,000	—	\$52.78	11/26/23	—	—	—	—
	11/25/14	7,200	—	\$46.72	11/25/24	—	—	—	—
	11/24/15	7,100	—	\$37.75	11/24/25	—	—	—	—
	11/22/16	4,200	—	\$40.86	11/22/26	—	—	—	—
	11/21/17	3,367	1,683	\$31.76	11/21/17	2,500 <sup>(2)</sup>	\$ 42,725	—	—
	11/21/18	2,096	4,193	\$33.98	11/21/28	1,964 <sup>(2)</sup>	\$ 33,565	1,964	\$ 28,903
	05/24/19(a)	1,508	3,016	\$30.54	05/24/29	—	—	—	—
	05/24/19(b)	1,662	3,323	\$33.59	05/24/29	—	—	—	—
	05/24/19(c)	1,825	3,650	\$36.65	05/24/29	—	—	—	—
11/19/19	—	7,077	\$37.00	11/19/29	1,848 <sup>(2)</sup>	\$ 31,582	1,848	\$ 18,423	
9/15/20	—	—	—	—	5,000 <sup>(3)</sup>	\$ 85,450	—	—	
M. C. Losch II	11/24/10	2,300	—	\$40.26	11/24/20	—	—	—	—
	11/25/11	1,900	—	\$55.88	11/25/21	—	—	—	—
	11/20/12	3,400	—	\$47.96	11/20/22	—	—	—	—
	11/26/13	4,000	—	\$52.78	11/26/23	—	—	—	—
	11/25/14	7,200	—	\$46.72	11/25/24	—	—	—	—
	11/24/15	6,900	—	\$37.75	11/24/25	—	—	—	—
	11/22/16	4,025	—	\$40.86	11/22/26	—	—	—	—
	11/21/17	3,233	1,617	\$31.76	11/21/27	2,400 <sup>(2)</sup>	\$ 41,016	—	—
	11/21/18	2,016	4,031	\$33.98	11/20/28	1,889 <sup>(2)</sup>	\$ 32,283	1,888	\$ 27,785
	05/24/19(a)	1,825	3,651	\$30.54	05/24/29	—	—	—	—
	05/24/19(b)	2,012	4,023	\$33.59	05/24/29	—	—	—	—
	05/24/19(c)	2,209	4,418	\$36.65	05/24/29	—	—	—	—
11/19/19	—	6,883	\$37.00	11/19/29	1,798 <sup>(2)</sup>	\$ 30,728	1,797	\$ 17,915	
9/15/20	—	—	—	—	6,500 <sup>(3)</sup>	\$111,085	—	—	

<sup>(1)</sup> Except as noted, vest in three equal annual installments on the first, second and third anniversaries of the grant date.

<sup>(2)</sup> Vest on the third anniversary of the grant date.

<sup>(3)</sup> Vest in two equal annual installments on the first and second anniversary of the grant date.

<sup>(4)</sup> Vest on the third anniversary of the grant date if the Company has met a relative total shareholder return goal.

### Option Exercises and Stock Vested

The following table provides information concerning the exercise of stock options and vesting of restricted stock awards for the Named Executive Officers in fiscal 2020.

	# of Shares Acq. On Exerc.	Value realized on Exerc.	# of Shares Acq. On Vesting	Value Realized on Vesting	# of Shares Acq. On Vesting	Value realized on Vesting
M.L. Shor . . . . .	—	\$ —	—	\$ —	—	\$ —
D.W. Maudlin . . . . .	—	\$ —	2,175	\$79,127	2,153	\$36,795
D. L. Strobel . . . . .	—	\$ —	—	\$ —	—	\$ —
V.R. Ishwar . . . . .	2,500	\$8,125	1,875	\$68,213	1,851	\$31,634
M.C. Losch III . . . . .	3,700	\$9,916	1,825	\$66,394	1,808	\$30,899

<sup>(1)</sup> This column is calculated by multiplying the number of shares acquired by the closing price of a share of Common Stock on the vesting date. The Named Executive Officers had the following stock awards vest in fiscal 2020:

Name	Type of Award	Vesting Date	Number of Shares Acquired on Vesting (#)	Closing Price on Vesting Date (\$/Share)	Value Realized on Vesting (\$)
M.L. Shor . . . . .	Time-Based Restricted Stock		—	—	—
D.W. Maudlin . . . . .	Time-Based Restricted Stock	11/22/19	2,175	\$36.38	\$ 79,127
D.L. Strobel . . . . .	Time-Based Restricted Stock		—	—	—
V.R. Ishwar . . . . .	Time-Based Restricted Stock	11/22/19	1,875	\$36.38	\$ 68,213
M.C. Losch II . . . . .	Time-Based Restricted Stock	11/22/19	1,825	\$36.38	\$ 66,394

### Pension Benefits

The Company maintains a defined benefit pension plan for the benefit of eligible domestic employees designated as the Haynes International, Inc. Pension Plan. The pension plan is qualified under Section 401 of the Internal Revenue Code, permitting the Company to deduct for federal income tax purposes all amounts the Company contributes to the pension plan pursuant to funding requirements. The following table sets forth the present value of accumulated benefits payable in installments after retirement, based on retirement at age 65. As of December 31, 2005, the Pension Plan was closed to new salaried employees and, as of December 31, 2007, the benefits of all salaried participants in the Pension Plan were frozen and no further benefits will accumulate. No payments were made to any of the Named Executive Officers pursuant to the Pension Plan in fiscal 2020.

	Year	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit
M. L. Shor . . . . .	2020	Defined Benefit	N/A	—
D. W. Maudlin . . . . .	2020	Defined Benefit	15	\$ 93,537
D. L. Strobel . . . . .	2020	Defined Benefit	N/A	—
V. R. Ishwar . . . . .	2020	Defined Benefit	35	\$941,732
M. C. Losch III . . . . .	2020	Defined Benefit	32	\$597,091

Participants in the pension plan are eligible to receive an unreduced pension annuity upon the first to occur of (i) reaching age 65, (ii) reaching age 62 and completing ten years of benefit service or (iii) completing 30 years of benefit service. The final option is available only for salaried employees who were plan participants in the pension plan on March 31, 1987. For salaried employees who retire on or after July 2, 2002 under option (i) or (ii) above, the normal monthly pension benefit provided

under the pension plan is the greater of (i) 1.6% of the employee’s average monthly earnings multiplied by years of benefit service, plus an additional 0.5% of the employee’s average monthly earnings, if any, in excess of Social Security covered compensation multiplied by years of benefit service up to 35 years, or (ii) the employee’s accrued benefits as of September 30, 2002. For salaried employees who retire on or after July 2, 2002 under option (iii) above (with 30 years of benefit service), the normal monthly pension provided under the pension plan is equal to one of the following as elected by the participant: (i) the accrued benefit as of March 31, 1987 plus any supplemental retirement benefit payable to age 62; (ii) the accrued benefit as of March 31, 1987 plus any supplemental retirement benefit payable to any age elected by the participant (prior to 62) and thereafter the actuarial equivalent of the benefit payable for retirement under options (i) and (ii) above; or (iii) if the participant is at least age 55, the actuarial equivalent of the benefit payable for retirement under options (i) and (ii) above. There are provisions for delayed retirement, early retirement benefits, disability retirement, death benefits, optional methods of benefits payments, payments to an employee who leaves after five or more years of service and payments to an employee’s surviving spouse. Participants’ interests are vested and they are eligible to receive pension benefits after completing five years of service. However, all participants as of October 1, 2001 became 100% vested in their benefits on that date. Vested benefits are generally paid to retired employees beginning at or after age 55.

Non-Qualified Deferred Compensation Plan

The Compensation Committee approved implementation of a non-qualified deferred compensation plan for independent directors and executive officers effective November 20, 2017. The plan provides the opportunity to defer current compensation and taxes until a future date, and to receive tax deferred investment returns on deferred amounts. The plan allows directors to defer up to 100% of their annual cash retainer, annual committee chair cash retainers and annual equity grants. The plan allows eligible employees to defer up to 80% of their base salaries, up to 100% of MIP and up to 100% of long term incentive awards.

Mr. Shor deferred 2,650 shares in 2017 while serving as an independent director.

<u>Executive</u>	<u>Executive Contributions in 2020</u>	<u>Haynes Contributions in 2020</u>	<u>Aggregate Earnings from Deferred Shares in 2020</u>	<u>Aggregate Withdrawals Distributions in 2020</u>	<u>Aggregate Balance at 09/30/2020</u>
M.L. Shor . . . . .	—	—	\$ (47,356)	—	\$ 52,285

Potential Payments Upon Termination or Change of Control

As described in this Compensation Discussion and Analysis, Mr. Shor has an Employment Agreement and the other Named Executive Officers have termination benefits agreements that provide for payments to the Named Executive Officers at, following or in connection with a termination of their employment in the circumstances described in those agreements. In addition, certain of the Company’s compensation plans and arrangements provide for acceleration of vesting of outstanding unvested options and restricted stock in certain circumstances described therein, including a “change of control” of the Company.

The information below generally describes payments or benefits payable to the Named Executive Officers (including Mr. Shor) under agreements between the Named Executive Officers and the Company or under the Company’s compensation plans and arrangements in the event of a change of control of the Company or the termination of the Named Executive Officer’s employment, whether prior to or following a change of control of the Company. Any such payments or benefits that a Named Executive Officer has elected to defer would be provided in accordance with the requirements of Internal Revenue Code Section 409A. Payments or benefits under other plans and arrangements that are generally available to the Company’s employees on similar terms are not described. Certain capitalized terms used in this discussion are defined under the caption “Certain Definitions” below.

### Conditions and Obligations Applicable to Receipt of Termination/Change of Control Payments

Under the applicable compensation agreements, each Named Executive Officer has agreed not to compete with, or solicit the employees of the Company during and for a one-year period (two years for Mr. Shor) after termination of employment. Further, each Named Executive Officer is obligated to maintain the confidentiality of Company information and to assign all inventions, improvements, discoveries, designs, works of authorship, concepts or ideas or expressions thereof to the Company. The Company is entitled to cease making payments or providing benefits due under the applicable agreement if the Named Executive Officer breaches the confidentiality, non-competition or non-solicitation provisions of the agreement.

As a condition to the receipt of the payments and other benefits to be received by the Named Executive Officers under the applicable agreements upon termination of employment, each Named Executive Officer must execute and deliver to the Company a release of all claims against the Company, including claims arising out of his employment with the Company. Certain payments to Mr. Shor are required to be made or commence on the date that the release executed by him in connection with the termination of his employment becomes effective (generally seven days following execution thereof by Mr. Shor). In addition to the release, Named Executive Officers may be asked to sign letter agreements reaffirming their applicable confidentiality, non-competition and non-solicitation obligations and may enter into extended non-competition agreements with the Company.

### Payments Made Upon Death or Disability

Upon death or total disability, the Company's compensation plans and arrangements for the Named Executive Officers provide as follows:

- Each Named Executive Officer (other than Mr. Shor) or his heirs, estate, personal representative or legal guardian, as appropriate, is entitled to receive a lump sum payment equal to the sum of (i) the Named Executive Officer's earned but unpaid base salary and bonus through the termination date; (ii) any reimbursable expenses incurred by the Named Executive Officer and not reimbursed as of the termination date; and (iii) a bonus for the fiscal year in which the termination date occurs in an amount equal to his target bonus for such fiscal year pro-rated based upon the number of days he worked in the fiscal year in which the termination date occurs.
- Mr. Shor or his heirs, estate, personal representative or legal guardian, as appropriate, is entitled to receive a lump sum payment equal to the sum of (i) his earned but unpaid base salary through the termination date; (ii) any bonus earned prior to the termination date that remains unpaid on the termination date; (iii) any reimbursable expenses incurred by Mr. Shor and not reimbursed as of the termination date, and (iv) health and welfare benefits through the date on which the termination occurs.
- All unvested stock options held by the Named Executive Officer will vest immediately and all options will remain exercisable for six months from the termination date in the case of options granted under the 2009 Restricted Stock Plan or five years in the case of options granted under the 2016 or 2020 Incentive Compensation Plans, but in no event later than the expiration date of such stock options as specified in the applicable option agreement.
- All restrictions on transfer of any shares of restricted stock held by the Named Executive Officer on the termination date, including vesting conditions, will lapse as of the termination date and performance based restricted stock and performance shares will be deemed earned, so long as the Named Executive Officer has been continuously employed by the Company between the grant date and the termination date.

- In the case of death, the Named Executive Officer's designated beneficiary is entitled to receive the death benefit under a Company-provided life insurance policy in the amount of two times the Named Executive Officer's base salary (four times base salary for Mr. Shor).
- In the case of total disability, the Named Executive Officer will be entitled to disability benefits under the Company's executive long-term disability plans. Each Named Executive Officer is entitled to disability benefits under a group plan and an individual plan. The group plan provides for a monthly benefit equal to 50% of monthly base salary, subject to a maximum benefit of \$10,000 per month. The individual plan provides for a monthly benefit equal to 70% of monthly base salary, subject to a maximum benefit of \$5,000 per month. Benefits under the plan are payable monthly beginning 90 days after the employee becomes disabled and continuing until age 65.

#### Payments Made Upon Other Termination

If the employment of any of the Named Executive Officers (other than Mr. Shor) is terminated by the Company for "cause" (as defined in the Termination Benefits Agreements), or is terminated by the Named Executive Officer without "good reason" (as defined in the Termination Benefits Agreements), the Named Executive Officer would be entitled to receive a lump sum cash payment equal to the sum of (i) the Named Executive Officer's earned but unpaid base salary through the termination date; (ii) any accrued but unpaid compensation, including any unpaid bonus compensation; and (iii) any reimbursable expenses incurred by the Named Executive Officer and not reimbursed as of the termination date.

If, prior to or more than 12 months after any change of control, the employment of any Named Executive Officer (other than Mr. Shor) is terminated by the Company without "cause" or is terminated by the Named Executive Officer with "good reason", the Named Executive Officer would be entitled to receive a lump sum payment equal to the sum of (i) the Named Executive Officer's earned but unpaid base salary through the termination date; (ii) any accrued but unpaid compensation, including any unpaid bonus compensation; (iii) any reimbursable expenses incurred by the Named Executive Officer and not reimbursed as of the termination date; and (iv) a bonus for the fiscal year in which the termination date occurs in an amount equal to his target bonus for such fiscal year pro-rated based upon the number of days he worked in the fiscal year in which the termination date occurs.

If Mr. Shor's employment is terminated by the Company for "cause" (as defined in his Employment Agreement), or by Mr. Shor without "good reason" (as defined in his Employment Agreement), Mr. Shor is entitled to receive a lump sum payment equal to the sum of (i) his earned but unpaid base salary through the termination date; (ii) any bonus earned prior to the termination date that remains unpaid on the termination date; and (iii) any reimbursable expenses incurred by Mr. Shor and not reimbursed as of the termination date. He would also be entitled to continuation of health and welfare benefits through the termination date.

If, prior to or more than 24 months after a change of control, Mr. Shor's employment is terminated by the Company without "cause" or by Mr. Shor for "good reason",

- Mr. Shor is entitled to receive a lump sum payment equal to the sum of (i) his earned but unpaid base salary through the termination date; (ii) any bonus earned prior to the termination date that remains unpaid on the termination date; and (iii) any reimbursable expenses incurred by Mr. Shor and not reimbursed as of the termination date. He would also be entitled to continuation of health and welfare benefits through the termination date.
- Mr. Shor is entitled to a continuation of his annual salary as in effect immediately prior to such termination date through the end of the then current employment term, payable in accordance with the then prevailing payroll practices of the Company.

If Mr. Shor is not otherwise entitled to a bonus for the same period or fiscal year as part of his termination benefits, Mr. Shor is entitled to receive a bonus for the fiscal year in which the termination date occurs in an amount equal to his target bonus for such fiscal year pro-rated based upon the number of whole months he worked in the fiscal year in which the termination date occurs.

In addition, the Company's 2020 Incentive Compensation Plan provides for the vesting of restricted stock, restricted stock units, performance shares and performance units in the case of "retirement" or involuntary severance of service other than for "cause". During fiscal 2020, time-based restricted stock was granted under the 2020 Plan and none of the Named Executive Officers were retirement-eligible. Had a Named Executive Officer's employment been terminated on September 30, 2020 involuntarily for any reason other than "cause", the restricted stock granted to such Named Executive Officer on September 16, 2020 would have vested as of that termination date.

#### Payments Made Upon or Following a Change of Control

The Company's 2009 Restricted Stock Plan and the 2016 and 2020 Incentive Compensation Plans provide that all restrictions imposed on shares of restricted stock subject to restricted stock awards under the plan, including vesting conditions, lapse upon a change of control and performance based restricted stock and performance shares will be deemed earned. Similarly, all unvested stock options issued pursuant to the Company's stock option plans vest automatically upon the occurrence of the events described in clauses (i) or (ii) of the definition of a "change of control" below, and the Board of Directors has discretion to accelerate the vesting of unvested stock options in the event of any other event constituting a change of control. In the event that the employment of a Named Executive Officer (other than Mr. Shor) is terminated by the Company without "cause" or by the Named Executive Officer for "good reason" within 12 months following a change of control,

- The Named Executive Officer is entitled to receive a lump sum payment equal to the sum of (i) the Named Executive Officer's accrued but unpaid base salary through the termination date; (ii) any accrued but unpaid compensation, including any unpaid bonus compensation; (iii) any reimbursable expenses incurred by the Named Executive Officer and not reimbursed as of the termination date; (iv) a bonus for the fiscal year in which the termination date occurs in an amount equal to his target bonus for such fiscal year pro-rated based upon the number of days he worked in the fiscal year in which the termination date occurs; and (v) an amount equal to one year's base salary.
- Subject to the discretion of the Board of Directors as described above, all unvested stock options held by the Named Executive Officer will vest immediately and all options will remain exercisable for one year from the termination date, but in no event later than the expiration date of such stock options as specified in the applicable option agreement.
- The Named Executive Officer and his dependents are entitled to medical, hospitalization and life insurance benefits that he received immediately prior to termination for a period of one year following the termination date, unless the Named Executive Officer obtains comparable benefits from another employer.

If Mr. Shor's employment is terminated by the Company without "cause" or by Mr. Shor for "good reason" within 24 months after a change of control,

- Mr. Shor is entitled to receive a lump sum payment equal to the sum of (i) his earned but unpaid base salary through the termination date; (ii) any bonus earned prior to the termination date that remains unpaid on the termination date; and (iii) any reimbursable expenses incurred by Mr. Shor and not reimbursed as of the termination date.

- Mr. Shor is entitled to a cash payment equal to two times his annual salary as in effect immediately prior to the termination date, payable in equal monthly installments of one-twenty-fourth of the total amount of the cash payment.
- Any unvested stock options held by Mr. Shor as of the termination date will become vested and exercisable and will remain exercisable after the termination date for a period equal to the lesser of (i) six months following the termination date or (ii) the expiration of the original exercise period of such option.
- Mr. Shor and his dependents are entitled to medical, hospitalization and life insurance benefits that he received immediately prior to termination through and including the termination date.

#### Certain Definitions

A termination for “*cause*”, as defined in the Termination Benefits Agreements and Mr. Shor’s Employment Agreement, means a termination by reason of the good faith determination of the Company’s Board of Directors that the Named Executive Officer (1) continually failed to substantially perform his duties to the Company (other than a failure resulting from his medically documented incapacity due to physical or mental illness), including, without limitation, repeated refusal to follow the reasonable directions of the Company’s Chief Executive Officer (or, in Mr. Shor’s case, the Board), knowing violation of the law in the course of performance of his duties with the Company, repeated absences from work without a reasonable excuse or intoxication with alcohol or illegal drugs while on the Company’s premises during regular business hours, (2) engaged in conduct which constituted a material breach of the confidentiality, non-competition or non-solicitation provisions of the applicable agreement, (3) was indicted (or equivalent under applicable law), convicted of or entered a plea of nolo contendere to the commission of a felony or crime involving dishonesty or moral turpitude, (4) engaged in conduct which is demonstrably and materially injurious to the financial condition, business reputation, or otherwise of the Company or its subsidiaries or affiliates or (5) perpetuated a fraud or embezzlement against the Company or its subsidiaries or affiliates, and in each case the particular act or omission was not cured, if curable, in all material respects by the Named Executive Officer within thirty (30) days (or by Mr. Shor within 15 days) after receipt of written notice from the Board. Under the 2020 Incentive Compensation Plan, the term “*cause*” is defined by reference to the Termination Benefits Agreements, in the case of the Named Executive Officers other than Mr. Shor, and, in Mr. Shor’s case, by reference to his Employment Agreement.

The term “*change of control*” has varying definitions under the different plans and agreements, but generally means the first to occur of the following: (i) any person becomes the beneficial owner, directly or indirectly, of securities of the Company representing a majority of the combined voting power of the Company’s then outstanding securities (assuming conversion of all outstanding non-voting securities into voting securities and the exercise of all outstanding options or other convertible securities); (ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the effective date, constitute the Board of Directors and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board of Directors or nomination for election by the Company’s stockholders was approved or recommended by a vote of at least two-thirds ( $\frac{2}{3}$ ) of the directors then still in office who either were directors on the effective date or whose appointment, election or nomination for election was previously so approved or recommended; (iii) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation other than (x) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent, either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof, a majority of the combined voting power

of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (y) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing a majority of the combined voting power of the Company's then outstanding securities; or (iv) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, or to an entity a majority of the combined voting power of the voting securities of which is owned by substantially all of the stockholders of the Company immediately prior to such sale in substantially the same proportions as their ownership of the Company immediately prior to such sale.

The term "*good reason*" means the occurrence of any of the following actions or failures to act if it is not consented to by the Named Executive Officer in writing: (a) a material adverse change in the Named Executive Officer's duties, reporting responsibilities, titles or elected or appointed offices; (b) a material reduction by the Company in the Named Executive Officer's base salary or annual bonus opportunity, not including any reduction resulting from changes in the market value of securities or other instruments paid or payable to the Named Executive Officer; or (c) solely with respect to Mr. Shor, any change of more than 50 miles in the location of the principal place of Mr. Shor's employment. None of the actions described in clauses (a) and (b) above shall constitute "*good reason*" if it was an isolated and inadvertent action not taken in bad faith by the Company and if it is remedied by the Company within 30 days after receipt of written notice thereof given by the Named Executive Officer (or, if the matter is not capable of remedy within 30 days, then within a reasonable period of time following such 30-day period, provided that the Company has commenced such remedy within said 30-day period); provided that "*good reason*" ceases to exist for any action described in clauses (a) and (b) above on the 60th day following the later of the occurrence of such action or the Named Executive Officer's knowledge thereof, unless the Named Executive Officer has given the Company written notice thereof prior to such date.

#### Quantification of Payments and Benefits

The following tables quantify the potential payments and benefits upon termination or a change of control of the Company for each of the Named Executive Officers assuming the Named Executive Officer's employment terminated on September 30, 2020, given the Named Executive Officer's compensation and service level as of that date and, if applicable, based on the Company's closing stock price of \$17.09 on that date. Other assumptions made with respect to specific payments or benefits are set forth in applicable footnotes to the tables. Information regarding the present value of pension benefits for each of the Named Executive Officers is set forth above under the caption "*Pension Benefits*" on page 34. Due to the number of factors that affect the nature and amount of any payments or benefits provided upon a termination or change of control, including, but not limited to, the date of any such event, the Company's stock price and the Named Executive Officer's age, any actual amounts paid or distributed may be different. None of the payments set forth below would be grossed-up for taxes.



### M. L. Shor

Executive Benefits and Payments Upon Termination	Death	Disability	Voluntary or For Cause Term.	Invol. Term. Not for Cause or Term. for Good Reason	Change of Control
Performance-based Cash					
Payment <sup>(1)</sup> . . . . .	\$ 510,000	\$510,000	—	\$510,000	\$ 510,000 <sup>(3)</sup>
Cash Severance . . . . .	—	—	—	\$637,500 <sup>(2)</sup>	\$1,275,000 <sup>(3)</sup>
Stock Options <sup>(4)</sup> . . . . .	—	—	—	—	\$
Restricted Stock—Time <sup>(5)</sup> . . . . .	\$ 594,664	\$594,664	—	\$594,664	\$ 594,664
Performance share awards <sup>(6)</sup> . . . . .	\$ 312,576	\$312,576	—	—	\$ 312,576
Life, Long-Term Disability and Health Insurance Benefits . . . . .	\$2,550,000 <sup>(7)</sup>	\$681,253 <sup>(8)</sup>	—	—	\$ 15,093

### D. W. Maudlin

Executive Benefits and Payments Upon Termination	Death	Disability	Voluntary or For Cause Term.	Invol. Term. Not for Cause or Term. for Good Reason	Change of Control
Performance-based Cash Payment <sup>(1)</sup> . . . . .	\$202,800	\$ 202,800	—	\$202,800	\$202,800 <sup>(9)</sup>
Cash Severance . . . . .	—	—	—	—	\$312,000 <sup>(9)</sup>
Stock Options <sup>(4)</sup> . . . . .	—	—	—	—	—
Restricted Stock—Time <sup>(5)</sup> . . . . .	\$249,053	\$ 249,053	—	\$249,053	\$249,053
Performance share awards <sup>(6)</sup> . . . . .	\$131,952	\$ 131,952	—	—	\$131,952
Life, Long-Term Disability and Health Insurance Benefits . . . . .	\$624,000 <sup>(7)</sup>	\$1,736,840 <sup>(8)</sup>	—	—	\$ 15,205

### D.L. Strobel

Executive Benefits and Payments Upon Termination	Death	Disability	Voluntary or For Cause Term.	Invol. Term. Not for Cause or Term. for Good Reason	Change of Control
Performance-based Cash Payment <sup>(1)</sup> . . . . .	\$177,000	\$177,000	—	\$177,000	\$177,000 <sup>(9)</sup>
Cash Severance . . . . .	—	—	—	—	\$195,000 <sup>(9)</sup>
Stock Options <sup>(4)</sup> . . . . .	—	—	—	—	—
Restricted Stock—Time <sup>(5)</sup> . . . . .	192,844	\$192,844	—	\$192,844	\$192,844
Performance share awards <sup>(6)</sup> . . . . .	\$ 64,651	\$ 64,651	—	—	\$ 64,651
Life, Long-Term Disability and Health Insurance Benefits . . . . .	\$590,000 <sup>(7)</sup>	\$999,806 <sup>(8)</sup>	—	—	\$ 15,090

### V. R. Ishwar

Executive Benefits and Payments Upon Termination	Death	Disability	Voluntary or For Cause Term.	Invol. Term. Not for Cause or Term. for Good Reason	Change of Control
Performance-based Cash Payment <sup>(1)</sup> . . . . .	\$146,500	\$146,500	—	\$146,500	\$146,500 <sup>(9)</sup>
Cash Severance . . . . .	—	—	—	—	\$293,000 <sup>(9)</sup>
Stock Options <sup>(4)</sup> . . . . .	—	—	—	—	—
Restricted Stock—Time <sup>(5)</sup> . . . . .	\$193,322	\$193,322	—	\$193,322	\$193,322
Performance share awards <sup>(6)</sup> . . . . .	\$101,891	\$101,891	—	—	\$101,891
Life, Long-Term Disability and Health Insurance Benefits . . . . .	\$586,000 <sup>(7)</sup>	— <sup>(8)</sup>	—	—	\$ 15,075

**M. C. Losch III**

<u>Executive Benefits and Payments Upon Termination</u>	<u>Death</u>	<u>Disability</u>	<u>Voluntary or For Cause Term.</u>	<u>Invol. Term. Not for Cause or Term. for Good Reason</u>	<u>Change of Control</u>
Performance-based Cash Payment <sup>(1)</sup> . . .	142,500	\$142,500	—	\$142,500	\$142,500 <sup>(9)</sup>
Cash Severance . . . . .	—	—	—	—	\$285,000 <sup>(9)</sup>
Stock Options <sup>(4)</sup> . . . . .	—	—	—	—	—
Restricted Stock—Time <sup>(5)</sup> . . . . .	\$215,112	\$215,112	—	\$215,112	\$215,112
Performance share awards <sup>(6)</sup> . . . . .	\$ 98,866	\$ 98,866	—	—	\$ 98,866
Life, Long-Term Disability and Health Insurance Benefits . . . . .	\$550,000 <sup>(7)</sup>	\$842,301 <sup>(8)</sup>	—	—	\$ 15,021

- (1) Represents base salary as of September 30, 2020, excluding the temporary salary reductions put in place in response to the COVID-19 pandemic, multiplied by the target percentage of the fiscal year 2020 MIP.
- (2) In the case of termination by the Company without cause, Mr. Shor would be paid through the end of his Employment Agreement which expires on September 30, 2021.
- (3) Represents the amount payable to Mr. Shor if his employment is terminated within 24 months after a change of control by the Company without “cause” or by Mr. Shor for “good reason”.
- (4) Represents market value of \$17.09 per share minus the exercise price for all unvested options (but not less than zero). The number of unvested options for each Named Executive Officer is set forth in the Outstanding Equity Awards at Fiscal Year End table at page 34 above.
- (5) Represents the market value of \$17.09 of all time-based restricted stock awards at target in the case of death or disability and in the case of a change of controls. The number of time-based restricted stock awards for each Named Executive Officer is set forth in the Outstanding Equity Awards at Fiscal Year End table at page 34 above.
- (6) Represents the market value at \$17.09 of all unvested performance share awards at target in the case of death or disability not in the case of a change of control. The number of unvested performance share awards for each Named Executive Office is set forth in the Outstanding Equity Awards at Fiscal Year End table at page 34 above.
- (7) Represents death benefit under a life insurance policy, the premiums on which are paid by the Company, equal to four times base salary for Mr. Shor and two times base salary for the other Named Executive Officers.
- (8) Represents the present value of benefits payable under the Company’s executive long-term disability plans, determined using the same discount rate used to determine the Company’s funding obligation under the pension plan.
- (9) Represents the amount payable to the Named Executive Officer if his employment is terminated within 12 months (24 months for Mr. Shor) after a change of control by the Company without “cause” or by the Named Executive Officer for “good reason”.

CEO Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, the Company is providing the following information about the relationship of the annual total compensation of Michael Shor, President and Chief Executive Officer

of the Company, to the annual total compensation of the “median” Company employee, determined as described below (the “CEO Pay Ratio”):

For fiscal 2020:

- the annual total compensation of the employee identified as the median employee of the Company (other than the Chief Executive Officer) was \$55,514; and
- the annual total compensation of the Chief Executive Officer for purposes of determining the CEO Pay Ratio was \$2,043,131.

Based on this information, the ratio of the annual total compensation of the Chief Executive Officer to the median employee’s annual total compensation was estimated to be 36.8 to 1 for fiscal 2020.

The increase from the prior year’s ratio is primarily attributable to the fact that Mr. Shor’s annual total compensation increased as a result of the September 2020 grant of restricted stock to Mr. Shor and the other Named Executive Officers as well as the decrease in annual total compensation for the median employee as a result of reduced work hours resulting from the economic effects of COVID-19.

This CEO Pay Ratio is a reasonable estimate calculated in a manner consistent with SEC rules based on the Company’s payroll and employment records and the methodology described below. The SEC rules for identifying the median compensated employee and calculating the CEO Pay Ratio based on that employee’s annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions and to make reasonable estimates and assumptions that reflect their compensation practices. As such, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

To identify the median of the annual total compensation of all of the Company’s employees, as well as to determine the annual total compensation of the “median employee”, the methodology and the material assumptions, adjustments and estimates used were as follows:

The Company determined that, as of September 30, 2020, the Company’s employee population consisted of approximately 1,037 individuals globally. The Company selected September 30, 2020, which was the last day of fiscal 2020, as the date upon which the Company would identify the “median employee”. The Company identified a new “median employee” for fiscal 2020 as a result of the changes in the workforce in fiscal 2020 arising from the economic impact of COVID-19.

In accordance with the “de minimis exemption” adjustment permitted by SEC rules, which allows the exclusion of certain employees working in jurisdictions outside of the United States of America in an aggregate maximum equal to less than five percent of the Company’s total employees, all employees of the Company’s affiliates located in China (ten employees) and Singapore (three employees) were excluded from the calculation used to determine the median employee. To identify the median employee from the employee population, the Company collected actual salary, bonus paid, other lump sums, life insurance premiums and 401(k) plan matches paid by the Company during the 12-month period ended September 30, 2020. In making this determination, the Company annualized the compensation of all newly hired employees during this period.

### ***Environmental, Social and Governance Matters***

In addition to the information set forth below, further information regarding the Company’s environmental, social and governance activities can be found under the Sustainability tab on the Company’s website at [www.haynesintl.com/company-information/sustainability](http://www.haynesintl.com/company-information/sustainability).

## Governance and Social Matters

The Company is committed to a culture of openness, trust and integrity in all aspects of its business, including compensation. It is critical that all employees, vendors and customers understand and accept that, in everything it does, the Company will conduct itself from the perspective of “doing the right thing for the right reason” at all times.

The Company has a number of policies in place governing social and ethical issues, including, without limitation:

- Code of Business Conduct and Ethics
- Anti-Harassment Policy
- Human Rights Policy
- Human Trafficking Policy
- Anti-Corruption Policy
- Conflict Minerals Policy
- Gift Policy
- Supplier Code of Conduct

All Company employees must certify compliance with the Code of Business Conduct and Ethics annually, and regular training is provided to employees regarding these and other policies. In addition, the Company maintains a whistleblower hotline with access available on an anonymous basis online or by telephone.

## Environmental Matters

The Company has an enterprise level environmental policy, which focuses on fostering a safe workplace, while protecting the environment and complying with laws and health and safety management systems. The Company utilizes available resources to improve quality, environmental and health and safety management systems, as well as set objectives and targets for each. This policy is communicated to contractors and vendors who provide services on site, and the Company periodically audits selected suppliers from an environmental compliance perspective.

The Company is conscious of its environmental impact and is actively working to lighten its carbon footprint. The ever-increasing demand for clean energy generation has led to the development of several emerging technologies that require high-temperature alloys for demanding operating conditions.

Since the invention of HASTELLOY® X alloy in 1954, the Company’s alloys have made it possible for aerospace engines to run at high temperatures for long periods of time. Engines being placed in service today reportedly consume 15% less fuel, produce 50% less pollutants and reduce the noise footprint near airports compared to the previous generation of airplane engines. The environmental related improvements stem in part from the increased use of alloys, such as HASTELLOY® X, HAYNES® 188, 230®, 282®, 242®, 244® and other Haynes invented alloys.

In addition to the Company’s alloys for energy production and powering modern aircraft in a more environmentally friendly manner, the Company’s alloys are used in chemical plants that produce ecologically safe agrichemicals which help to feed the world’s growing population. Company-invented HASTELLOY® G-35®, HYBRID-BC1® and C-276 alloys are commonly used in these applications. In addition, HASTELLOY® C-22®, C-2000® and B-3® alloys are used by pharmaceutical companies for production of chemicals.

Renewable power generation offers the promise of producing power from nature's resources, such as wind, sun, rivers and oceans, with minimal depletion to the Earth's resources and damage to the environment. Many renewable energy technologies require the capture of energy at very high temperatures in extreme environments for which the Company's alloys are well suited. For example, the Company's materials withstand intense heat in concentrated solar power plants to facilitate storable thermal power to generate electricity after the sun sets.

Since fiscal year 2010, the Company has invested more than \$2.0 million in energy conservation programs, and as a result, the Company now saves approximately \$1.1 million in energy costs per year. The Company has specific targets in place for reducing electricity and natural gas consumption in its energy conservation programs.

The Company maintains an environmental management system certified to the ISO 14001:2015 standard, and Kokomo operations are ISO 50001:2018 certified. The Company's facilities are subject to periodic inspection by various regulatory authorities.

### ***Human Capital Resources***

The Company continues to prioritize human capital strategic planning. Accordingly, the Company has adopted and maintains a number of programs and practices designed to attract and retain the best available personnel.

#### Succession and Recruitment

The Company has an organizational development and succession planning process in place for human capital strategic planning. The strategic development process often consists of multi-year succession and development plans. Such succession plans have been utilized in departments such as Sales & Distribution, Research & Technology, Marketing and Manufacturing.

In response to the COVID-19 pandemic and other market forces that have altered, and are expected to continue to alter, the workforce and the manner in which it functions, the Company is redefining how many roles within the Company may be performed. For example, through experience with the COVID-19 pandemic, the Company has learned that many non-production employees are able to perform all or substantially all of their job functions outside of the office. In addition, virtual meetings have been used to substantially reduce travel as well as in-person contact. The Company is evaluating the effects of these and other changes on its current and future workforce, including their potential to provide the Company access to a broader recruiting pool for potential new employees, including workers in specialized areas such as metallurgy and other with specialties relating to the Company's products, flexible role descriptions and/or working arrangements and other matters.

#### COVID-19—Related Programs

Economic conditions have limited hiring and succession planning implementation in some areas. In fiscal 2020, the Company predominantly hired new personnel in order to backfill crucial positions. Hiring for succession planning or bench strength has subsided during the economic downturn in business related to the COVID-19 pandemic and other factors.

The onset of COVID-19 in the United States in fiscal 2020 and the ongoing economic downturn created additional risk related to key person retention and succession planning. In response to the economic conditions created by the COVID-19 pandemic, the Company implemented voluntary retirement incentives, reductions-in-force, unpaid furloughs and compensation reductions, which have created additional challenges to developing and retaining staff. In order to attempt to ease the effects of such actions, the Company extended health insurance to furloughed employees for certain periods,

offered paid sick leave for certain periods and encouraged use of the Company's existing wellness and mental health services through its employee assistance program.

However, the cost saving measures created possible higher risk of turnover of key employees. Additionally, if other industries rebound faster than the Company's end markets, particularly aerospace, those circumstances could create competition for the Company's acquisition and retention of employees with specific skill sets. Nonetheless, the Company has established formal and informal development activities to promote employee retention and position the Company for success in the long term.

#### Retirement and Exit Programs

The Company has established a phased retirement program with limited application to sustain the Company's access to institutional knowledge of employees with specialized skill sets who would like to phase into retirement. At the same time, the program is designed to facilitate a smooth transition for their successors. This program has been limited in its use but strategically beneficial.

The Company also utilizes exit interviews and on-boarding interviews to provide feedback regarding turnover and employee desires for growth and development. These interviews are also utilized to identify drivers of voluntary turnover and departures from the Company. Employee turnover rate and reasons, including voluntary and involuntary departures, are monitored annually. The global turnover rate in fiscal 2020 was 22%, compared to an average of 14% in the prior two fiscal years. Both voluntary and involuntary terminations, including retirements, are used to calculate the turnover rate. The reduction-in-force resulting from the COVID-19 pandemic accounted for most of the increased turnover rate in fiscal 2020.

#### Compensation Equity

In fiscal 2020, the Company conducted an inflation-adjusted compensation analysis to promote competitive compensation. This analysis took into account ranges for the geographical area, education level and job title under consideration. The Company's Human Resources Department develops offers for new salaried employees and also develops and administers promotions to maintain the internal integrity of the compensation levels for comparable positions. The Compensation Committee, with the recommendation of the full Board in the case of incentive compensation, determines annual salaries of the Company's executive management team, taking into account similarly situated executives employed by a peer group of companies while also considering input of the Compensation Committee's independent compensation consultant.

#### Diversity and Inclusion

The Corporate Governance and Nominating Committee of the Board (the "Governance Committee") considers diversity as a criteria evaluated as a part of the attributes and qualifications a Board candidate possesses. The Governance Committee construes the notion of diversity broadly, considering differences in viewpoint, professional experience, education, skills and other individual qualities, in addition to race, gender, age, ethnicity and cultural backgrounds as elements that contribute to a diverse Board. In keeping with this diversity commitment, the two most recent directors appointed to the Board, each of whom brings substantial experience in the form of executive leadership in the specialty metals industry and the U.S. Air Force, respectively, further the Board's goal of enhancing diversity.

Management also considers similar broad concepts of diversity in its hiring practices as well as its selection of vendors, contractors and other service providers. As a federal government subcontractor, the Company follows federal rules and regulations relating to diversity and other matters, including reporting requirements.

In fiscal 2020, the Company's Chief Executive Officer sent an open letter to employees in response to the racial and diversity issues being addressed more broadly in the United States and elsewhere. In that letter, he affirmed the Company's commitment to diversity and solicited questions and comments from employees regarding these matters. As a result of that letter, the Chief Executive Officer held numerous one-on-one conversations with employees in connection with these issues and thereby gained valuable insight from the employees' perspective.

### Company Culture

The Company has controls in place relating to compliance with the Company's Code of Business Conduct and Ethics, including a requirement for annual employee certification of that code as well as an established whistleblower hotline and related procedures. In addition, human capital management, and more specifically employee hiring and retention, are included within the Company's Enterprise Risk Management program, which is subject to Board oversight through regular reporting. Also, the Chief Executive Officer discusses the Code and emphasizes the need to act in an ethical manner at each quarterly employee meeting or update.

### Community Involvement

The Company has used internships and partnerships with universities to enrich recruiting efforts, particularly for technical roles such as research, alloy development and engineering. The Company has also utilized outreach and partnerships with local community resources at all major locations such as community and technical colleges, workforce development agencies, industry groups and other entities to strengthen the Company's hiring process and expand the future workforce candidate pool.

### Employee Engagement and Wellness

The Company has a long-standing tuition reimbursement program to assist employees with the continuation of their educations. In addition, employee assistance programs offer counseling for emotional, financial and family issues. Continuing financial planning education is provided by the Company's 401(k) plan administrator to assist employees in financial and retirement planning. For many years, the Company's investment in human capital has involved commitments to worker training, apprenticeship programs and funding college scholarships.

In response to COVID-19, the Company adopted a broad approach to increased safety, including work-at-home arrangements for employees who were able to do so, temporary furloughs to decrease the number of people in its facilities, requirements for the wearing of masks and for social distancing, increased cleaning between shifts, readily available hand sanitizing stations, widespread signage reminding employees of the importance of these measures and other steps.

### Management and Board Oversight

Management is engaged in the Company's efforts regarding management of human capital resources at all levels through regular informational meetings, the Company's Enterprise Risk Management program and organized succession planning. The Board oversees these activities through regular reports by senior management regarding new or altered programs and as part of the Enterprise Risk Management process. In addition, the Compensation Committee of the Board is actively engaged in monitoring and encouraging diversity at the Board level as well as achieving and maintaining internal and external pay equity for the executive team and the Board members while overseeing incentive compensation more broadly throughout the organization. In promoting external pay equity, the Board and the Compensation Committee make use of peer comparisons and benchmarking measures.

## **Audit Committee Report**

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibilities, the Audit Committee has reviewed and discussed the audited financial statements contained in the Annual Report on Form 10-K for the year ended September 30, 2020 with the Company's management and the independent auditors. These reviews included quality, not just acceptability, of accounting principles, reasonableness of significant judgments and clarity of disclosures in financial statements. Management is responsible for the financial statements and the reporting process, including administering the systems of internal control. The independent registered public accounting firm is responsible for performing an independent audit of the Company's financial statements and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles, as well as expressing an opinion on the effectiveness of the Company's internal control over financial reporting.

The Audit Committee discussed with the independent registered public accounting firm, the matters required to be discussed by the applicable requirements of the PCAOB and the Commission. In addition, the Audit Committee has discussed with the independent registered public accounting firm the auditors' independence from the Company and its management, including the matters in the written disclosures and letter received by the Audit Committee, as required by *Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees*, as amended, and considered the compatibility of non-audit services with the auditors' independence.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended September 30, 2020, for filing with the SEC, and the Board of Directors has so approved the audited financial statements.

Respectfully submitted,

Donald C. Campion, Chair

Dawne S. Hickton

Larry O. Spencer

## **6. RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

In accordance with its charter, the Audit Committee has selected the firm of Deloitte & Touche LLP ("Deloitte"), an independent registered public accounting firm, to be the Company's auditors for the fiscal year ended September 30, 2021, and the Board of Directors is asking stockholders to ratify that selection. The Company is not required to have the stockholders ratify the selection of Deloitte as the independent auditor. The Company nonetheless is doing so because the Company believes it is a matter of good corporate practice. If the stockholders do not ratify the selection, the Audit Committee will reconsider the retention of Deloitte, but ultimately may decide to retain Deloitte as the Company's independent auditor. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time if it determines that such a change would be in the best interests of the Company and its stockholders. Before selecting Deloitte, the Audit Committee carefully considered that firm's qualifications as an independent registered public accounting firm for the Company. This included a review of its performance in prior years, including the firm's efficiency, integrity and competence in the fields of accounting and auditing. The Company has been advised by Deloitte that neither it nor any of its associates has any direct or material indirect financial interest in the Company.

Deloitte has acted as the independent registered public accounting firm for Haynes and its predecessors since 1998. Its representatives are expected to be present at the annual meeting and will



have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions concerning the audit of the Company's financial statements.

*Audit Fees*—The Company has paid, or expects to pay, audit fees (including cost reimbursements) to Deloitte for the fiscal years ended September 30, 2019 and 2020, including fees for an integrated audit which included the Sarbanes-Oxley attestation audit and reporting to the Securities and Exchange Commission (SEC), of \$1,098,596 and \$1,030,052, respectively.

*Audit-Related Fees*—The Company has paid, or expects to pay, fees (including cost reimbursements) to Deloitte for audit-related services during fiscal 2019 and 2020 of \$16,190 and \$7,105, respectively. These services related primarily to benefit plan audits and special projects.

*Tax Fees*—The Company has paid, or expects to pay, fees (including cost reimbursements) to Deloitte for services rendered related to tax compliance, tax advice and planning during fiscal 2019 and 2020 of \$459,197 and \$378,419, respectively. Services included preparation of federal and state tax returns, tax planning and assistance with various business issues including correspondence with taxing authorities.

*All Other Fees*—The Company did not incur any additional fees for services rendered by Deloitte in the fiscal years ended September 30, 2019 and 2020.

The Audit Committee reviewed the audit and non-audit services rendered by Deloitte and concluded that such services were compatible with maintaining the auditors' independence. All audit and non-audit services performed by the Company's independent registered public accounting firm are approved in advance by the Board of Directors or the Audit Committee to ensure that such services do not impair the auditors' independence.

The Company's policies require that the scope and cost of all work to be performed for the Company by its independent registered public accounting firm must be pre-approved by the Audit Committee. Prior to the commencement of any work by the independent registered public accounting firm on behalf of the Company, the independent registered public accounting firm provides an engagement letter describing the scope of the work to be performed and an estimate of the fees. The Audit Committee and the Chief Financial Officer must review and approve the engagement letter and the fee estimate before authorizing the engagement. The Audit Committee pre-approved 100% of the services rendered by Deloitte in fiscal 2019 and 2020.

**The Board of Directors unanimously recommends that stockholders vote *FOR* this proposal.**

## **7. ADVISORY VOTE ON EXECUTIVE COMPENSATION**

As described in detail under the heading "Executive Compensation" the Company's executive compensation programs are designed to attract, motivate and retain talented executives. In addition, the programs are structured to create an alignment of interests between the Company's executives and stockholders so that a significant portion of each executive's compensation is linked to maximizing stockholder value. Under the programs, the Named Executive Officers are provided with opportunities to earn rewards for the achievement of specific annual and long-term goals that are directly relevant to the Company's short-term and long-term success. Accordingly, as a result of the Company's financial performance in recent years MIP payments for fiscal 2018 and 2019 were made at levels between the minimum and target payment levels, and no MIP payouts were made for fiscal 2020. Similarly, equity awards for which vesting depended upon achievement of a measurement of income for those periods were forfeited. The effectiveness of this alignment is demonstrated by the fact that financial under performance by the Company and under performance of its stock price in recent years has resulted in only partial or no payouts under the Company's management incentive plan and forfeiture of equity incentive awards that did not meet required performance targets, as well as the lack of value creation

due to stock option exercise prices being above the trading price of the Company's common stock. The Company believes it has undertaken significant efforts to improve its operational and financial performance, which did improve during the first half of fiscal 2020. Operating margins and financial results in the second half of fiscal 2020 were significantly adversely affected by the economic and other impacts of the COVID-19 pandemic.

Please read the "Compensation Discussion and Analysis" beginning on page 16 for additional details about the Company's executive compensation philosophy and programs, including information about the Fiscal Year 2020 compensation of the Named Executive Officers.

The Compensation Committee of the Board of Directors continually reviews the Company's compensation programs to ensure they achieve the desired objectives. As a result of its review process, in fiscal year 2020 the Compensation Committee took the following actions with respect to the Company's executive compensation practices:

- established corporate performance goals under the MIP based on the Company's attainment of certain net income levels, creating a clear and direct relationship between executive pay and corporate performance;
- made grants of restricted stock subject to time-based vesting and performance shares subject to the achievement of performance conditions, in order to reward executive officers for the achievement of both long-term and strategic goals;
- established base salary and overall compensation at levels that are in line with those of individuals holding comparable positions and producing similar results at other multi-national corporations of similar size, value and complexity; and
- designed the elements of the compensation program to retain and incentivize the Named Executive Officers and align their interests with those of the stockholders.

The Company seeks your advisory vote on the compensation of the Named Executive Officers. The Company asks that you support the compensation of the Named Executive Officers as described in this proxy statement by voting in favor of this proposal. This proposal, commonly known as a "say-on-pay" proposal, gives the Company's stockholders the opportunity to express their views on the compensation of the Named Executive Officers. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Named Executive Officers and the philosophy, policies and practices described in this proxy statement. The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or the Board of Directors. The Board of Directors and the Compensation Committee will review the voting results and consider them, along with any specific insight gained from stockholders of Haynes and other information relating to the stockholder vote on this proposal, when making future decisions regarding executive compensation.

**The Board of Directors unanimously recommends that stockholders vote *FOR* this proposal.**

## **8. OTHER MATTERS**

As of the date of this proxy statement, the Board of Directors of Haynes has no knowledge of any matters to be presented for consideration at the annual meeting other than those referred to above. If (a) any matters unknown to the Board of Directors as of the date of this proxy statement should properly come before the annual meeting; (b) a person not named herein is nominated at the annual meeting for election as a director because a nominee named herein is unable to serve or for any reason will not serve; (c) any proposals properly omitted from this proxy statement and the form of proxy should come before the annual meeting; or (d) any matters should arise incident to the conduct of the

annual meeting, then the proxies will be voted with respect to such matters in accordance with the recommendations of the Board of Directors of the Company.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Janice Gunst", with a long horizontal flourish extending to the right.

Janice W. Gunst  
Corporate Secretary  
January 22, 2021

(This page has been left blank intentionally.)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

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

For the fiscal year ended **September 30, 2020**

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 number **001-33288**

**HAYNES INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**06-1185400**

(I.R.S. Employer Identification No.)

**1020 West Park Avenue, Kokomo, Indiana**

(Address of principal executive offices)

**46904-9013**

(Zip Code)

Registrant's telephone number, including area code **(765) 456-6000**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.001 per share	HAYN	NASDAQ Global Market

Securities registered pursuant to section 12(g) of the Act: **None**.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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 every Interactive Data File required to be submitted 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 such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.  Yes  No

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 Act).  Yes  No

As of March 31, 2020, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$203,502,740 based on the closing sale price as reported on the NASDAQ Global Market. Shares of common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

12,622,371 shares of Haynes International, Inc. common stock were outstanding as of November 19, 2020.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement to be delivered to stockholders in connection with the 2021 Annual Meeting of Stockholders have been incorporated by reference into Part III of this report.



## TABLE OF CONTENTS

	<u>Page No.</u>
<b>Part I</b>	
Item 1. Business . . . . .	3
Item 1A. Risk Factors . . . . .	21
Item 1B. Unresolved Staff Comments . . . . .	35
Item 2. Properties . . . . .	35
Item 3. Legal Proceedings . . . . .	37
Item 4. Mine Safety Disclosures . . . . .	38
<b>Part II</b>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities . . . . .	39
Item 6. Selected Financial Data . . . . .	41
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations . . . . .	42
Item 7A. Quantitative and Qualitative Disclosures About Market Risk . . . . .	57
Item 8. Financial Statements and Supplementary Data . . . . .	58
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure . . . . .	96
Item 9A. Controls and Procedures . . . . .	96
Item 9B. Other Information . . . . .	96
<b>Part III</b>	
Item 10. Directors, Executive Officers and Corporate Governance . . . . .	97
Item 11. Executive Compensation . . . . .	97
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters . . . . .	97
Item 13. Certain Relationships and Related Transactions, and Director Independence . . . . .	97
Item 14. Principal Accountant Fees and Services . . . . .	98
<b>Part IV</b>	
Item 15. Exhibits, Financial Statement Schedules . . . . .	98
Index to Exhibits . . . . .	99
Signatures . . . . .	101

*This Annual Report on Form 10-K contains statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, each as amended. All statements other than statements of historical fact, including statements regarding market and industry prospects and future results of operations or financial position, made in this Annual Report on Form 10-K are forward-looking. In many cases, you can identify forward-looking statements by terminology, such as “may”, “should”, “expects”, “intends”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of such terms and other comparable terminology. The forward-looking information may include, among other information, statements concerning the Company’s outlook for fiscal year 2021 and beyond, overall volume and pricing trends, cost reduction strategies and their anticipated results, market and industry trends, capital expenditures, dividends and the impact of the COVID-19 pandemic on the economy, demand for our products and our operations, including the measures taken by governmental authorities to address the pandemic, which may precipitate or exacerbate other risks and/or uncertainties. There may also be other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, including, without limitation, those risk factors set forth in Item 1A of this Annual Report on Form 10-K. Actual results may differ materially from those in the forward-looking statements as a result of various factors, risks and uncertainties many of which are beyond the Company’s control.*

*The Company has based these forward-looking statements on its current expectations and projections about future events, including our expectations with respect to the impact of the COVID-19 pandemic. Although the Company believes that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based upon those assumptions also could be incorrect.*

*The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*



## Part I

### Item 1. Business

#### Overview

Haynes International, Inc. (“Haynes”, “the Company”, “we”, “our” or “us”) is one of the world’s largest producers of high-performance nickel- and cobalt-based alloys in flat product form such as sheet, coil and plate forms. The Company is focused on developing, manufacturing, marketing and distributing technologically advanced, high-performance alloys, which are sold primarily in the aerospace, chemical processing and industrial gas turbine industries. The Company’s products consist of high-temperature resistant alloys, or HTA products, and corrosion-resistant alloys, or CRA products. HTA products are used by manufacturers of equipment that is subjected to extremely high temperatures, such as jet engines for the aerospace market, gas turbine engines used for power generation and industrial heating equipment. CRA products are used in applications that require resistance to very corrosive media found in chemical processing, power plant emissions control and hazardous waste treatment. Management believes Haynes is one of the principal producers of high-performance alloy products in sheet, coil and plate forms, and sales of these forms, in the aggregate, represented approximately 56% of net product revenues in fiscal 2020. The Company also produces its products as seamless and welded tubulars, and in slab, bar, billet and wire forms.

The Company has significant manufacturing facilities in Kokomo, Indiana; Arcadia, Louisiana; and Mountain Home, North Carolina. The Kokomo facility specializes in flat products, the Arcadia facility specializes in tubular products, and the Mountain Home facility specializes in wire products. The Company’s products are sold primarily through its direct sales organization, which includes 12 service and/or sales centers in the United States, Europe and Asia. All of these centers are Company-operated. In fiscal 2020, approximately 75% of the Company’s net revenue was generated by its direct sales organization, and the remaining 25% was generated by a network of independent distributors and sales agents that supplement its direct sales efforts primarily in the United States, Europe and Asia, some of whom have been associated with the Company for over 30 years.

#### Available Information

The address of the Company’s website is [www.haynesintl.com](http://www.haynesintl.com). The Company provides a link to its reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 on its website as soon as reasonably practicable after filing with the U.S. Securities and Exchange Commission. The filings available on the Company’s website date back to February 3, 2011. For all filings made prior to that date, the Company’s website includes a link to the website of the U.S. Securities and Exchange Commission, where such filings are available. Information contained or referenced on the Company’s website is not incorporated by reference into, and does not form a part of this Annual Report on Form 10-K. For a statement of the Company’s profits and losses and total assets, please see the financial statements of the Company included in Item 8 of this Annual Report on Form 10-K.

#### Business Strategy

The COVID-19 global pandemic has had, as is expected to continue to have, a significant impact on the Company’s business, financial and operating results, including significant reductions in volumes and revenue. During this period of managing through the pandemic in order to position the Company to continue its strategy after the pandemic, the Company has adjusted its strategy to pivot to a cost reduction and cash generation focus. While maintaining that focus, the Company will continue to evaluate new opportunities for its products, particularly in the areas of renewable energy sources and other developing technologies relating to environmental and climate change issues. These goals are pursued within the overarching goal of safety, which is a core priority, particularly given the continuation of the pandemic. As the nature and extent of the pandemic became clear, the Company reacted swiftly to take costs out of the organization in order to manage through the pandemic by implementing salary reductions, unpaid furloughs, headcount reductions and other actions to reduce costs. It is difficult to reduce costs in full proportion to the volume reductions due to the fixed nature of many costs, resulting in unfavorable fixed cost absorption and significant margin compression in the second half of fiscal 2020. Concurrently the Company focused on generating cash primarily through reductions of inventory. This focus generated significant cash in the second half of fiscal 2020 despite net losses and has improved the Company’s liquidity

position. Management believes that many years of tightly managing the balance sheet has set the Company up favorably to navigate the pandemic, with no borrowings outstanding under the credit agreement as of fiscal year end. Management plans to continue to focus on positive cash generation in fiscal 2021.

After the pandemic and its effects subside, we expect to shift the Company's focus back to our pre-pandemic strategy to grow our business by increasing revenues, profitability and cash flow, while continuing to be our customers' provider of choice for high-performance alloys and value-added processes. The Company has implemented a series of focus initiatives designed to unlock the potential of the Company by increasing volumes, improving targeted pricing and relentlessly pursuing reduced costs.

The following are some examples of focus initiatives that are core to this strategy.

- ***Set prices to ensure the Company is compensated for the high-value differentiated products and services it provides.*** The Company adjusted pricing in a number of high-value products especially in high-temperature applications. This included spot pricing, mill lead-time products and long-term customer agreements when they are renewed. These price increases are in addition to raw material price increases, thus they contribute to improving margins. Price increases to offset inflationary increases in the Company's costs are also a focus initiative.
- ***Capitalize on strategic equipment investment.*** The Company expects to continue to improve operations and gain traction in realizing a return on investment of capital in manufacturing facilities and equipment. Management believes that the Company's capital investments will enable it to continue to satisfy long-term customer demand for value-added products.
- ***Optimize processes to reduce costs.*** The Company is focusing on operational improvements, which include specific cost reduction projects. This ongoing pursuit is significant and includes initiatives in many different areas such as material management, productivity enhancements, yield & efficiency improvements and outsourcing costs.
- ***Increase revenues by inventing new alloys, developing new applications for existing alloys and expanding into new markets.*** The Company believes that it is an industry leader in developing new alloys designed to meet its customers' specialized and demanding requirements. The Company continues to work closely with customers and end users of its products to identify, develop and manufacture new high-performance alloys. Since fiscal 2003, the Company's technical programs have yielded nine new proprietary alloys with multiple applications, an accomplishment that the Company believes distinguishes it from its competitors.

Developing new applications for existing alloys is also a key strength and strategy of the Company. The Company leverages its technical expertise to develop unique applications for its products, especially proprietary and specialty alloys that can yield higher margins. These new applications, including use in unique special projects and new content programs are an important part of the Company's growth strategy.

Through development of new alloys and new applications for existing alloys, the Company is seeking to participate in additional markets in order to generate new revenue streams beyond the core markets of aerospace, chemical processing and industrial gas turbine industries. The Company believes that the synthetic natural gas, renewable energy, clean-coal, waste-to-energy, oil and gas, flue-gas desulfurization, automotive, consumer electronics, heat treatment, medical and nuclear industries all present possible opportunities for its products.

- ***Increase revenues and provide additional product differentiation by providing value-added processing services and leveraging the Company's global distribution network.*** The Company believes that its network of service and sales centers throughout North America, Europe and Asia distinguishes it from its competitors, many of whom operate only mills. The Company's service and sales centers enable it to develop close customer relationships through direct interaction with customers and to respond to customer orders quickly,

while also providing value-added cutting services such as laser, plasma and water-jet cutting. These services allow the Company's customers to minimize their processing costs and outsource non-core activities.

- ***Continue to participate in the maintenance, repair and overhaul business.*** The Company believes that its maintenance, repair and overhaul, or MRO, business represents a recurring revenue stream that can be expanded post-pandemic. Products used in the Company's end markets require periodic replacement due to the extreme environments in which they are used, which drives demand for recurring MRO work. The Company intends to continue to leverage the capabilities of its service and sales centers to respond quickly to its customers' time-sensitive MRO needs to develop new and retain existing business opportunities.
- ***Increase profitability through strategic acquisitions and alliances.*** The Company will continue to examine opportunities that enable it to enhance shareholder value. These opportunities may include product line additions, market expansion opportunities or other cost synergies. The Company will also continue to evaluate strategic relationships in the industry in order to enhance its competitive position and relationships with customers.

## **Products**

The global specialty alloy market includes stainless steel, titanium alloys, general-purpose nickel alloys and high-performance nickel- and cobalt-based alloys. The Company believes that the high-performance alloy sector represents less than 10% of the total alloy market. The Company competes primarily in the high-performance nickel- and cobalt-based alloy sectors, which includes HTA products and CRA products. In each year of fiscal 2018, 2019 and 2020, HTA products accounted for approximately 81%, 80% and 81% of the Company's net revenues, and sales of the Company's CRA products accounted for approximately 19%, 20% and 19% of the Company's net revenues. These percentages are based on data which include revenue associated with sales by the Company to its foreign subsidiaries, but exclude revenue associated with sales by foreign subsidiaries to their customers. Management believes, however, that the effect of including revenue data associated with sales by its foreign subsidiaries would not materially change the percentages presented in this section.

*High-temperature Resistant Alloys.* HTA products are used primarily in manufacturing components for the hot sections of gas turbine engines. Stringent safety and performance standards in the aerospace industry result in development lead times typically as long as eight to ten years in the introduction of new aerospace-related market applications for HTA products. However, once a particular new alloy is shown to possess the properties required for a specific application in the aerospace market, it tends to remain in use for extended periods. HTA products are also used in gas turbine engines produced for use in applications such as naval and commercial vessels, electric power generation, power sources for offshore drilling platforms, gas pipeline booster stations and emergency standby power generators. The following table

sets forth information with respect to the Company’s significant high-temperature resistant alloys, applications and features (new HTA development is discussed below under “Patents and Trademarks”):

<u>Alloy and Year Introduced</u>	<u>End Markets and Applications<sup>(1)</sup></u>	<u>Features</u>
HAYNES® HR-160® alloy (1990) <sup>(2)</sup> . . . . .	Waste incineration/CPI-boiler tube shields	Good resistance to sulfidation at high temperatures
HAYNES 242® alloy (1990) . . . . .	Aero-seal rings	High strength, low expansion and good fabricability
HAYNES HR-120® alloy (1990). . . . .	IGT-cooling shrouds	Good strength-to-cost ratio as compared to competing alloys
HAYNES 230® alloy (1984) <sup>(2)</sup> . . . . .	Aero/IGT-ducting, combustors	Excellent combination of strength, stability, oxidation-resistance and fabricability
HAYNES 214® alloy (1981) <sup>(2)</sup> . . . . .	Aero-honeycomb seals	Excellent combination of oxidation resistance and fabricability among nickel-based alloys
HAYNES 188 alloy (1968) . . . . .	Aero-burner cans, after-burner components	High strength, oxidation resistant cobalt-based alloy
HAYNES 625 alloy (1964) . . . . .	Aero/CPI-ducting, tanks, vessels, weld overlays	Good fabricability and general corrosion resistance
HAYNES 617 alloy (1999) . . . . .	Aero/IGT—ducting, combustors	Good combination of strength, stability, oxidation resistance and fabricability
HAYNES 263 alloy (1960) . . . . .	Aero/IGT-components for gas turbine hot gas exhaust pan	Good ductility and high strength at temperatures up to 1600°F
HAYNES 718 alloy (1955) . . . . .	Aero-ducting, vanes, nozzles	Weldable, high-strength alloy with good fabricability
HASTELLOY® X alloy (1954) . . . . .	Aero/IGT-burner cans, transition ducts	Good high-temperature strength at relatively low cost
HAYNES 25 alloy (1950) <sup>(2)</sup> . . . . .	Aero-gas turbine parts, bearings, and various industrial applications	Excellent strength, good oxidation resistance to 1800°F
HAYNES 282® alloy (2005) <sup>(2)</sup> . . . . .	Aero/IGT components	Excellent high temperature strength, weldability and fabricability
HAYNES 244® alloy (2013) <sup>(2)</sup> . . . . .	Aero/IGT components	High strength to 1400°F and low thermal expansion

<sup>(1)</sup> “Aero” refers to the aerospace industry; “IGT” refers to the industrial gas turbine industry; “CPI” refers to the chemical processing industry.

<sup>(2)</sup> Represents a patented product or a product which the Company believes has limited or no competition.

*Corrosion-resistant Alloys.* CRA products are used in a variety of applications, such as chemical processing, power plant emissions control, hazardous waste treatment, sour gas production and pharmaceutical vessels. Historically, the chemical processing market has represented the largest end-user sector for CRA products. Due to maintenance, safety and environmental considerations, the Company believes this market continues to represent an area of potential long-term growth. In addition to the use of CRA products in the chemical and petrochemical processing industry, the Company has seen an increased demand for some of these alloys in applications such as gas-to-liquid and synthetic gas. For improved efficiency within relevant applications, higher operating temperatures and harsher environmental conditions are required and, as a consequence, high-temperature, corrosion-resistant alloys are used. Some of our HTA products offer excellent resistance to oxidation, sulfidation, metal dusting and other high-temperature degradation modes. The Company expects this area of the chemical and petrochemical industry to represent potential long-term growth opportunities for HTA products. Unlike aerospace applications within the HTA product market, the development of new market applications for CRA products generally does not require long lead times. The following table sets forth information with respect to certain

of the Company’s significant corrosion-resistant alloys, applications and features (new CRA development is discussed below under “Patents and Trademarks”):

<u>Alloy and Year Introduced</u>	<u>End Markets and Applications<sup>(1)</sup></u>	<u>Features</u>
HASTELLOY C-2000 <sup>®</sup> alloy (1995) <sup>(2)</sup> . . . .	CPI-tanks, mixers, piping	Versatile alloy with good resistance to uniform corrosion
HASTELLOY B-3 <sup>®</sup> alloy (1994) <sup>(2)</sup> . . . . .	CPI-acetic acid plants	Better fabrication characteristics compared to other nickel-molybdenum alloys
HASTELLOY D-205 <sup>®</sup> alloy (1993) <sup>(2)</sup> . . . . .	CPI-plate heat exchangers	Corrosion resistance to hot concentrated sulfuric acid
ULTIMET <sup>®</sup> alloy (1990) <sup>(2)</sup> . . . . .	CPI-pumps, valves	Wear and corrosion resistant nickel-based alloy
HASTELLOY C-22 <sup>®</sup> alloy (1985) . . . . .	CPI/FGD-tanks, mixers, piping	Resistance to localized corrosion and pitting
HASTELLOY G-30 <sup>®</sup> alloy (1985) <sup>(2)</sup> . . . . .	CPI-tanks, mixers, piping	Alloy with good corrosion resistance in phosphoric acid
HASTELLOY G-35 <sup>®</sup> alloy (2004) <sup>(2)</sup> . . . . .	CPI-tanks, heat exchangers, piping	Improved corrosion resistance to phosphoric acid with excellent resistance to corrosion in highly oxidizing media
HASTELLOY C-276 alloy (1968) . . . . .	CPI/FGD/oil and gas tanks, mixers, piping	Broad resistance to many environments
HASTELLOY C-22HS <sup>®</sup> alloy (2003) <sup>(2)</sup> . . . .	Oil & Gas/Marine tubular, shafts, fasteners	Combines very high strength with excellent corrosion resistance and toughness
HASTELLOY <sup>®</sup> HYBRID-BC1 <sup>®</sup> alloy (2008) <sup>(2)</sup> . . . . .	CPI-tanks, heat exchangers, piping	Higher resistance to hydrochloric and sulfuric acids and can tolerate the presence of oxidizing species

(1) “CPI” refers to the chemical processing industry; “FGD” refers to the flue gas desulfurization industry.

(2) Represents a patented product or a product which the Company believes has limited or no significant competition.

## Material Resources

### Patents and Trademarks

The Company currently maintains a total of approximately 26 published U.S. patents and applications and approximately 309 foreign counterpart patents and applications targeted at countries with significant or potential markets for the patented products. Since fiscal 2003, the Company’s technical programs have yielded nine new proprietary alloys. The alloys being commercialized saw significant further advancement in the process during fiscal 2018, 2019 and 2020. The Company will continue to actively promote its new alloys through customer engineering visits, technical presentations and papers.

In the aerospace, industrial gas turbine and high temperature markets, one of the alloys that has already seen significant commercial success is HAYNES<sup>®</sup> 282<sup>®</sup> alloy. This alloy has an excellent combination of high temperature strength, formability and fabricability. There have been a significant number of customer tests and evaluations of this product for the hot sections of gas turbines in the aerospace and industrial gas turbine markets, and for other high temperature applications. The alloy has already been specified into major aerospace and industrial gas turbine applications, as well as for certain high temperature components in the automotive and industrial applications. Another new alloy for use in the aerospace and industrial gas turbine markets is HAYNES<sup>®</sup> 244<sup>®</sup> alloy. It combines high strength to 1400 degrees Fahrenheit with a low coefficient of thermal expansion. Commercialization is ongoing for this alloy, and it has been specified into certain aerospace engine programs and is being evaluated on others.

In the chemical processing industry, customers have found extensive applications for HASTELLOY® G-35® alloy, particularly in wet phosphoric acid production. Management expects demand for this alloy will continue to grow. Commercialization is also ongoing for HASTELLOY® HYBRID-BC1® alloy. HYBRID-BC1® alloy is a CRA product with potential applications in the chemical processing industry that has demonstrated resistance to hydrochloric and sulfuric acid.

In the oil and gas industry, HASTELLOY® C-22HS® alloy has found increasing applications. Commercialization of this alloy continues as is the testing, evaluation and promotion of this alloy with special emphasis on applications for this industry.

In addition to the successful commercialization of the above alloys, the Company continues to develop applications for four new alloys which are still being scaled up at the mill and are in the early stages of the commercialization process. HAYNES® NS-163® alloy is a nitride dispersion strengthened material that represents an entirely new metallurgical approach to achieving very high creep resistance at high temperatures. Technical process developments are still under investigation. HAYNES® HR-224® alloy is an HTA product with superior resistance to oxidation and excellent fabricability, and is being assessed in certain current and emerging technology applications. HAYNES® HR-235® alloy has excellent resistance to metal dusting in high temperature carbonaceous environments. Good progress in developing new applications for the alloy for petrochemical and syngas production applications has been made this past fiscal year. Most recently, HAYNES® 233™ alloy was introduced to provide excellent oxidation resistance coupled with superior creep strength at temperatures to 2100°F or higher. This combination of properties is believed not to have been achieved previously in a readily fabricable alloy. Significant progress has been made over the past year in developing applications for this new alloy.

Patents or other proprietary rights are an important element of the Company's business. The Company's strategy is to file patent applications in the U.S. and any other country that represents an important potential commercial market to the Company. In addition, the Company seeks to protect technology that is important to the development of the Company's business. The Company also relies upon trade secret rights to protect its technologies and its development of new processes, applications and alloys. The Company protects its trade secrets in part through confidentiality and proprietary information agreements with its customers and employees. Trademarks on the names of many of the Company's alloys have also been applied for or granted in the U.S. and certain foreign countries.

While the Company believes its patents are important to its competitive position, significant barriers to entry exist beyond the expiration of any patent period. These barriers to entry include the unique equipment required to produce these materials and the exacting processes required to achieve the desired metallurgical properties. These processing requirements include optimal melting and thermo-mechanical processing parameters for each alloy. Management believes that the current alloy development programs and these barriers to entry reduce the impact of patent expirations on the Company.

### Raw Materials

Raw materials represented an estimated 35% of cost of sales in fiscal 2020. Nickel, a major component of many of the Company's products, accounted for approximately 41% of raw material costs, or approximately 14% of total cost of sales in fiscal 2020. Other raw materials include cobalt, chromium, molybdenum and tungsten. Melt materials consist of virgin raw material, purchased scrap and internally produced scrap.

The average nickel price per pound for cash buyers for the 30-day period ended on September 30, 2018, 2019 and 2020, as reported by the London Metals Exchange, was \$5.68 \$8.02 and \$6.74 respectively. Prices for certain other raw materials which are significant in the manufacture of the Company's products, such as cobalt, chromium and molybdenum were lower in fiscal 2020 compared to fiscal 2019.

The Company's business model includes mill manufacturing and global distribution facilities, which create a long working capital cycle and contribute to a long position as it relates to commodity price risk, especially for product sold out of distribution facility inventory at spot prices. In addition, the type of high-performance products the Company produces require multiple production steps to create the final yielded product that is sold to the customer. These refining

steps generate high revert scrap pounds that are recycled back through the melt at metal value. This scrap cycle also contributes to a long position as it relates to commodity price risk.

Although alternative sources of supply are available, the Company currently purchases nickel through an exclusive arrangement with a single supplier to ensure consistent quality and supply. The Company purchases raw materials through various arrangements including fixed-term contracts and spot purchases, which involve a variety of pricing mechanisms. In cases where the Company prices its products at the time of order placement, the Company attempts to establish selling prices with reference to known costs of materials, thereby reducing the risk associated with changes in the cost of raw materials. However, to the extent that the price of nickel fluctuates rapidly, there may be a favorable or unfavorable effect on the Company's gross profit margins. The Company periodically purchases material forward with certain suppliers in connection with fixed price agreements with customers. In the event a customer fails to meet the expected volume levels or the consumption schedule deviates from the expected schedule, a rapid or prolonged decrease in the price of raw materials could adversely affect the Company's operating results.

The Company values inventory utilizing the first-in, first-out ("FIFO") inventory costing methodology. Under the FIFO inventory costing method, the cost of materials included in cost of sales may be different from the current market price at the time of sale of finished product due to the length of time from the acquisition of the raw material to the sale of the finished product. In a period of decreasing raw material costs, the FIFO inventory valuation method normally results in higher costs of sales as compared to last-in, first out method. Conversely, in a period of rising raw material costs, the FIFO inventory valuation method normally results in lower costs of sales.

## **End Markets**

The global specialty alloy market includes stainless steels, titanium alloys, general purpose nickel alloys and high-performance nickel- and cobalt-based alloys. Of this total market, the Company primarily competes in the high-performance nickel- and cobalt-based alloy sector, which demands diverse specialty alloys suitable for use in precision manufacturing. Given the technologically advanced nature of the products, strict requirements of the end users and higher-growth end markets, in general the Company believes the high-performance alloy sector provides greater growth potential, the opportunity for higher profit margins and greater opportunities for service, product and price differentiation as compared to the stainless steels and general-purpose nickel alloys markets. While stainless steel and general-purpose nickel alloys are generally sold in bulk through third-party distributors, the Company's products are sold in smaller-sized orders which are customized and typically handled on a direct-to-customer basis.

*Aerospace.* The Company has manufactured HTA products for the aerospace market since the late 1930s and has developed numerous proprietary alloys for this market. Customers in the aerospace market tend to be the most demanding with respect to meeting specification requirements, precise tolerances and achieving new product performance standards. Stringent safety standards and continuous efforts to reduce equipment weight, reduce emissions, and develop more fuel-efficient designs require close coordination between the Company, the aero-engine OEM's, and its customers in the selection and development of HTA products. As a result, sales to aerospace customers tend to be made through the Company's direct sales force. Demand for the Company's products in the aerospace market is based on the new and replacement market for jet engines and the maintenance needs of operators of commercial and military aircraft. The Company's HTA products are used for static components in the hot sections of the aero-engine. The hot sections are subjected to substantial wear and tear and require periodic maintenance, repair and overhaul. The Company views the maintenance, repair and overhaul (MRO) business as an area of continuing long-term growth post-pandemic.

*Chemical Processing.* The chemical processing market represents a large base of customers with diverse CRA and HTA applications driven by demand for key end-use markets such as automobiles, housing, health care, biopharmaceuticals, agriculture and metals production. Both CRA and HTA supplied by the Company have been used in the chemical processing market since the early 1930s. Demand for the Company's products in this market is driven by the level of MRO and expansion requirements of existing chemical processing facilities, as well as the construction of new facilities. The expansion of manufacturing of natural gas liquids in North America is expected to be a driver of demand in this market. In addition, the Company believes the extensive worldwide network of Company-owned service and sales centers, as well as its network of independent distributors and sales agents who supplement the Company's direct sales

efforts outside of the U.S., provide a competitive advantage in marketing its CRA and HTA products in the chemical processing market.

*Industrial Gas Turbine.* Demand for the Company's products in the industrial gas turbine market is driven primarily by utility-scale electricity generation, both for base load as well as for backup generation during times of peak power demand. The benefit of these turbines are their relatively low cost, high efficiency, rapid response and reliability, especially as weather-controlled renewables have become major sources of electricity. An additional demand consideration is the drive to lower emissions from coal-fired generating facilities, since natural gas has gained acceptance as a cleaner, low cost alternative to coal. Industrial gas turbines are also used for power and propulsion in certain classes of ships and ferries, most commonly as derivatives of popular aero turbine engines. Demand is also generated by mechanical drive units used for oil and gas production and pipeline transportation and for back-up sources of power generation for hospitals and shopping malls. The company also has a strong presence in microturbine applications, which provide decentralized power and thermal heating for many key markets. The Company's products have allowed turbines to operate with higher temperatures and efficiencies for much longer service intervals.

*Other Markets.* Other markets in which the Company sells its HTA products and CRA products include flue-gas desulfurization (FGD), oil and gas, waste incineration, industrial heat treating, automotive, sensors and instrumentation, biopharmaceuticals, solar and nuclear fuel. The FGD market has been driven by both legislated and self-imposed standards for lowering emissions from fossil fuel fired electric generating facilities. This market has softened and is expected to continue to soften in the U.S. if the trend to switch from coal to natural gas for power plants continues, but has continued potential in other regions of the world. The Company also sells its products for use in the oil and gas market, primarily in connection with sour gas production. In addition, incineration of municipal, biological, industrial and hazardous waste products typically produces very corrosive conditions that demand high performance alloys. The Company continues to look for opportunities to introduce and expand the use of its alloys in emerging technologies such as solar, fuel cells, ultra-supercritical steam and supercritical-CO<sub>2</sub> power plants, and nuclear fuel applications. Markets capable of providing growth are being driven by increasing performance, reliability and service life requirements for products used in these markets, which could provide further applications for the Company's products.

## **Sales and Marketing and Distribution**

The Company sells its products primarily through its direct sales organization, which operates from 15 total locations in the U.S., Europe and Asia, 12 of which are service and/or sales centers. All of the Company's service and/or sales centers are operated either directly by the Company or through its directly or indirectly wholly-owned subsidiaries. Approximately 75% of the Company's net revenue in fiscal 2020 was generated by the Company's direct sales organization. The remaining 25% of the Company's fiscal 2020 net revenues was generated by a network of independent distributors and sales agents who supplement the Company's direct sales in the U.S., Europe and Asia. Going forward, the Company expects its direct sales force to generate approximately 75% of its total net revenues.

Providing technical assistance to customers is an important part of the Company's marketing strategy. The Company provides performance analyses of its products and those of its competitors for its customers. These analyses enable the Company to evaluate the performance of its products enabling the products to be included as part of the technical specifications used in the production of customers' products. The Company's market development professionals are assisted by its engineering and technology staff in directing the sales force to new opportunities. Management believes the Company's combination of direct sales, technical marketing, engineering and customer support provides an advantage over other manufacturers in the high-performance alloy industry. This framework allows the Company to obtain direct insight into customers' alloy needs and to develop proprietary alloys that provide solutions to customers' problems.

The Company continues to focus on growing its business in foreign markets, operating from service and sales centers in Asia and Europe.

While the Company is making concentrated efforts to expand foreign sales, the majority of its revenue continues to be provided by sales to U.S. customers. The Company's domestic expansion effort includes, but is not limited to, the continued expansion of ancillary product forms, the continued development of new high-performance alloys, the addition of equipment in U.S. service and sales centers to improve the Company's ability to provide a product closer to the form



required by the customer and the continued effort, through the technical expertise of the Company, to find solutions to customer challenges.

The following table sets forth the approximate percentage of the Company’s fiscal 2020 net revenues generated through each of the Company’s distribution channels.

	From Domestic <u>Locations</u>	From Foreign <u>Locations</u>	<u>Total</u>
Company mill direct/service and sales centers . . . . .	51 %	24 %	75 %
Independent distributors/sales agents. . . . .	25 %	— %	25 %
Total . . . . .	<u>76 %</u>	<u>24 %</u>	<u>100 %</u>

The Company’s top twenty customers accounted for approximately 36%, 44% and 43% of the Company’s net revenues in fiscal 2018, 2019 and 2020, respectively. No customer or group of affiliated customers of the Company accounted for more than 10% of the Company’s net revenues in fiscal 2018, 2019 or 2020.

### **Manufacturing Process**

High performance alloys require an extensive knowledge of both the specific alloy systems, as well as the process parameters required to deliver a tightly controlled product to customer specifications. These products are tightly controlled from a chemistry standpoint, and require specialized equipment capable of delivering the physical and metallurgical properties that our customers require for their specialized applications. The number of process steps are typically more extensive for these high performance alloy systems as compared to what would be required for stainless or Carbon steel products. This longer production cycle contributes to slower inventory turns. The Company manufactures its high-performance alloys in various forms, including sheet, coil, plate, billet/ingot, tubular, wire and other forms. The Company also performs value-added cutting services to supply certain customers with product cut to their specification.

At the Kokomo, Indiana facility, the manufacturing process begins with raw materials being combined, melted and refined in a precise manner to produce the chemical composition specified for each high-performance alloy. The Company’s primary melt facility utilizes two different melting processes. The ARC/AOD process utilizes electric melting and gas refinement to remove carbon and other undesirable elements, thereby allowing more tightly-controlled chemistries, which in turn produce more consistent properties in the high-performance alloys. The other primary melt method utilizes vacuum induction melting, which involves the melting of raw materials through electromagnetic induction while under vacuum conditions to produce the desired tightly-controlled chemistry. The control systems allow for statistical process control monitoring in real time to improve product quality. For most high-performance alloys, this molten material is cast into electrodes and additionally refined through electroslag remelting. The resulting ingots are then forged or rolled to an intermediate shape and size depending upon the intended final product form. Intermediate shapes destined for flat products are then sent through a series of hot and cold rolling, annealing, pickling, leveling and shearing operations before being cut to final size.

The Company has a four-high Steckel rolling mill for use in hot rolling high-performance alloys, created specifically for that purpose. The four-high Steckel rolling mill was installed in 1982 and is one of the most powerful four-high Steckel rolling mills in the world. The mill is capable of generating over 12.0 million pounds of separating force and rolling a plate up to 72 inches wide. The mill includes integrated computer controls (with automatic gap control and programmed rolling schedules), two coiling Steckel furnaces and seven heating furnaces. Computer-controlled rolling schedules for each of the hundreds of combinations of product shapes and sizes the Company produces allow the mill to roll numerous widths and gauges to exact specifications without stoppages or changeovers.

The Company also operates a three-high hot rolling mill and a two-high hot rolling mill, each of which is capable of custom processing much smaller quantities of material than the four-high Steckel rolling mill. These mills provide the Company with significant flexibility in running smaller batches of varied products in response to customer requirements. The Company believes the flexibility provided by the three-high and two-high mills provides the Company with an advantage over its major competitors in obtaining smaller specialty orders.

The coil and sheet operation includes the ability to cold roll to tight tolerances, bright anneal, oxidize anneal and pickle, along with finishing processes that slit and cut to size. In recent years, the Company has invested and successfully brought on-line additional cold rolling capability, as well as annealing capacity to support the added rolling capacity. This added annealing capacity gives the Company the ability to offer either bright annealed finish or anneal and pickled finish that will be determined by specifications, application or type of alloy.

The Company also produces bar and billet product through a series of bar mills and a forge press operation that is located at the Kokomo, Indiana facility.

The Arcadia, Louisiana facility uses feedstock produced at the Kokomo facility to fabricate welded and seamless alloy pipe and tubing and purchases extruded tube hollows to produce seamless titanium tubing. The manufacturing processes at Arcadia require cold pilger mills, weld mills, draw benches, annealing furnaces and pickling facilities. The Company recently completed a capital investment project that added capacity in the above-mentioned processes.

The Mountain Home, North Carolina facility primarily manufactures finished high-performance alloy wire. Finished wire products and powder are also warehoused at this facility.

### Backlog

The Company defines backlog to include firm commitments from customers for delivery of product at established prices. At any given time, approximately 50% of the orders in the backlog include prices that are subject to adjustment based on changes in raw material costs. Historically, approximately 70% of the Company's backlog orders have shipped within six months and approximately 90% have shipped within 12 months. The backlog figures do not typically reflect that portion of the Company's business conducted at its service and sales centers on a spot or "just-in-time" basis. For additional discussion of backlog, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Annual Report on Form 10-K.

#### Consolidated Backlog at Fiscal Quarter End

	2016	2017	2018	2019	2020
	(in millions)				
1 <sup>st</sup> quarter . . . . .	\$ 204.7	\$ 167.3	\$ 205.7	\$ 237.8	\$ 237.6
2 <sup>nd</sup> quarter . . . . .	193.5	170.8	212.3	253.0	204.7
3 <sup>rd</sup> quarter . . . . .	187.2	180.9	220.6	254.9	174.6
4 <sup>th</sup> quarter . . . . .	168.3	177.3	216.0	235.2	153.3

### Research and Technical Support

The Company's technology facilities are located at the Kokomo headquarters and consist of 19,000 square feet of offices and laboratories, as well as an additional 90,000 square feet of paved storage area. The Company has six fully equipped technology testing laboratories, including a mechanical and wear test lab, a metallographic lab, an electron microscopy lab, a corrosion lab, a high-temperature lab and a welding lab. These facilities also contain a reduced scale, fully equipped melt shop and process lab. As of September 30, 2020, the technology, engineering and technological testing staff consisted of 25 persons, 13 of whom have engineering or science degrees, including 7 with doctoral degrees, with the majority of degrees in the field of metallurgical engineering or materials science.

During fiscal 2020, research and development projects were focused on new alloy development, new product form development, supportive data generation and new alloy concept validation, relating to products for the aerospace, industrial gas turbine, chemical processing and oil and gas industries. In addition, significant projects were conducted to generate technical data in support of major market application opportunities in areas such as renewable energy, fuel cell systems, biotechnology (including toxic waste incineration and pharmaceutical manufacturing) and power generation.

## **Competition**

The high-performance alloy market is a highly competitive market in which eight to ten major producers participate in various product forms. The Company's primary competitors in flat rolled products include Special Metals Corporation, a subsidiary of Precision Castparts Corp., Allegheny Technologies, Inc. and VDM Metals GmbH. The Company faces strong competition from domestic and foreign manufacturers of both high-performance alloys (similar to those the Company produces) and other competing metals. The Company may face additional competition in the future to the extent new materials are developed, such as plastics, ceramics or additive manufacturing that may be substituted for the Company's products. The Company also believes that it will face increased competition from non-U.S. entities in the next five to ten years, especially from competitors located in Eastern Europe and Asia. Recent tariff increases between the U.S. and China have adversely impacted the Company when competing with producers outside of the U.S. for sales into China. Additionally, in recent years, the Company's domestic business has been challenged by a strong U.S. dollar, which makes the goods of foreign competitors less expensive to import into the U.S and makes the Company's products more expensive to export outside the U.S.

In recent years, the Company experienced strong price competition from competitors who produce both stainless steel and high-performance alloys due primarily to weakness in the stainless steel market. Increased competition requires the Company to price its products competitively, which pressures the Company's gross profit margin and net income. The Company continues to respond to this competition through alloy and application development, increasing emphasis on service centers, offering value-added services, improving its cost structure and striving to improve delivery times and reliability.

With the global effects of the COVID-19 pandemic, pricing pressure has increased in many of the Company's industries. The Company's effectiveness in managing its cost structure and pricing for the value provided will likely be a key determinant of future profitability and competitiveness.

## **Human Capital Resources**

The Company values its workforce as one of its most important assets. Accordingly, the Company has adopted and maintains a number of programs and practices designed to attract and retain the best available personnel.

### *Succession and Recruitment*

The Company has an organizational development and succession planning process in place for human capital strategic planning. The strategic development process often consists of multi-year succession and development plans. Such succession plans have been utilized in departments such as Sales & Distribution, Research & Technology, Marketing and Manufacturing.

In response to the COVID-19 pandemic and other market forces that have altered, and are expected to continue to alter, the workforce and the manner in which it functions, the Company is redefining how many roles within the Company may be performed. For example, through experience with the COVID-19 pandemic, the Company has learned that many non-production employees are able to perform all or substantially all of their job functions outside of the office. In addition, virtual meetings have been used to substantially reduce travel as well as in-person contact. The Company is evaluating the effects of these and other changes on its current and future workforce, including their potential to provide the Company access to a broader recruiting pool for potential new employees, including workers in specialized areas such as metallurgy and other with specialties relating to the Company's products, flexible role descriptions and/or working arrangements and other matters.

### *COVID-19 – Related Programs*

Economic conditions have limited hiring and succession planning implementation in some areas. In fiscal 2020, the Company predominantly hired new personnel in order to backfill crucial positions. Hiring for succession planning or bench strength has subsided during the economic downturn in business related to the COVID-19 pandemic and other factors.

The onset of COVID-19 in the United States in fiscal 2020 and the ongoing economic downturn created additional risk related to key person retention and succession planning. In response to the economic conditions created by the COVID-19 pandemic, the Company implemented voluntary retirement incentives, reductions-in-force, unpaid furloughs and compensation reductions, which have created additional challenges to developing and retaining staff. In order to attempt to ease the effects of such actions, the Company extended health insurance to furloughed employees for certain periods, offered paid sick leave for certain periods and encouraged use of the Company's existing wellness and mental health services through its employee assistance program.

However, the cost saving measures created higher risk of turnover of key employees. Additionally, if other industries rebound faster than the Company's end markets, particularly aerospace, those circumstances could create competition for the Company's acquisition and retention of employees with specific skill sets. Limited dedicated resources and commitment for developmental positions may also impact the success and rate of succession and development efforts. Nonetheless, the Company has established formal and informal development activities to promote employee retention and position the Company for success in the long term.

### *Retirement and Exit Programs*

The Company has established a phased retirement program to sustain the Company's access to institutional knowledge of employees with specialized skill sets who would like to phase into retirement. At the same time, the program is designed to facilitate a smooth transition for their successors. This program has been limited in its use but strategically beneficial.

The Company also utilizes exit interviews and on-boarding interviews to provide feedback regarding turnover and employee desires for growth and development. These interviews are also utilized to identify drivers of voluntary turnover and departures from the Company. Employee turnover rate and reasons, including voluntary and involuntary departures, are monitored annually. The global turnover rate in fiscal 2020 was 22%, compared to an average of 14% in the prior two fiscal years. Both voluntary and involuntary terminations, including retirements, are used to calculate the turnover rate. The reduction-in-force resulting from the COVID-19 pandemic accounted for most of the increased turnover rate in fiscal 2020.

### *Compensation Equity*

In fiscal 2020, the Company conducted an inflation-adjusted compensation analysis to promote competitive compensation. This analysis took into account ranges for the geographical area, education level and job title under consideration. The Company's Human Resources Department develops offers for new salaried employees and also develops and administers promotions to maintain the internal integrity of the compensation levels for comparable positions. The Compensation Committee, with the recommendation of the full Board in the case of incentive compensation, determines annual salaries of the Company's executive management team, taking into account similarly situated executives employed by a peer group of companies while also considering input of the Compensation Committee's independent compensation consultant.

### *Diversity and Inclusion*

The Corporate Governance and Nominating Committee of the Board (the "Governance Committee") considers diversity as a criteria evaluated as a part of the attributes and qualifications a Board candidate possesses. The Governance Committee construes the notion of diversity broadly, considering differences in viewpoint, professional experience, education, skills and other individual qualities, in addition to race, gender, age, ethnicity and cultural backgrounds as elements that contribute to a diverse Board. In keeping with this diversity commitment, the two most recent directors appointed to the Board, each of whom brings substantial experience in the form of executive leadership in the specialty metals industry and the U.S. Air Force, respectively, further the Board's goal of enhancing diversity.

Management also considers similar broad concepts of diversity in its hiring practices as well as its selection of vendors, contractors and other service providers. As a federal government subcontractor, the Company follows federal rules and regulations relating to diversity and other matters, including reporting requirements.

In fiscal 2020, the Company's Chief Executive Officer sent an open letter to employees in response to the racial and diversity issues being addressed more broadly in the United States and elsewhere. In that letter, he affirmed the Company's commitment to diversity and solicited questions and comments from employees regarding these matters. As a result of that letter, the Chief Executive Officer held numerous one-on-one conversations with employees in connection with these issues and thereby gained valuable insight from the employees' perspective.

### *Company Culture*

The Company has controls in place relating to compliance with the Company's Code of Business Conduct and Ethics, including a requirement for annual employee certification of that code as well as an established whistleblower hotline and related procedures. In addition, human capital management, and more specifically employee hiring and retention, are included within the Company's Enterprise Risk Management program, which is subject to Board oversight through regular reporting.

### *Community Involvement*

The Company has used internships and partnerships with universities to enrich recruiting efforts, particularly for technical roles such as research, alloy development and engineering. The Company has also utilized outreach and partnerships with local community resources at all major locations such as community and technical colleges, workforce development agencies, industry groups and other entities to strengthen the Company's hiring process and expand the future workforce candidate pool.

### *Employee Engagement and Wellness*

The Company has a long-standing tuition reimbursement program to assist employees with the continuation of their educations. In addition, employee assistance programs offer counseling for emotional, financial and family issues. Continuing financial planning education is provided by the Company's 401(k) plan administrator to assist employees in financial and retirement planning. For many years, the Company's investment in human capital has involved commitments to worker training, apprenticeship programs and funding college scholarships.

In response to COVID-19, the Company adopted a broad approach to increased safety, including work-at-home arrangements for employees who were able to do so, temporary furloughs to decrease the number of people in its facilities, requirements for the wearing of masks and for social distancing, increased cleaning between shifts, readily available hand sanitizing stations, widespread signage reminding employees of the importance of these measures and other steps.

### *Management and Board Oversight*

Management is engaged in the Company's efforts regarding management of human capital resources at all levels through regular informational meetings, the Company's Enterprise Risk Management program and organized succession planning. The Board oversees these activities through regular reports by senior management regarding new or altered programs and as part of the Enterprise Risk Management process. In addition, the Compensation Committee of the Board is actively engaged in monitoring and encouraging diversity at the Board level as well as achieving and maintaining internal and external pay equity for the executive team and the Board members while overseeing incentive compensation more broadly throughout the organization. In promoting external pay equity, the Board and the Compensation Committee make use of peer comparisons and benchmarking measures.

### *Employee Statistics*

As of September 30, 2020, the Company employed 1,037 full-time employees and 17 part-time employees worldwide. All eligible hourly employees at the Kokomo, Indiana and Arcadia, Louisiana plants (498 in the aggregate) are covered by two collective bargaining agreements.

On July 1, 2018, the Company entered into a new five-year collective bargaining agreement with the United Steelworkers of America Local 2958, which covers eligible hourly employees at the Kokomo, Indiana plant. This agreement will expire in June 2023.

On December 21, 2015, the Company entered into a collective bargaining agreement with the United Steelworkers of America Local 1505, which covers eligible hourly employees at the Company's Arcadia, Louisiana plant. This agreement will expire in December 2020 and the Company along with the United Steelworkers of America Local 1505 have agreed to negotiate a new agreement.

Management believes that current relations with the union are satisfactory.

### **Environmental Compliance**

The Company has an enterprise level environmental policy, which focuses on fostering a safe workplace, offering high quality products while protecting the environment, compliance with law and health and safety management systems, utilization of all available resources to improve the quality, environmental, health and safety management systems and setting, implementing and reviewing quality, environmental, health and safety objectives and targets. This policy is communicated to contractors and vendors who provide services on site, and the Company periodically audits selected suppliers from an environmental compliance perspective. The Company maintains an environmental management system certified to ISO 14001 standards and, for its Kokomo operations, ISO 50001 standards. The Company maintains multiple policies designed to comply with the Occupational Safety and Health Administration standards and has OHSAS 18001 certification.

The Company's facilities and operations are subject to various foreign, federal, state and local laws and regulations relating to the protection of human health and the environment, including those governing the discharge of pollutants into the environment and the storage, handling, use, treatment and disposal of hazardous substances and wastes. In the U.S., such laws include, without limitation, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Toxic Substances Control Act and the Resource Conservation and Recovery Act. As environmental laws and regulations continue to evolve, it is likely the Company will be subject to increasingly stringent environmental standards in the future, particularly under air quality and water quality laws and standards related to climate change issues, such as reporting of greenhouse gas emissions. Violations of these laws and regulations can result in the imposition of substantial penalties and can require facility improvements. Expenses related to environmental compliance, which are primarily included in Cost of sales on the Consolidated Statements of Operations, were approximately \$3.0 million for fiscal 2020 and are currently expected to be approximately \$3.0 million for fiscal 2021.

The Company's facilities are subject to periodic inspection by various regulatory authorities, who from time to time have issued findings of violations of governing laws, regulations and permits. In the past five years, the Company has paid administrative fines, none of which have had a material effect on the Company's financial condition, for alleged violations relating to environmental matters, requirements relating to its Title V Air Permit and alleged violations of record keeping and notification requirements relating to industrial waste water discharge. Capital expenditures of approximately \$0.3 million were made for pollution control improvements during fiscal 2020, with additional expenditures of approximately \$0.7 million for similar improvements planned for fiscal 2021.

The Company has received permits from the Indiana Department of Environmental Management and the North Carolina Department of Environment and Natural Resources to close and provide post-closure environmental monitoring and care for certain areas of its Kokomo and Mountain Home, North Carolina facilities, respectively.

The Company is required among other things to monitor groundwater and to continue post-closure maintenance of the former disposal areas at each site. As a result, the Company is aware of elevated levels of certain contaminants in the groundwater on the Company's property. These levels are stable or decreasing, but additional testing and corrective action by the Company could be required. The Company is unable to estimate the costs of any further corrective action at these sites, if required. Accordingly, the Company cannot assure that the costs of any future corrective action at these or any other current or former sites would not have a material effect on the Company's financial condition, results of operations or liquidity.

The Company may also incur liability for alleged environmental damages associated with the off-site transportation and disposal of hazardous substances. Generators of hazardous substances which are transported to disposal sites where environmental problems are alleged to exist are subject to claims under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, and state counterparts. CERCLA imposes strict, joint and several liabilities for investigatory and cleanup costs upon hazardous substance generators, site owners and operators and other potentially responsible parties. The Company is currently named as a potentially responsible party at one site. There can be no assurance that the Company will not be named as a potentially responsible party at other sites in the future or that the costs associated with those sites would not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

On February 11, 2016, the Company voluntarily reported to the Louisiana Department of Environmental Quality a leak that it discovered in one of its chemical cleaning operations at its Arcadia, Louisiana facility. As a result of the discovery, the Company worked with the department to determine the extent of the issue and appropriate remediation. Remediation activities have been completed, and the Company has submitted a "No Further Action" (NFA) request. The NFA request is currently pending.

## **Legal Compliance**

In addition to environmental laws and regulations, the Company must comply with a wide variety of other laws and regulations, including, without limitation, federal and state securities laws, Delaware corporate law and safety laws and regulations. The Company continues to engage in collaboration with key stakeholders, such as customers and

regulators, to adapt to changing regulatory expectations. Compliance with law and government regulations is not expected to have any material effect upon capital expenditures, earnings or the competitive position of the Company.

## **Environmental, Social and Governance Matters**

In addition to the information set forth below, further information regarding the Company's environmental, social and governance activities can be found under the Sustainability tab on the Company's website at [www.haynesintl.com/company-information/sustainability](http://www.haynesintl.com/company-information/sustainability).

### Governance and Social Matters

The Company is committed to a culture of openness, trust and integrity in all aspects of its business. It is critical that all employees, vendors and customers understand and accept that, in everything it does, the Company will conduct itself from the perspective of "doing the right thing for the right reason" at all times.

The Company has a number of policies in place governing social and ethical issues, including, without limitation:

- Code of Business Conduct and Ethics
- Anti-Harassment Policy
- Human Rights Policy
- Human Trafficking Policy
- Anti-Corruption Policy
- Conflict Minerals Policy
- Gift Policy
- Supplier Code of Conduct

All Company employees must certify compliance with the Code of Business Conduct and Ethics annually, and regular training is provided to employees regarding these and other policies. In addition, the Company maintains a whistleblower hotline with access available on an anonymous basis online or by telephone.

### Environmental Matters

The Company has an enterprise level environmental policy, which focuses on fostering a safe workplace, while protecting the environment and complying with laws and health and safety management systems. The Company utilizes available resources to improve quality, environmental and health and safety management systems, as well as set objectives and targets for each. This policy is communicated to contractors and vendors who provide services on site, and the Company periodically audits selected suppliers from an environmental compliance perspective.

The Company is conscious of its environmental impact and is actively working to lighten its carbon footprint. The ever-increasing demand for clean energy generation has led to the development of several emerging technologies that require high-temperature alloys for demanding operating conditions.

Since the invention of HASTELLOY® X alloy in 1954, the Company's alloys have made it possible for aerospace engines to run at high temperatures for long periods of time. Engines being placed in service today reportedly consume 15% less fuel, produce 50% less pollutants and reduce the noise footprint near airports compared to the previous generation of airplane engines. The environmental related improvements stem in part from the increased use of alloys, such as HASTELLOY® X, HAYNES® 188, 230®, 282®, 242®, 244® and other Haynes invented alloys.

In addition to the Company's alloys for energy production and powering modern aircraft in a more environmentally friendly manner, the Company's alloys are used in chemical plants that produce ecologically safe agrichemicals which help to feed the world's growing population. Company-invented HASTELLOY® G-35®, HYBRID-BC1® and C-276 alloys are commonly used in these applications. In addition, HASTELLOY® C-22®, C-2000® and B-3® alloys are used by the pharmaceutical companies for production of chemicals.



Renewable power generation offers the promise of producing power from nature's resources, such as wind, sun, rivers and oceans, with minimal depletion to the Earth's resources and damage to the environment. Many renewable energy technologies require the capture of energy at very high temperatures in extreme environments for which the Company's alloys are well suited. For example, the Company's materials withstand intense heat in concentrated solar power plants to facilitate storable thermal power to generate electricity after the sun sets.

Since fiscal year 2010, the Company has invested more than \$2.0 million in energy conservation programs, and as a result, the Company now saves approximately \$1.1 million in energy costs per year. The Company has specific targets in place for reducing electricity and natural gas consumption in its energy conservation programs.

The Company maintains an environmental management system certified to the ISO 14001:2015 standard, and Kokomo operations are ISO 50001:2018 certified. The Company's facilities are subject to periodic inspection by various regulatory authorities.

### Safety Matters

Safety is the Company's top priority. Listed below are certain improvement efforts the Company has implemented in order to reduce occurrences of injuries, occupational diseases and work-related fatalities.

- Each year, employees receive emergency preparedness training, and the Company conducts severe weather and fire drills periodically.
- Employees attend refresher training annually. This training includes coverage of the following items: Lock Out Tag Out, Confined Spaces, First Aid and Bloodborne Pathogens, Fire Prevention and Emergency Action Plan, Hearing Conservation, Hand Safety, Personal Protective Equipment requirements, Working Around Mobile Equipment and Walking and Working Surfaces.
- All of the Company's manufacturing sites have a volunteer Emergency Response Team (ERT). The ERT members are state-certified trained in first aid and HAZMAT response.
- Company supervisors receive OSHA-10 Hour and Incident Investigation training.
- The Company conducts routine departmental safety audits.

The Company extends its health and safety policies to suppliers, visitors and contractors. When suppliers, visitors and contractors come on site, they receive safety training. The training includes a review of relevant policies, required personal protection equipment, emergency procedures and specific hazards that may be encountered.

## Executive Officers of the Company

The following table sets forth certain information concerning the persons who served as executive officers of the Company as of September 30, 2020. Except as indicated in the following paragraphs, the principal occupations of these persons have not changed during the past five years.

<u>Name</u>	<u>Age</u>	<u>Position with Haynes International, Inc.</u>
Michael L. Shor . . . . .	61	President and Chief Executive Officer
Daniel W. Maudlin . . . . .	54	Vice President—Finance, Treasurer and Chief Financial Officer
Janice W. Gunst . . . . .	48	Vice President—General Counsel & Corporate Secretary
Venkat R. Ishwar . . . . .	68	Vice President—Marketing & Technology
Marlin C. Losch . . . . .	60	Vice President—Sales & Distribution
Jean C. Neel . . . . .	61	Vice President—Corporate Affairs
Scott R. Pinkham . . . . .	53	Vice President—Tube & Wire Products
David L. Strobel . . . . .	59	Vice President—Operations
Gregory W. Tipton . . . . .	59	Vice President & Chief Information Officer
David S. Van Bibber . . . . .	49	Controller and Chief Accounting Officer

Mr. Shor was elected President and Chief Executive Officer of the Company in September 2018. Prior to that, he served as interim President and Chief Executive Officer of the Company from May 2018 through September 2018 and Chairman of the Board of the Company from February 2017 through September 2018. Mr. Shor has been a director since 2012.

Mr. Maudlin has served as the Vice President-Finance, Treasurer and Chief Financial Officer of the Company since December 2012.

Ms. Gunst has served as Vice President—General Counsel and Corporate Secretary of the Company since August 2011.

Dr. Ishwar has served as Vice President—Marketing & Technology of the Company since January 2010.

Mr. Losch has served as Vice President—Sales & Distribution of the Company since January 2010.

Ms. Neel has served as Vice President—Corporate Affairs of the Company since April 2000.

Mr. Pinkham has served as Vice President—Tube and Wire Products of the Company since September 2018. Prior to that, he served as Vice President—Manufacturing of the Company since March 2008.

Mr. Strobel has served as Vice President—Operations of the Company since September 2018. Prior to that, he was a consultant to manufacturing companies through his company Silver Eagle Consulting. Mr. Strobel was also Senior Vice President and Chief Technology Officer of Carpenter Technology Corporation from June 2015 to August 2016 and Senior Vice President – Operations of Carpenter Technology from September 2011 to June 2015.

Mr. Tipton has served as Vice President and Chief Information Officer of the Company since January 2019. Prior to that, he served as Chief Information Officer Americas for Dometic from August 2016 to December 2018 and as Director of Information Technology for Dometic from December 2012 to October 2016.

Mr. Van Bibber has served as Controller and Chief Accounting Officer of the Company since December 2012.

## **Item 1A. Risk Factors**

The following risk factors should be considered carefully in addition to the other information contained in this filing.

The risks and uncertainties described below are not the only ones we face and represent risks that our management believes are material to investors regarding an investment in our Company and our business. Additional risks and uncertainties not presently known to us or that we currently deem not material may also harm our business. If any of the following risks actually occur, our business, financial condition or results of operations could be harmed.

### **Risks Related to the COVID-19 Pandemic**

***Our results of operations, financial condition and cash flows have and may continue to be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19.***

Our business, results of operations, financial condition, cash flows and stock price have and may continue to be adversely affected by pandemics, epidemics or other public health emergencies, such as the global outbreak of COVID-19. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, “shelter in place” and “stay at home” orders, travel restrictions, business curtailments, school closures, and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

The outbreak of COVID-19 and preventive or protective actions taken by governmental authorities may continue to have a material adverse effect on our operations, supply chain, customers and transportation networks, including business shutdowns or disruptions. We have already experienced many effects of COVID-19, including partial shutdowns, quarantine of certain employees, temporary and permanent layoffs, pay cuts and mandatory unpaid furloughs, decreased demand for our products, increased pricing pressures and changes to our business strategies and management attention. The extent to which COVID-19 may continue to adversely impact our business depends on future developments, which are highly uncertain and unpredictable due to lower revenue leading to lower volumes and unfavorable fixed cost absorption, including the severity and duration of the outbreak and the effectiveness of actions taken globally to contain or mitigate its effects. Future financial impact cannot be estimated reasonably at this time because of the factors above, but may materially adversely affect our business, results of operations, financial condition and cash flows. The aerospace market, our largest market, has been particularly hit hard by the addition of COVID-19 issues to the pre-existing issues with the grounding of the Boeing 737 MAX related to safety concerns of that aircraft, and we cannot determine what further effect that exacerbating factor will have on the aerospace market. Even after the COVID-19 pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting economic recession or depression. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has and may continue to adversely impact our stock price and our ability to access capital markets. Our indebtedness may also increase due to our need to increase borrowing to fund operations during a period of reduced revenue. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described herein.

### **Risks Related to Our Markets**

***Our revenues may fluctuate widely based upon changes in demand for our customers’ products.***

Demand for our products is dependent upon and derived from the level of demand for the machinery, parts and equipment produced by our customers, which are principally manufacturers and fabricators of machinery, parts and equipment for highly specialized applications. Historically, certain of the markets in which we compete have experienced unpredictable, wide demand fluctuations, such as the current conditions in the aerospace industry. Because of the

comparatively high level of fixed costs associated with our manufacturing processes, significant declines in those markets have had a disproportionately adverse impact on our operating results.

We have, in several instances, experienced substantial year-to-year declines in net revenues, primarily as a result of decreases in demand in the industries to which our products are sold. In fiscal 2002, 2003, 2009, 2010, 2013, 2016 and 2020, our net revenues, when compared to the immediately preceding year, declined by approximately 10.3%, 21.2%, 31.1%, 13.0%, 16.7%, 16.6% and 22.4%, respectively. We may experience similar fluctuations in our net revenues in the future. Additionally, demand is likely to continue to be subject to substantial year-to-year fluctuations as a consequence of industry cyclicality, as well as other factors such as global economic uncertainty, and such fluctuations may have a material adverse effect on our business. Currently, the COVID-19 pandemic has significantly decreased demand for our products across all of our markets, but particularly in the aerospace industry, which is also affected by issues relating to the Boeing 737 MAX.

***Profitability in the high-performance alloy industry is highly sensitive to changes in sales volumes.***

The high-performance alloy industry is characterized by high capital investment and high fixed costs. The cost of raw materials is the primary variable cost in the manufacture of our high-performance alloys and, in fiscal 2020, represented approximately 35% of our total cost of sales. Other manufacturing costs, such as labor, energy, maintenance and supplies, often thought of as variable, have a significant fixed element. Profitability is, therefore, very sensitive to changes in volume, and relatively small changes in volume can result in significant variations in earnings. Our ability to effectively utilize our manufacturing assets depends greatly upon continuing demand in our end markets, successfully increasing our market share and continued acceptance of our new products into the marketplace. Currently, the COVID-19 pandemic has significantly decreased demand, and therefore, sales volume of our products. Failure to effectively utilize our manufacturing assets, including as a result of the COVID-19 pandemic, may continue to negatively impact our business.

***We operate in cyclical markets.***

A significant portion of our revenues is derived from the highly cyclical aerospace, power generation and chemical processing markets. Our sales to the aerospace industry constituted 50.5% of our total sales in fiscal 2020. Our chemical processing and industrial gas turbine sales constituted 16.6% and 14.9%, respectively, of our total sales in fiscal 2020. Each of these markets has been adversely impacted by the global economic effects of the COVID-19 pandemic.

The commercial aerospace industry is historically driven by demand from commercial airlines for new aircraft. The U.S. and international commercial aviation industries continue to face challenges arising from the global economic climate, the continued grounding of the Boeing 737 MAX airliner, competitive pressures and fuel costs. Demand for commercial aircraft is influenced by industry profitability, trends in airline passenger traffic (including the dramatic decrease caused by COVID-19), the state of U.S. and world economies, the ability of aircraft purchasers to obtain required financing and numerous other factors, including the effects of terrorism and health and safety concerns (including those arising from COVID-19).

The military aerospace cycle is highly dependent on U.S. and foreign government funding which is driven by, among other factors, the effects of terrorism, a changing global political environment, U.S. foreign policy, the retirement of older aircraft and technological improvements to new engines that increase reliability. Accordingly, the timing, duration and magnitude of cyclical upturns and downturns cannot be forecasted with certainty. Downturns or reductions in demand for our products sold into the aerospace market could have a material adverse effect on our business.

The industrial gas turbine market is also cyclical in nature. Demand for power generation products is global and is affected by the state of the U.S. and world economies, the availability of financing to power generation project sponsors, the increase in renewable energy and the political environments of numerous countries. The availability of fuels and related prices also have a large impact on demand. Decreased demand for our products in the industrial gas turbine industry may have a material adverse effect on our business.

We also sell products into the chemical processing industry, which is also cyclical in nature. Customer demand for our products in this market may fluctuate widely depending on U.S. and world economic conditions, the availability of financing, and the general economic strength of the end use customers in this market. Cyclical declines or sustained weakness in this market could have a material adverse effect on our business.

***Our business depends, in part, on the success of commercial aircraft programs and our ability to accelerate production levels to timely match order increases in new or existing programs.***

The success of our business will depend, in part, on the success of new and existing commercial aircraft programs. We are currently under contract to supply components for a number of commercial aircraft programs. As a result of COVID-19, the continued grounding of the Boeing 737 MAX and other factors, commercial aircraft programs are scheduled to have production decreases over the next several years. Further cancellation, reductions or delays of orders or contracts by our customers or in any of these programs, or regulatory or certification-related groundings or other delays or cancellations to new or existing aircraft programs or to the scheduled production increases for any aircraft programs, including as may be related to any prolonged period of the current decrease in passenger air traffic, could exacerbate the material adverse effect on our business. The grounding of the Boeing 737 MAX passenger airliners continues worldwide as The Boeing Company works to resolve problems with that aircraft. The effect of any future action on our business is currently unknown, but changes in production schedules to date have had, and future changes may also have, a material adverse effect on our business.

***The competitive nature of our business results in pressure for price concessions to our customers and increased pressure to reduce our costs.***

We are subject to substantial competition in all of the markets we serve, and we expect this competition to continue. As a result, we have made significant price concessions to our customers in the aerospace, chemical processing and power generation markets from time to time, and we expect customer pressure for further price concessions to continue. Maintenance of our market share will depend, in part, on our ability to sustain a cost structure that enables us to be cost-competitive. If we are unable to adjust our costs relative to our pricing, our profitability will suffer. With the global effects of the COVID-19 pandemic, pricing pressure has increased in many of our industries. Our effectiveness in managing our cost structure and pricing for the value provided will be a key determinant of future profitability and competitiveness.

***Aerospace demand is primarily dependent on two manufacturers.***

A significant portion of our aerospace products are sold to fabricators and are ultimately used in the production of new commercial aircraft. There are only two primary manufacturers of large commercial aircraft in the world, The Boeing Company and Airbus. A significant portion of our aerospace sales are dependent on the number of new aircraft built by these two manufacturers, which is in turn dependent on a number of factors over which we have little or no control. Those factors include demand for new aircraft from around the globe, utilization levels of commercial and military aircraft, success of new commercial and military aircraft programs and factors that impact manufacturing capabilities, such as the availability of raw materials and manufactured components, changes in highly exacting performance requirements and product specifications, U.S. and world economic conditions, changes in the regulatory environment and labor relations between the aircraft manufacturers and their work forces, most of which have been adversely affected by the economic effects of the COVID-19 pandemic. Significant interruptions and slowdowns in the number of new aircraft built by the aircraft manufacturers has and may continue to have a material adverse effect on our business. As noted above, future actions relating to the worldwide grounding of the Boeing 737 MAX passenger airliner by The Boeing Company, as well as the ongoing effects of the COVID-19 pandemic may continue to have a material adverse effect on our business.

***During periods of lower demand in other alloy markets, some of our competitors may use their available capacity to produce higher volumes of high-performance alloys, which leads to increased competition in the high-performance alloy market.***

We have experienced increased competition from competitors who produce both stainless steel and high-performance alloys. Due to continued under-utilization of capacity in the stainless steel market as well, as the adverse

impacts of the COVID-19 pandemic, we believe these competitors continue to increase their production levels and sales activity in high-performance alloys to keep capacity in their mills as full as possible, while offering very competitive prices and delivery times. If the stainless steel market does not improve, continued competition from stainless steel producers could negatively impact our average selling price and reduce our gross profit margin.

In addition, as a result of the competition in our markets, we have made significant price concessions to our customers from time to time, and we expect customer pressure for further price concessions to continue, particularly given the effects of the COVID-19 pandemic. Maintenance of our market share will depend, in part, on our ability to sustain a cost structure that enables us to be cost-competitive. If we are unable to adjust our costs relative to our pricing, our profitability will suffer. Our effectiveness in managing our cost structure through changing circumstances will be a key determinant of future profitability and competitiveness.

***Periods of reduced demand and excess supply as well as the availability of substitute lower-cost materials can adversely affect our ability to price and sell our products at the profitability levels we require to be successful.***

Additional worldwide capacity and reduced demand for our products could significantly impact future worldwide pricing, which would adversely impact our business. In recent years, several of our competitors have added capacity that represents direct competition with the Company's business. In addition, continued availability of lower-cost, substitute materials may also cause significant fluctuations in future results as our customers opt for a lower-cost alternative. The impacts of the COVID-19 pandemic have also reduced demand for our products globally and have significantly increased customer requests to reduce pricing or delay delivery.

We change prices on our products as we deem necessary. In addition to the above general competitive impact, other market conditions and various economic factors beyond our control can adversely affect the timing of our pricing actions. The effects of any pricing actions may be delayed due to long manufacturing lead times or the terms of existing contracts. There is no guarantee that the pricing actions we implement will be effective in maintaining our profit margin levels.

### **Risks Related to Raw Materials**

***Rapid fluctuations in the prices of nickel, cobalt and other raw materials may materially adversely affect our business.***

To the extent that we are unable to adjust to rapid fluctuations in the price of nickel, cobalt and other raw materials that we use in large quantities, there may be a negative effect on our gross profit margins. In fiscal 2020, nickel, a major component of many of our products, accounted for approximately 41% of our raw material costs, or approximately 14% of our total cost of sales. We enter into several different types of sales contracts with our customers, some of which allow us to pass on increases in nickel or other raw material prices to our customers. In other cases, we fix the nickel or other raw materials component of our prices for a period of time through the life of a long-term contract. In yet other cases, we price our products at the time of order, which allows us to establish prices with reference to known costs of our raw material inventory, but which does not allow us to offset an unexpected rise in the price of raw materials. The COVID-19 pandemic has affected raw material pricing by increasing the unpredictability of our profitability and its future effects are unknown. We may not be able to successfully offset rapid changes in the price of nickel, cobalt or other raw materials in the future. In the event that raw material price increases occur that we are unable to pass on to our customers, our cash flows or results of operations could be materially adversely affected.

Our business cycle is long, involving multiple steps. These refining steps generate high revert scrap pounds that are recycled back through the melt at metal value. This scrap cycle also contributes to a long position as it relates to commodity price risk.

Our results of operations may also be negatively impacted if both customer demand and raw material prices rapidly fall at the same time. Because we value our inventory utilizing the first-in, first-out inventory costing methodology, a rapid decrease in raw material costs has a negative effect on our operating results. In those circumstances, we recognize higher material cost in cost of sales relative to lower raw material market prices that drive the sales price.

In addition, we periodically enter into forward purchase agreements for our raw material supply. If we enter into a forward purchase agreement which is not matched to one or more customer contracts with fixed raw material prices, a rapid or prolonged decrease in the price of significant raw materials could adversely impact our business.

***Our business is dependent on a number of raw materials that may not be available.***

We use a number of raw materials in our products which are found in only a few parts of the world and are available from a limited number of suppliers. The availability of these materials may be influenced by private or government cartels, changes in world politics, additional regulation, labor relations between the materials producers and their work force, unstable governments in exporting nations, inflation, general economic conditions and export quotas imposed by governments in nations with rare earth element supplies. The ability of key material suppliers to meet quality and delivery requirements or to provide materials on terms acceptable to us is beyond our control and can also impact our ability to meet commitments to customers. Future shortages or price fluctuations in raw materials could result in decreased sales as well as margins, or otherwise adversely affect our business. The enactment of new or increased import duties on raw materials imported by us could also decrease availability, thereby adversely affect our business.

If suppliers are unable to meet our demands, we may not have alternative sources of supply. In some cases, we have entered into exclusive supply agreements with respect to raw materials, which could adversely affect our business if the exclusive supplier cannot meet quality and delivery requirements to provide materials on terms acceptable to us.

The manufacturing of the majority of our products is a complex process and requires long lead times. We may experience delays or shortages in the supply of raw materials. If we are unable to obtain adequate and timely deliveries of required raw materials, we may be unable to timely manufacture sufficient quantities of products. This could cause us to lose sales, incur additional costs, delay new product introductions or suffer harm to our reputation.

### **Risks Related to Our Production and Operations**

***Our operations are dependent on production levels at our Kokomo facility.***

Our principal assets are located at our primary integrated production facility in Kokomo, Indiana and at our production facilities in Arcadia, Louisiana and in Mountain Home, North Carolina. The Arcadia and Mountain Home plants, as well as all of the domestic and foreign service centers, rely to a significant extent upon feedstock produced at the Kokomo facility. During fiscal 2020, we endured a temporary shut-down of most of the Company's production operations which impacted our operations and financial results. Any further production failures, shutdowns (including those associated with COVID-19) or other significant problems at the Kokomo facility could have a material adverse effect on our financial condition and results of operations. We maintain property damage insurance to provide for reconstruction of damaged equipment, as well as business interruption insurance to mitigate losses resulting from any production shutdown caused by an insured loss. Although we believe that our insurance is adequate to cover any such losses, that may not be the case. Additionally, our insurance policies include deductibles that would require us to incur losses that could have an adverse effect on our financial results in the event a significant interruption occurs. One or more significant uninsured losses at our Kokomo facility may have a material adverse effect on our business.

In addition, from time to time we schedule planned outages on the equipment at our Kokomo facility for maintenance and upgrades. These projects are subject to a variety of risks and uncertainties, including a variety of market, operational and labor-related factors, many of which may be beyond our control. The COVID-19 pandemic has made it necessary for us to shut down portions of our operations periodically in the last several months. The pandemic, and its effect on our markets and our business, has also required us to temporarily or permanently lay off certain personnel. Should a planned or unplanned shut down on a significant piece of equipment, or a significant decrease in personnel, last substantially longer than originally planned, there could be a material adverse effect on our business.

***Our production may be interrupted due to equipment failures, lack of critical spares, or other events affecting our factories.***

Our manufacturing processes depend on certain sophisticated and high-value equipment, some of which has been in operation for a long period of time for which there may be only limited or no production alternatives. Failures of this equipment, or the lack of critical spares to timely repair this equipment, could result in production delays, revenue loss and significant repair costs. In addition, our factories rely on the availability of electrical power and natural gas, transportation for raw materials and finished products and employee access to our workplace that are subject to interruption in the event of severe weather conditions or other natural or manmade events (including the COVID-19 pandemic). While we maintain backup resources to the extent practicable, a severe or prolonged equipment outage, failure or other interruptive event affecting areas where we have significant manufacturing operations may result in loss of manufacturing or shipping days, which could have a material adverse effect on our business. Natural or manmade events (including the COVID-19 pandemic) that interrupt significant manufacturing operations of our customers also could have a material adverse effect on our business.

***Issues related to our agreements with Titanium Metals Corporation could require us to make significant payments and could disrupt our operations and materially affect our financial results.***

We entered into a Conversion Services Agreement and an Access and Security Agreement with Titanium Metals Corporation (TIMET) in November 2006 that provide for the performance of certain titanium conversion services through November 2026. In 2012, TIMET was acquired by Precision Castparts Corp. which owns Special Metals Corporation, a direct competitor of ours. Events of default under the Conversion Services Agreement include (a) a change in control in which the successor does not assume the agreement, (b) a violation by us of certain non-compete obligations relating to the manufacture and conversion of titanium and (c) failure to meet agreed-upon delivery and quality requirements. If an event of default under the Conversion Services Agreement occurs, TIMET could require us to repay the unearned portion of the \$50.0 million fee paid to us by TIMET when the agreement was signed, plus liquidated damages of \$25.0 million. Our obligations to pay these amounts to TIMET are secured by a security interest in our four-high Steckel rolling mill, through which we process a substantial amount of our products. In addition, the Access and Security Agreement with TIMET includes, among other terms, an access right that would allow TIMET to use certain of our operating assets, including the four-high mill, to perform titanium conversion services in the event of our bankruptcy or the acceleration of our indebtedness. Exercise by TIMET of its rights under its security interest following a default and non-payment of the amounts provided in the Conversion Services Agreement or exercise of the access rights under the Access and Security Agreement could cause significant disruption in our Kokomo operations, which would have a material adverse effect on our business.

In addition, the Conversion Services Agreement contains a requirement that we reserve a significant amount of capacity exclusively for TIMET. That agreement does not contain a volume commitment on TIMET's part. The agreement also severely limits our ability to manufacture titanium for any customer other than TIMET. In recent years, our levels of business with TIMET have fluctuated. In fiscal 2020, our levels of business with TIMET decreased as a result of the COVID-19 pandemic and other factors. Should TIMET continue to underutilize its reserved capacity, we would not be able to reallocate that capacity, which could negatively impact our business.

***Our operations could result in injury to our workers or third parties.***

Our manufacturing operations could result in harm to our workers or third parties in our facilities. Our manufacturing processes involve the use of heavy equipment, vehicles and chemicals, among other matters, that could lead to harm, injury, death or illness. In addition to harm to individuals, any such occurrences could result in reputational harm, adverse effects on employee morale, litigation and other costs, any of which could materially and adversely affect our business.



***Although collective bargaining agreements are in place for certain employees, union or labor disputes could still disrupt the manufacturing process.***

Our operations rely heavily on our skilled employees. Any labor shortage, disruption or stoppage caused by any deterioration in employee relations or difficulties in the renegotiation of labor contracts could reduce our operating margins and income. Approximately 54% percent of our U.S. employees are affiliated with unions or covered by collective bargaining agreements. The Company entered into two collective bargaining agreements with the United Steel Workers of America which cover eligible hourly employees at the Company's Arcadia, Louisiana and Kokomo, Indiana facilities. Failure to negotiate new labor agreements when required could result in a work stoppage at one or more of our facilities. In addition, other Company facilities could be subject to union organizing activity. Although we believe that our labor relations have generally been satisfactory, it is possible that we could become subject to additional work rules imposed by agreements with labor unions, or that work stoppages or other labor disturbances could occur in the future, any of which could reduce our operating margins and income and place us at a disadvantage relative to non-union competitors.

***Product liability and product warranty risks could adversely affect our operating results.***

We produce many critical products for commercial and military aircraft, industrial gas turbines, chemical processing plants and pharmaceutical production facilities. Failure of our products could give rise to substantial product liability and other damage claims as well as reputational harm. We maintain insurance addressing this risk, but our insurance coverage may not be adequate or insurance may not continue to be available on terms acceptable to us.

Additionally, we manufacture our products to strict contractually-established specifications using complex manufacturing processes. If we fail to meet the contractual requirements for a product, we may be subject to warranty costs to repair or replace the product itself and additional costs related to customers' damages or the investigation and inspection of non-complying products. These costs are generally not insured.

#### **Risks Related to our Research and Technology Activities**

***Failure to successfully develop, commercialize, market and sell new applications and new products could adversely affect our business.***

We believe that our proprietary alloys, technology, applications development, technical services and metallurgical manufacturing expertise provide us with a competitive advantage over other high-performance alloy producers. Our ability to maintain this competitive advantage depends on our ability to continue to offer products and technical services that have equal or better performance characteristics than competing products at competitive prices. Our future growth will depend, in part, on our ability to address the increasingly demanding needs of our customers by inventing new alloys, enhancing the properties of our existing alloys, timely developing new applications for our existing and new alloys, and timely developing, commercializing, marketing and selling new alloys and products. If we are not successful in these efforts, or if our new alloys/products and product enhancements do not adequately meet the requirements of the marketplace and achieve market acceptance, our business could be negatively affected.

***Failure to protect our intellectual property rights could adversely affect our business.***

We rely on a combination of confidentiality, invention assignment and other types of agreements and trade secret, trademark and patent law to establish, maintain, protect and enforce our intellectual property rights. Our efforts in regard to these measures may be inadequate, however, to prevent others from misappropriating our intellectual property rights. In addition, laws in some non-U.S. countries affecting intellectual property are uncertain in their application, which can affect the scope or enforceability of our intellectual property rights. Any of these events or factors could diminish or cause us to lose the competitive advantages associated with our intellectual property, which could have a material adverse effect on our business.

## **Risks Related to Our Cybersecurity Activities**

***We are subject to risks relating to our cybersecurity measures and to misappropriation of information generally.***

We have put in place a number of systems, processes and practices designed to protect against intentional or unintentional misappropriation or corruption of our systems and information or disruption of our operations including unauthorized access to our networks, servers and data, encryption of network access and the introduction of malware. Despite our cybersecurity efforts, we could be subject to breaches of security systems which may result in unauthorized access, misappropriation, corruption or disruption of the information we are trying to protect, in which case we could suffer material harm. For example, access to our proprietary information regarding new alloy formulations would allow our competitors to use that information in the development of competing products. Current employees have, and former employees may have, access to a significant amount of information regarding our Company which could be disclosed to our competitors or otherwise used to harm us. Any misappropriation or corruption of our systems and information or disruption of our operations could have a material adverse effect on our business.

***Our information technology systems could be subject to attack.***

Our information technology systems could be subject to sabotage by employees or third parties, including attacks in which the systems could be shut down with a demand for payment of “ransom”, which could slow or stop production or otherwise adversely affect our business. Any such attack could disrupt our operations and could have a material adverse effect on our business.

***We depend on our information technology infrastructure to support the current and future information requirements of our operations which exposes us to risk.***

Management relies on our information technology infrastructure, including hardware, network, software, people and processes, to provide useful information to support assessments and conclusions about operating performance. Our inability to produce relevant or reliable measures of operating performance in an efficient, cost-effective and well-controlled fashion may have significant negative impacts on our business.

## **Risks Related to Our Finance Activities**

***We value our inventory using the FIFO method, which could put pressure on our margins.***

The cost of our inventories is determined using the first-in, first-out (FIFO) method. Under the FIFO inventory costing method, the cost of materials included in cost of sales may be different than the current market price at the time of sale of finished product due to the length of time from the acquisition of raw material to the sale of the finished product. In a period of decreasing raw material costs, the FIFO inventory valuation normally results in higher costs of sales as compared to the last-in, first-out method. This could result in compression of the gross margin on our product sales.

***Changes in tax rules and regulations, or interpretations thereof, may adversely affect our effective tax rates.***

We are a U.S. based company with customers and suppliers in foreign countries. We import various raw materials used in our production processes, and we export goods to our foreign customers. The United States, the European Commission, countries in the EU, including the United Kingdom, and other countries where we do business may change relevant tax, border tax, accounting and other laws, regulations and interpretations, that may unfavorably impact our effective tax rate or result in other costs to us. In addition, the Company has deferred tax assets on its balance sheet which could be subjected to unfavorable impacts if tax rates are reduced, such as those that occurred at the end of calendar year 2017.

***We could be required to make additional contributions to our defined benefit pension plans or recognize higher related expense in our statement of operations as a result of adverse changes in interest rates and the capital markets.***

Our estimates of liabilities and expenses for pension benefits incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets and several assumptions

relating to the employee workforce (salary increases, retirement age and mortality). We currently expect that we will be required to make future minimum contributions to our defined benefit pension plans. Many domestic and international competitors do not provide defined benefit plans and/or retiree health plans (which we do provide), and those competitors may have a resulting cost advantage. A decline in the value of plan investments in the future, an increase in costs or liabilities, including those caused by the lowering of the rate used to discount future payouts, or unfavorable changes in laws or regulations that govern pension plan funding could materially change the timing and amount of required pension funding or the amount of related expense recognized in our statement of operations. A requirement to fund any deficit created in the future could have a material adverse effect on our business.

***The carrying value of goodwill and other intangible assets may not be recoverable.***

Goodwill and other intangible assets are recorded at fair value on the date of acquisition. We review these assets at least annually for impairment. Impairment may result from, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations and a variety of other factors. Any future impairment of goodwill or other intangible assets could have a material adverse effect on our business.

***We may not be able to obtain financing on terms that are acceptable to us.***

The global capital markets have been adversely affected by the economic effects of the COVID-19 pandemic. Terms for borrowers have become significantly less favorable. As a result of this and other issues, we may not be able to obtain needed financing on terms that are acceptable to us.

***Our working capital requirements may negatively affect our liquidity and capital resources.***

Our working capital requirements can vary significantly, depending in part on the timing of our delivery obligations under various customer contracts and the payment terms with our customers and suppliers. If our working capital needs exceed our cash flows from operations, we would look to our cash balances and availability for borrowings under our existing credit facility to satisfy those needs, as well as potential sources of additional capital, which may not be available on satisfactory terms and in adequate amounts, if at all.

**Risks Related to Our Global Operations**

***We are subject to risks associated with global trade matters***

We are subject to macroeconomic downturns in the United States and abroad that may affect the general economic climate, our performance and the demand of our customers. Previous turmoil in the global economy has had, and future turmoil may have, an adverse impact on our business and our financial condition. In addition to the impact that the global financial crisis previously had, we may face significant challenges if conditions in the global economy worsen. Further, any global trade wars or similar economic turmoil, including new or existing tariffs, could adversely affect our business. For example, the U.S. and China have imposed tariffs on large amounts of products imported into each of the countries from one another. Moreover, these new tariffs, or other changes in trade policy, have resulted in, and may continue to trigger, retaliatory actions on the part of these countries and potentially other countries in the future. Talks between the two countries are ongoing, but the outcome is highly uncertain and could affect our ability to buy raw materials from China and sell products into the Chinese market. A “trade war” or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact demand for our products, our costs, customers, suppliers and/or the U.S. economy or certain sections thereof, and, thus, adversely affect our business. Our competitors outside of the United States may not be subject to these tariffs or other measures, and therefore, could have a significant competitive advantage over us in that respect. In addition, the effect of the exit of the United Kingdom from the European Union is currently unknown and could adversely affect our business.

***A global recession or disruption in global financial markets could adversely affect us.***

A global recession or disruption in the global financial markets, including any significant tariff impositions or trade wars, presents risks and uncertainties that we cannot predict. During recessionary economic conditions or financial market disruptions, we face risks that may include:

- declines in revenues and profitability from reduced or delayed orders by our customers;
- supply problems associated with any financial constraints faced by our suppliers;
- restrictions on our access to credit sources;
- reductions to our banking group or to our committed credit availability due to combinations or failures of financial institutions; and
- increases in corporate tax rates to finance government spending programs.

***The risks inherent in our international operations may adversely impact our revenues, results of operations and financial condition.***

We anticipate that we will continue to derive a significant portion of our revenues from operations in international markets. As we continue to expand internationally, we will need to hire, train and retain qualified personnel for our direct sales efforts and retain distributors and train their personnel in countries where language, cultural or regulatory impediments may exist. Distributors, regulators or government agencies may not continue to accept our products, services and business practices. In addition, we purchase raw materials on the international market. The sale and shipment of our products and services across international borders, as well as the purchase of raw materials from international sources, subject us to the trade regulations of various jurisdictions, including tariffs and other possible punitive measures. Compliance with such regulations is costly. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments and restrictions on certain business activities. Failure to comply with applicable legal and regulatory obligations could result in the disruption of our shipping, sales and service activities. Our international sales operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions any one or more of which may adversely affect our business, including:

- our ability to obtain, and the costs associated with obtaining, U.S. export licenses and other required export or import licenses or approvals;
- changes in duties and tariffs, quotas, taxes, trade restrictions, license obligations and other non-tariff barriers to trade;
- policy changes affecting the market for our products;
- burdens of complying with the Foreign Corrupt Practices Act and a wide variety of foreign laws and regulations;
- business practices or laws favoring local companies;
- fluctuations in foreign currencies;
- restrictive trade policies of foreign governments;
- longer payment cycles and difficulties collecting receivables through foreign legal systems;
- difficulties in enforcing or defending agreements and intellectual property rights; and
- foreign political or economic conditions.

Any material decrease in our international revenues or inability to expand our international operations as a result of these or other factors would adversely impact our business.

***Export sales could present risks to our business.***

Export sales account for a significant percentage of our revenues, and we believe this will continue to be the case in the future. Risks associated with export sales include: political and economic instability, including weak conditions in the world's economies; accounts receivable collection; export controls; changes in legal and regulatory requirements;

policy changes affecting the markets for our products; changes in tax laws and tariffs; trade duties; the effect of the United Kingdom's exit from the European Union and exchange rate fluctuations (which may affect sales to international customers and the value of profits earned on export sales when converted into dollars). Any of these factors could materially adversely affect our business.

***Political and social turmoil could adversely affect our business.***

The war on terrorism, as well as political and social turmoil (including global recessions or interruptions in financial markets, whether or not related to COVID-19), could put pressure on economic conditions in the United States and worldwide. These political, social and economic conditions could make it difficult for us, our suppliers and our customers to forecast accurately and plan future business activities, and could adversely affect the financial condition of our suppliers and customers and affect customer decisions as to the amount and timing of purchases from us. As a result, our business could be materially adversely affected.

**Risks Related to Our Legal and Environmental Activities**

***We may be adversely impacted by costs related to environmental, health and safety laws, regulations, and other liabilities.***

We are subject to various foreign, federal, state and local environmental, health and safety laws and regulations, including those governing the discharge of pollutants into the environment, the storage, handling, use, treatment and disposal of hazardous substances and wastes and the health and safety of our employees. Under these laws and regulations, we may be held liable for all costs arising out of any release of hazardous substances on, under or from any of our current or former properties or any off-site location to which we sent or arranged to be sent wastes for disposal or treatment, and such costs may be material. We could also be held liable for any and all consequences arising out of human exposure to such substances or other hazardous substances that may be attributable to our products or other environmental damage. In addition, some of these laws and regulations require our facilities to operate under permits that are subject to renewal or modification. These laws, regulations and permits can require expensive pollution control equipment or operational changes to limit actual or potential impacts to the environment. Violations of these laws, regulations or permits can also result in the imposition of substantial penalties, permit revocations and/or facility shutdowns.

We have received permits from the environmental regulatory authorities in Indiana and North Carolina to close and to provide post-closure monitoring and care for certain areas of our Kokomo and Mountain Home facilities that were used for the storage and disposal of wastes, some of which are classified as hazardous under applicable regulations. We are required to monitor groundwater and to continue post-closure maintenance of the former disposal areas at each site. As a result, we are aware of elevated levels of certain contaminants in the groundwater and additional corrective action could be required. Additionally, it is possible that we could be required to undertake other corrective action for any other solid waste management unit or other conditions existing or determined to exist at our facilities. We are unable to estimate the costs of any further corrective action, if required. However, the costs of future corrective action at these or any other current or former sites could have a material adverse effect on our business.

We may also incur liability for alleged environmental damages associated with the off-site transportation and disposal of hazardous substances. Our operations generate hazardous substances, many of which we accumulate at our facilities for subsequent transportation and disposal or recycling by third parties off-site. Generators of hazardous substances which are transported to disposal sites where environmental problems are alleged to exist are subject to liability under CERCLA and state counterparts. In addition, we may have generated hazardous substances disposed of at sites which are subject to CERCLA or equivalent state law remedial action. We have been named as a potentially responsible party at one site. CERCLA imposes strict, joint and several liabilities for investigatory and cleanup costs upon hazardous substance generators, site owners and operators and other potentially responsible parties regardless of fault. If we are named as a potentially responsible party at other sites in the future, the costs associated with those future sites could have a material adverse effect on our business.

Environmental laws are complex, change frequently and have tended to become increasingly stringent over time. While we have budgeted for future capital and operating expenditures to comply with environmental laws, changes in any

environmental law may increase our costs of compliance and liabilities arising from any past or future releases of, or exposure to, hazardous substances and may materially adversely affect our business. See “Business—Environmental Matters.”

***Increased regulation of greenhouse gases or other environmental issues could have a material adverse impact on our results of operations, financial condition and cash flows.***

Regulation and forms of legislation aimed at regulating environmental issues, including greenhouse gas emissions, have been and will likely continue to be considered globally. As a high-performance alloy manufacturer, we may be affected, both directly and indirectly, if environmental legislation requires us or our customers, suppliers or partners to adjust manufacturing or other relevant processes, or to otherwise incur costs of compliance, which could have a material adverse impact on our business.

***Government regulation is increasing and if we fail to comply with such increased regulation, we could be subject to fines, penalties and expenditures.***

The United States Congress has adopted several significant pieces of legislation, such as the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including conflict minerals regulations, that affect our operation as well as those of other publicly traded companies. In addition, regulations relating to data protection and privacy law have become increasingly stringent. We may be subject to significant fines and penalties, as well as reputational risks or customer disqualification or dissatisfaction, if we fail to comply with these laws or their implementing regulations, and the increasingly stringent regulations could require us to make additional unforeseen expenditures. Any such fines, penalties or expenditures could have a material adverse effect on our business.

***Our business is affected by federal rules, regulations and orders applicable to some of our customers who are government contractors.***

A number of our products are manufactured and sold to customers who are parties to U.S. government contracts or subcontracts. Consequently, we are indirectly subject to various federal rules, regulations and orders applicable to government contractors. From time to time, we are also subject to government inquiries and investigations of our business practices due to our participation in government programs. These inquiries and investigations are costly and consuming of internal resources. Violations of applicable government rules and regulations could result in civil liability, in cancellation or suspension of existing contracts or in ineligibility for future contracts or subcontracts funded in whole or in part with federal funds, any of which could have a material adverse effect on our business.

***Our business could be materially and adversely affected by climate change and related matters.***

We analyze climate change risks in two separate categories: transition risks and physical risks. Transition risks are those risks relating to the transition of the global economy to a focus on more climate-friendly technologies. This transition could have adverse financial impacts on us in several ways. For instance, more stringent environmental policies or regulations could lead to increased expenses relating to green-house gas emissions or other emissions that could increase our operating costs. Enhanced emissions-reporting or shifting technology could require us to write off or impair assets or retire existing assets early. Increased environmental mandates could also increase our exposure to litigation. We could be required to incur increased costs and significant capital investment to transition to lower emissions technology. In addition, overall market shifts could increase costs of our raw materials and cause unexpected shifts in energy costs. Market shifts could also bring a prompt change in our overall revenue mix and sources, resulting in reduced demand in alloys and a decrease in revenues. The entire industry could be stigmatized as not friendly to the environment, which could adversely affect our reputation and our business, including due to difficulties in employee hiring and retention and our ability to access capital. Any of these matters could materially and adversely affect our business, financial condition or results of operations.

Physical risks from climate change that could affect our business include acute weather events such as floods, tornadoes or other severe weather and ongoing changes such as rising temperatures or extreme variability in weather patterns. These events could lead to increased capital costs from damage to our facilities, increased insurance premiums

or reduced revenue from decreased production capacity based on supply chain interruptions. Any of these events could have a material adverse effect on our business, financial condition or results of operations.

***Our business subjects us to risk of litigation claims, including those that might not be covered by insurance.***

Litigation claims may relate to the conduct of our business, including claims pertaining to product liability, commercial disputes, employment actions, employee benefits, compliance with domestic and federal laws and personal injury. Due to the uncertainties of litigation, we might not prevail on claims made against us in the lawsuits that we currently face, and additional claims may be made against us in the future. The outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to us. The resolution in any reporting period of one or more of these matters could have a material adverse effect on our business, particularly in the event that adverse outcomes are not covered by insurance.

***Our insurance may not provide enough coverage or may not be available on terms that are acceptable to us.***

We maintain various forms of insurance, including insurance covering claims related to our properties and risks associated with our operations. Our existing property and liability insurance coverages contain exclusions and limitations on coverage. From time-to-time, in connection with renewals of insurance, we have experienced additional exclusions and limitations on coverage, larger self-insured retentions and deductibles and significantly higher premiums. We were required to obtain new property insurance coverage for fiscal 2020 as a result of adjustments in the business strategy of our previous property insurance carrier. This has resulted in lower levels of coverage, a higher deductible and higher premiums. As a result, in the future, our insurance coverage may not cover claims to the extent that it has in the past and the costs that we incur to procure insurance may increase significantly, either of which could have an adverse effect on our business. Furthermore, the insurance industry, or our carriers specifically, may continue to alter their business models in manners that are unfavorable to us, resulting in insufficient or more costly coverage, which could adversely affect our business.

**General Risk Factors**

***An interruption in energy services may cause manufacturing curtailments or shutdowns.***

We rely upon third parties for our supply of energy resources consumed in the manufacture of our products. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond our control. Disruptions in the supply of energy resources could temporarily impair our ability to manufacture products for customers. Further, increases in energy costs, which are outside of our control, or changes in costs relative to energy costs paid by competitors, has and may continue to adversely affect our business. To the extent that these uncertainties cause suppliers and customers to be more cost sensitive, increased energy prices may have an adverse effect on our business.

***If we are unable to recruit, hire and retain skilled and experienced personnel, our ability to effectively manage and expand our business will be harmed.***

Our success largely depends on the skills, experience and efforts of our officers and other key employees who may terminate their employment at any time. The loss of any of our senior management team could harm our business. Our ability to retain our skilled workforce and our success in attracting and hiring new skilled employees will be a critical factor in determining whether we will be successful in the future. We face challenges in hiring, training, managing and retaining employees in certain areas including metallurgical researchers, equipment technicians and sales and marketing staff. We also face hiring challenges relating to the location of our business. All of these risks have been exacerbated as a result of the COVID-19 pandemic and the cost savings measures the Company has implemented as a result. If we are unable to recruit, hire and retain skilled employees, our new product and alloy development and commercialization could be delayed and our marketing and sales efforts could be hindered, which would adversely impact our business.

***Healthcare costs, including those related to healthcare legislation, have and may continue to impact our business.***

The Patient Protection and Affordable Care Act and other recent legislation relating to healthcare have increased our annual employee healthcare cost obligations. In addition, costs associated with healthcare generally, including our retiree healthcare plans, are expected to continue to increase. This area of law is expected to continue to change, and we cannot predict the effect that healthcare legislation or regulation, and the costs of healthcare in general, will ultimately have on our business.

***Any significant delay or problems in any future expansion of our operations could materially adversely affect our business, financial condition and results of operations.***

We have undertaken, and may continue to undertake, significant capital projects in order to enhance, expand and/or upgrade our facilities and operational capabilities. Our ability to achieve the anticipated increased revenues or otherwise realize acceptable returns on these investments or other strategic capital projects that we may undertake is subject to a number of risks, many of which are beyond our control, including the ability of management to ensure the necessary resources are in place to properly execute these projects on time and in accordance with planned costs, the ability of key suppliers to deliver the necessary equipment according to schedule, customer demand (which fluctuates as a result of the cyclical markets in which we operate, as well as other factors) and our ability to implement these projects with minimal impact to our existing operations. In addition, the cost to implement any given strategic capital project ultimately may prove to be greater than originally anticipated. If we are not able to achieve the anticipated results from the implementation of any of our strategic capital projects, or if we incur unanticipated implementation costs or delays, our business may be materially adversely affected.

***We consider acquisition, joint ventures and other business combination opportunities, as well as possible business unit dispositions, as part of our overall business strategy, which involve uncertainties and potential risks that we cannot predict or anticipate fully.***

We intend to continue to strategically position our businesses in order to improve our ability to compete. Strategies we may employ include seeking new or expanding existing specialty market niches for our products, expanding our global presence, acquiring businesses complementary to existing strengths and continually evaluating the performance and strategic fit of our existing business units. From time to time, management of the Company holds discussions with management of other companies to explore acquisitions, joint ventures and other business combination opportunities as well as possible business unit dispositions. As a result, the relative makeup of our business is subject to change. Acquisitions, joint ventures and other business combinations involve various inherent risks, such as: assessing accurately the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition or other transaction candidates; the potential loss of key personnel of an acquired business; our ability to achieve identified financial and operating synergies anticipated to result from an acquisition or other transaction; diversion of the attention of certain management personnel from their day-to-day duties; and unanticipated changes in business and economic conditions affecting an acquisition or other transaction. International acquisitions could be affected by many additional factors, including, without limitation, export controls, exchange rate fluctuations, domestic and foreign political conditions and deterioration in domestic and foreign economic conditions.

***Our stock price is subject to fluctuations that may not be related to our performance as a result of being traded on a public exchange.***

The stock market can be highly volatile. The market price of our common stock is likely to be similarly volatile, and investors in our common stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including, but not limited to, those described elsewhere in this “Risk Factors” section and those listed below:

- fluctuations in the market price of nickel (or other raw materials, such as cobalt, molybdenum or ferrochrome) or energy;



- market conditions in the end markets into which our customers sell their products, principally aerospace, power generation and chemical processing;
- implementation of barriers to free trade between the United States and other countries;
- announcements of technological innovations or new products and services by us or our competitors;
- the operating and stock price performance of other companies that investors may deem comparable to us;
- announcements by us of acquisitions, alliances, joint development efforts or corporate partnerships in the high-temperature resistant alloy and corrosion-resistant alloy markets;
- market conditions in the technology, manufacturing or other growth sectors; and
- rumors relating to us or our competitors.

***We may not continue to pay dividends at the current rate or at all.***

Any future payment of dividends, including the timing and amount thereof, will depend upon our Board of Director's assessment of the economic environment, our operations, financial condition, projected liabilities, compliance with contractual restrictions in our credit agreement, restrictions imposed by applicable law and other factors.

***Provisions of our certificate of incorporation and by-laws could discourage potential acquisition proposals and could deter or prevent a change in control.***

Some provisions in our certificate of incorporation and by-laws, as well as Delaware statutes, may have the effect of delaying, deterring or preventing a change in control. These provisions, including those regulating the nomination of directors, may make it more difficult for other persons, without the approval of our Board of Directors, to launch takeover attempts that a stockholder might consider to be in his or her best interest. These provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock.

***Recent actions by proxy advisory firms and large institutional shareholders may affect our stock price.***

In recent periods, both Institution Shareholder Services and Glass Lewis, two primary proxy advisory firms, as well as large institutional investors, have emphasized the importance of disclosure regarding the environmental, social and governance actions taken by publicly traded companies. If we are unable to achieve acceptable scores relating to these matters, our stock price and reputation may be affected.

#### **Item 1B. Unresolved Staff Comments**

There are no unresolved comments by the staff of the U.S. Securities and Exchange Commission.

#### **Item 2. Properties**

*Manufacturing Facilities.* The Company owns manufacturing facilities in the following locations:

- Kokomo, Indiana—manufactures and sells all product forms, other than tubular and wire goods;
- Arcadia, Louisiana—manufactures and sells welded and seamless tubular goods; and
- Mountain Home, North Carolina—manufactures and sells high-performance alloy wire and bar.

The Kokomo plant, the Company's primary production facility, is located on approximately 180 acres of industrial property and includes over 1.0 million square feet of building space. There are three sites consisting of (1) a headquarters and research laboratory; (2) primary and secondary melting, forge press and several smaller hot mills; and (3) the Company's four-high Steckel rolling mill and sheet product cold working equipment, including two cold rolling mills and three annealing furnaces. All alloys and product forms other than tubular and wire goods are produced in Kokomo.

The Arcadia plant is located on approximately 42 acres of land and includes 202,500 square feet of buildings on a single site. Arcadia uses feedstock produced in Kokomo to fabricate welded and seamless high-performance alloy pipe and tubing and purchases extruded tube hollows to produce seamless titanium tubing. Manufacturing processes at Arcadia require cold pilger mills, weld mills, draw benches, annealing furnaces and pickling facilities.

The Mountain Home plant is located on approximately 29 acres of land and includes approximately 100,000 square feet of building space. The Mountain Home facility is primarily used to manufacture finished high-performance alloy wire. Finished wire products are also warehoused at this facility.

The owned facilities located in the United States are subject to a mortgage which secures the Company's obligations under its U.S. revolving credit facility with a group of lenders led by Wells Fargo Capital Finance, LLC. For more information, see Note 8 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

*Service and Sales Centers.* The service and sales centers, which stock and sell all product forms, contain equipment capable of precision laser and water jet processing services to cut and shape products to customers' precise specifications. The Company owns service and sales centers in the following locations:

- Openshaw, England
- Lenzburg, Switzerland

The Openshaw plant, located near Manchester, England, consists of approximately 5 acres of land and over 85,000 square feet of buildings on a single site.

In addition, the Company leases service and sales centers, which stock and sell all product forms, in the following locations:

- LaPorte, Indiana
- La Mirada, California
- Houston, Texas
- Windsor, Connecticut
- Shanghai, China

*Sales Centers.* The Company leases sales centers, which sell all product forms, in the following locations:

- Paris, France
- Zurich, Switzerland
- Singapore
- Milan, Italy
- Tokyo, Japan

On January 1, 2015, the company entered into a finance lease agreement for the building that houses the assets and operations of LaPorte Custom Metal Processing (LCMP). The finance asset and obligation are recorded at the present value of the minimum lease payments. The asset is included in Property, plant and equipment, net on the Consolidated Balance Sheet and is depreciated over the 20 year lease term. The long-term component of the finance lease obligation is included in Long-term obligations (See Note 18. Long-term Obligations).

All owned and leased service and sales centers not described in detail above are single site locations and are less than 100,000 square feet, except for the LaPorte service center which is approximately 230,000 square feet.

### **Item 3. Legal Proceedings**

The Company is subject to extensive federal, state and local laws and regulations. Future developments and increasingly stringent regulations could require the Company to make additional unforeseen expenditures for these matters. The Company is regularly involved in litigation, both as a plaintiff and as a defendant, relating to its business and operations. Such litigation includes, without limitation, federal and state EEOC administrative and judicial actions, litigation of commercial matters, asbestos litigation and litigation and administrative actions relating to environmental matters. For more information, see “Item 1. Business—Environmental Matters.” Litigation and administrative actions may result in substantial costs and may divert management’s attention and resources, and the level of future expenditures for legal matters cannot be determined with any degree of certainty. In January 2017, a customer based in the United Kingdom wrote to the Company making a claim in relation to certain product sold to that customer by the Company. This writing was followed up by claim correspondence in 2018, 2019 and January of 2020. The Company has engaged its legal advisors in the United Kingdom to respond to the claim. However, no further interaction has occurred since January 2020. The Company intends to pursue insurance coverage as and if necessary while vigorously defending against the customer claim. Liability for the claim is disputed, and the amount of the claim, if any, remains unclear. Nonetheless, based on the facts presently known, management does not expect expenditures for pending legal proceedings to have a material effect on the Company’s financial position, results of operations or liquidity.

**Item 4. Mine Safety Disclosures**

Not applicable.

## Part II

### **Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

The Company’s common stock is listed on the NASDAQ Global Market (“NASDAQ”) and traded under the symbol “HAYN”.

As of November 1, 2020, there were approximately 50 holders of record of the Company’s common stock.

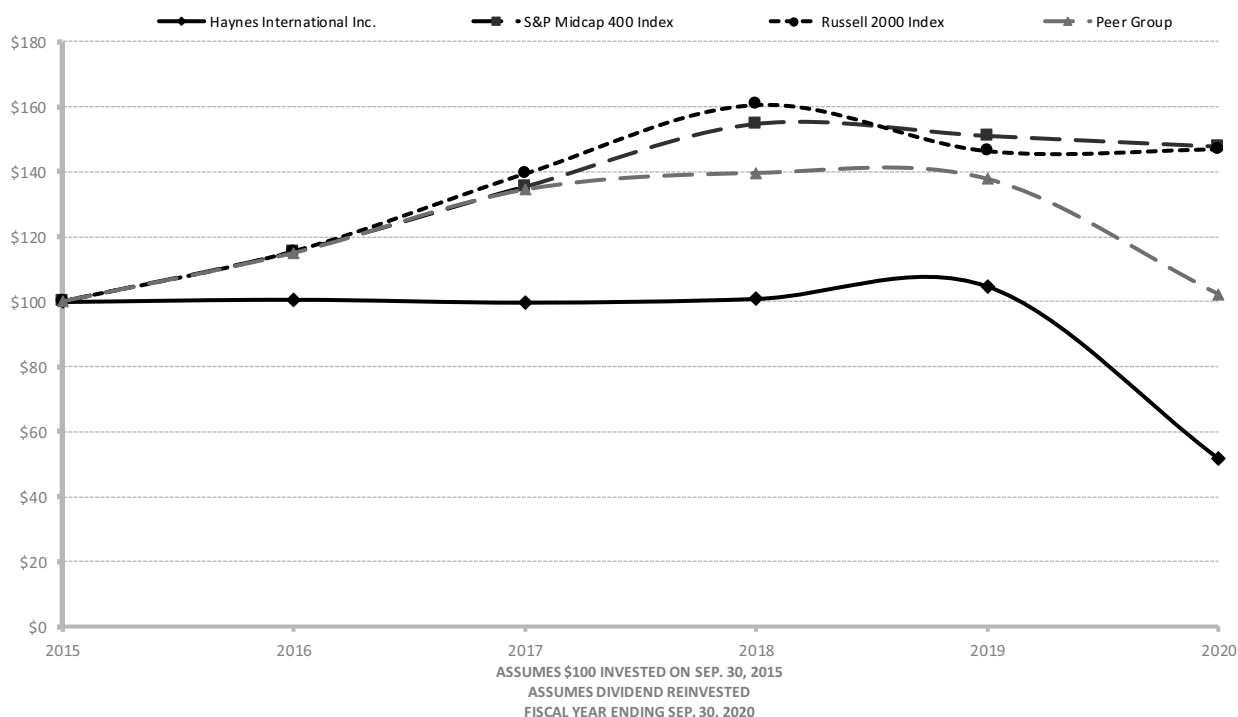
The Company has historically paid quarterly cash dividends. Any decision to pay future cash dividends will be made by the Company’s Board of Directors and will depend upon the Company’s earnings, financial condition and other factors.

#### **Cumulative Total Stockholder Return**

The graph below compares the cumulative total stockholder return on the Company’s common stock to the cumulative total return of the Russell 2000 Index, S&P MidCap 400 Index, and a Peer Group of companies for each of the last five fiscal years ended September 30. The cumulative total return assumes an investment of \$100 on September 30, 2015 and the reinvestment of any dividends during the period. The Russell 2000 is a broad-based index that includes smaller market capitalization stocks. The S&P MidCap 400 Index is the most widely used index for mid-sized companies. Management believes that the S&P MidCap 400 is representative of companies with similar market and economic characteristics to Haynes. Furthermore, we also believe the Russell 2000 Index is representative of the Company’s current market capitalization status and this index is also provided on a comparable basis. The companies in the Peer Group Index include: Allegheny Technologies, Inc., Howmet Aerospace Inc.(formerly Arconic, Inc.), Carpenter Technology Corp., Commercial Metals, Inc., Insteel Industries, Inc., Kaiser Aluminum Corporation, Materion Corporation, Olympic Steel, Inc., and Universal Stainless & Alloy Products, Inc. Global Brass and Copper Holdings, Inc. has been removed from the Peer Group as a result of it being acquired by Wieland Werke AG in July, 2019. Management believes that the companies included in the Peer Group, taken as a whole, provide a meaningful comparison in terms of competition, product offerings and other relevant factors. The total stockholder return for the Peer groups is weighted according to the respective issuer’s stock market capitalization at the beginning of each period.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN  
Among Haynes, The Russell 2000 Index, The S&P MidCap 400  
Index and our Peer Group**

**COMPARISON OF CUMULATIVE TOTAL RETURN**



	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Haynes International, Inc. ....	100.00	100.69	99.77	100.93	104.76	51.78
Russell 2000 .....	100.00	115.47	139.42	160.66	146.38	146.95
S&P MidCap 400 .....	100.00	115.33	135.53	154.78	150.93	147.67
Peer Group .....	100.00	114.98	134.50	139.61	137.80	102.24

## Item 6. Selected Financial Data

This information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

Amounts below are in thousands, except backlog, which is in millions, share and per share information and average nickel price.

	Year Ended September 30,				
	2016	2017	2018	2019	2020
<b>Statement of Operations Data:</b>					
Net revenues	\$ 406,359	\$ 395,209	\$ 435,326	\$ 490,215	\$ 380,530
Cost of sales	344,774	349,520	379,491	424,712	335,898
Selling, general and administrative expense	38,953	41,569	47,030	44,195	40,307
Research and technical expense	3,698	3,855	3,785	3,592	3,713
Operating income (loss)	18,934	265	5,020	17,716	612
Nonoperating retirement benefit expense	14,736	16,803	8,238	3,446	6,822
Interest expense (income), net	447	679	836	900	1,288
Provision for (benefit from) income taxes	(1,269)	(7,027)	17,697	3,625	(1,020)
Net income (loss)	\$ 5,020	\$ (10,190)	\$ (21,751)	\$ 9,745	\$ (6,478)
Net income (loss) per share:					
Basic	\$ 0.40	\$ (0.83)	\$ (1.75)	\$ 0.78	\$ (0.53)
Diluted	\$ 0.40	\$ (0.83)	\$ (1.75)	\$ 0.78	\$ (0.53)
Dividends declared per common share	\$ 0.88	\$ 0.88	\$ 0.88	\$ 0.88	\$ 0.88
Weighted average shares outstanding:					
Basic	12,361,483	12,397,099	12,419,564	12,445,212	12,470,664
Diluted	12,366,197	12,397,099	12,419,564	12,480,908	12,470,664

*Note that the Company implemented ASU 2017-07, Compensation – Retirement Benefits (Topic 715) on October 1, 2018 on a retrospective basis. This guidance requires non-service costs components of retirement expense to be reclassified outside of operating income to a new category titled “Nonoperating retirement benefit expense” in the statement of operations. Gross margins were favorably impacted by the reclassification of the non-service cost components of retirement expense. All prior periods have been adjusted for this change in accounting.*

	September 30,				
	2016	2017	2018	2019	2020
<b>Balance Sheet Data:</b>					
Working capital	\$ 310,872	\$ 300,468	\$ 304,151	\$ 311,793	\$ 313,320
Property, plant and equipment, net	199,182	192,556	179,400	169,966	159,819
Total assets	649,601	621,819	588,694	593,800	560,724
Total debt and other finance obligations	8,256	7,896	8,127	7,979	7,809
Long-term portion of debt and other finance obligations	8,256	7,896	7,980	7,809	7,614
Accrued pension and postretirement benefits <sup>(1)</sup>	255,346	208,476	170,180	215,741	199,223
Stockholders’ equity	311,299	333,772	333,220	296,275	301,501
Cash dividends paid	10,988	11,009	11,013	11,011	11,058
<b>Consolidated Backlog at Fiscal Quarter End<sup>(2)</sup>:</b>					
1 <sup>st</sup> quarter	\$ 204.7	\$ 167.3	\$ 205.7	\$ 237.8	\$ 237.6
2 <sup>nd</sup> quarter	193.5	170.8	212.3	253.0	204.7
3 <sup>rd</sup> quarter	187.2	180.9	220.6	254.9	174.6
4 <sup>th</sup> quarter	168.3	177.3	216.0	235.2	153.3

	Year Ended September 30,				
	2016	2017	2018	2019	2020
Average nickel price per pound <sup>(3)</sup> .....	\$ 4.63	\$ 5.10	\$ 5.68	\$ 8.02	\$ 6.74

- (1) Significant increases in the pension and postretirement benefits liability occurred in fiscal 2019, primarily due to reductions in the discount rate used to value the future liability. Conversely, significant decreases occurred in fiscal 2017 and fiscal 2018 primarily due to the increase in the discount rate used to value the future liability and in fiscal 2020, primarily due to the lower trends of postretirement health care expenses incurred by the Company. This has been reflected actuarially as a change to the Pension and Postretirement Benefits Liability and a corresponding change to the accumulated other comprehensive loss account. On a prospective basis, if interest rates were to rise, this would cause a decrease in the liability and accumulated other comprehensive loss.
- (2) The Company defines backlog to include firm commitments from customers for delivery of product at established prices. There are orders in the backlog at any given time which include prices that are subject to adjustment based on changes in raw material costs, which can vary from approximately 50% of the orders. Historically, approximately 70% of the backlog orders have shipped within six months and approximately 90% have shipped within 12 months. The backlog figures do not typically reflect that portion of the business conducted at service and sales centers on a spot or “just-in-time” basis.
- (3) Represents the average price for a cash buyer as reported by the London Metals Exchange for the 30 days ending on the last day of the period presented.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Please refer to page 2 of this Annual Report on Form 10-K for a cautionary statement regarding forward-looking information.

### Overview of Business

The Company is one of the world’s largest producers of high-performance nickel- and cobalt-based alloys in flat product form, such as sheet, coil and plate. The Company is focused on developing, manufacturing, marketing and distributing technologically advanced, high-performance alloys, which are used primarily in the aerospace, chemical processing and industrial gas turbine industries. The global specialty alloy market includes stainless steel, titanium alloys, general-purpose nickel alloys and high-performance nickel- and cobalt-based alloys. The Company competes primarily in the high-performance nickel- and cobalt-based alloy sector, which includes high-temperature resistant alloys, or HTA products, and corrosion-resistant alloys, or CRA products. The Company believes it is one of the principal producers of high-performance alloy flat products in sheet, coil and plate forms. The Company also produces its products as seamless and welded tubulars and in bar, billet and wire forms.

The Company has manufacturing facilities in Kokomo, Indiana; Arcadia, Louisiana; and Mountain Home, North Carolina. The Kokomo facility specializes in flat products, the Arcadia facility specializes in tubular products and the Mountain Home facility specializes in wire and small-diameter bar products. The Company distributes its products primarily through its direct sales organization, which includes 12 service and/or sales centers in the United States, Europe and Asia. All of these centers are Company-operated.



## Overview of Markets

The following table includes a breakdown of net revenues, shipments and average selling prices to the markets served by the Company for the periods shown.

	Year Ended September 30,									
	2016		2017		2018		2019		2020	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
<b>Net Revenues</b>										
<b>(dollars in millions)</b>										
Aerospace . . . . .	\$ 197.4	48.6 %	\$ 192.5	48.7 %	\$ 226.9	52.1 %	\$ 258.1	52.7 %	\$ 192.0	50.5 %
Chemical processing . . . . .	72.3	17.8	70.5	17.8	79.2	18.2	89.7	18.3	63.1	16.6
Industrial gas turbine . . . . .	68.1	16.8	61.5	15.6	52.4	12.0	59.4	12.1	56.6	14.9
Other markets . . . . .	45.0	11.0	43.2	10.9	53.4	12.3	57.9	11.8	45.1	11.8
Total product . . . . .	382.8	94.2	367.7	93.0	411.9	94.6	465.1	94.9	356.8	93.8
Other revenue <sup>(1)</sup> . . . . .	23.6	5.8	27.5	7.0	23.4	5.4	25.1	5.1	23.7	6.2
Net revenues . . . . .	\$ 406.4	100.0 %	\$ 395.2	100.0 %	\$ 435.3	100.0 %	\$ 490.2	100.0 %	\$ 380.5	100.0 %
U.S. . . . .	\$ 233.6	57.5 %	\$ 235.5	59.6 %	\$ 258.3	59.3 %	\$ 300.7	61.3 %	\$ 230.8	60.7 %
Foreign . . . . .	\$ 172.8	42.5 %	\$ 159.7	40.4 %	\$ 177.0	40.7 %	\$ 189.5	38.7 %	\$ 149.7	39.3 %
<b>Shipments by Market</b>										
<b>(millions of pounds)</b>										
Aerospace . . . . .	8.7	48.3 %	8.8	48.6 %	9.8	53.3 %	10.3	51.5 %	7.2	49.3 %
Chemical processing . . . . .	2.8	15.6	3.2	17.7	3.9	21.2	4.3	21.5	2.8	19.2
Industrial gas turbine . . . . .	5.0	27.8	4.5	24.9	2.9	15.8	3.4	17.0	3.3	22.6
Other markets . . . . .	1.5	8.3	1.6	8.8	1.8	9.8	2.0	10.0	1.3	8.9
Total Shipments . . . . .	18.0	100.0 %	18.1	100.0 %	18.4	100.0 %	20.0	100.0 %	14.6	100.0 %
<b>Average Selling Price Per Pound</b>										
Aerospace . . . . .	\$ 22.64		\$ 21.76		\$ 23.05		\$ 25.11		\$ 26.56	
Chemical processing . . . . .	26.68		22.28		20.54		20.80		22.21	
Industrial gas turbine . . . . .	13.71		13.77		18.27		17.44		16.96	
Other markets . . . . .	30.74		26.36		29.14		28.35		35.85	
Total product <sup>(2)</sup> . . . . .	21.31		20.30		22.38		23.21		24.33	
Total average selling price . . . . .	22.62		21.81		23.66		24.46		25.95	

<sup>(1)</sup> Other revenue consists of toll conversion, royalty income, scrap sales and revenue recognized from the TIMET agreement (see Note 15 in the Notes to the Consolidated Financial Statements). Other revenue does not include associated shipment pounds.

<sup>(2)</sup> Total product price per pound excludes “Other Revenue”.

Aerospace demand was moderately impacted in fiscal 2016 and 2017 due to delays in the transition to new engine platforms combined with some softness in demand driven by lower oil and fuel costs. As these issues normalized, pounds shipped increased slightly in fiscal 2017, although at a lower average selling price, resulting in a decline in aerospace revenues in fiscal 2017. Underpinning demand for new engines is a desire for more fuel-efficiency and lower emissions, which had been tempered as a result of previous decreases in fuel prices. The slight pull-back was temporary, and in fiscal 2018, aerospace volume hit record levels, and revenue in that market increased 17.9% in that timeframe. Growth continued in fiscal 2019, with continued traction of the new generation engine platforms in spite of the grounding of the Boeing 737 MAX aircraft. One of the Company’s core focus initiatives was to increase prices, which contributed to the revenue increase. Fiscal 2019 sales into the aerospace market represented a record year in both volume and revenue. Sales in the first half of fiscal 2020 were reduced with the continued grounding and subsequent production halt of the Boeing 737 MAX aircraft. Sales in the second half of fiscal 2020 were further severely impacted by the global COVID-19 pandemic causing significant reductions in air travel, which impacted both new plane builds and aftermarket sales. Management believes that its sales into the aerospace market have also been impacted by high inventory levels of metal in the supply chain, which may impact the duration of the downturn on the Company’s business. Volume shipped into the aerospace market declined 30.1% in fiscal 2020 compared to the prior year.

Chemical processing industry revenue decreased in fiscal 2017 because fiscal 2016 sales included some high-value special application projects with high average selling prices per pound. Fiscal 2017 volume shipments increased, but at a lower average price per pound, resulting in lower chemical processing revenue in fiscal 2017 compared to fiscal 2016. Chemical processing revenue in fiscal 2018 increased 12.3% due to recovery in the base business, as well as a moderate increase in specialty application projects. This growth continued in fiscal 2019 with net revenues into the chemical processing market increasing 13.2%. The main driver of demand in this market is capital spending in the chemical processing sector, driven by end-user demand for housing, automotive, energy and agricultural products. The chemical processing market is sensitive to oil prices, currency fluctuations and fiscal policies as well as world economic conditions and GDP growth. Additional drivers of demand in this market include the increase in North American production of natural gas liquids and the further downstream processing of chemicals that may utilize equipment that requires high-performance alloys. Increased sales to the chemical processing industry in fiscal 2018 and 2019 were related to improvement in global spending in the chemical processing sector combined with the Company's focus initiatives aimed at improving volumes. Fiscal 2020 volume and sales were significantly impacted by the global COVID-19 pandemic. Volume shipped into the chemical processing industry market declined 34.9% in fiscal 2020 compared to the prior year.

Sales to the industrial gas turbine market declined each year from fiscal 2016 to 2018, and fiscal 2018 volumes represented less than half the volume of fiscal 2012 peak levels. Reported significant overcapacity in large-frame turbines primarily used for electrical power generation combined with growth in renewable energy facilities has taken a toll on demand for large frame gas turbines. Two of the large OEM producers of large-frame turbines have restructured their power generation businesses due to weak demand. Sales and volume began to recover in fiscal 2019 and the first half of fiscal 2020. The recovery included some market share gains which began to gain traction in fiscal 2020. Industrial gas turbines are beneficial in electricity generating facilities due to low capital cost at installation, fewer emissions than traditional fossil fuel-fired facilities and favorable natural gas prices provided by availability of non-conventional (shale) gas supplies. The global COVID-19 pandemic impacted this market, however sales declines were muted due to the Company's market share gains as well as restocking beginning to occur in the supply chain. Sales declined only 4.7% in fiscal 2020 compared to the prior year.

Volume shipped into the other markets category improved in each of fiscal 2017, 2018 and 2019. Sales in fiscal 2020 were significantly impacted by the global COVID-19 pandemic. The industries in this category focus on upgrading overall product quality, improving product performance through increased efficiency, prolonging product life and lowering long-term costs. Companies in these industries are looking to achieve these goals through the use of "advanced materials" which support the increased use of high-performance alloys in an expanding number of applications. In addition to supporting and expanding the traditional businesses of oil and gas, flue-gas desulfurization, automotive and heat treating, the Company expects increased levels of activity in non-traditional markets such as fuel cells and alternative energy applications in the long term post pandemic.

Other revenue consists primarily of toll conversion, but also includes royalty income, scrap sales and revenue recognized from the TIMET agreement. The demand for toll conversion includes TIMET conversion demand completed on the Company's four-high Steckel hot rolling mill in Kokomo, Indiana, as well as conversion work completed through LaPorte Custom Metal Products. Other revenue demand levels can vary year-to-year based upon demand drivers in the respective markets of the Company's tolling customers. The global COVID-19 pandemic impacted tolling revenue, particularly revenue from those tolling customers that sell into the aerospace market. In fiscal 2020, other revenue represented 6.2% of net sales. Other revenue does not include associated shipment pounds as the metal is not owned by the Company.

### **COVID-19 Pandemic**

In March 2020, the World Health Organization characterized the COVID-19 virus as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The rapid spread of the pandemic, and the continuously evolving responses to combat it, have had a significant negative impact on the global economy and the Company's business.

COVID-19 related disruptions negatively impacted the Company's financial and operating results in the second half of fiscal 2020. In particular, the pandemic negatively impacted the aerospace supply chain which is

absorbing significant downward adjustments to its forecasted demand. The Company has accepted, with select aerospace customers, order push-outs and in some cases cancellations. Markets other than aerospace have also been depressed with uncertainty and tight cash management impacting customer ordering patterns. The Company has taken significant actions to position itself to manage through the current market disruption caused by COVID-19. There is no guarantee, however, that these measures will prove sufficient. These measures include:

- Implemented a 10% reduction in salaries of all members of the executive team and cash compensation of the Board of Directors. Discontinued monthly accruals for management incentive compensation and in the fourth quarter fully reversed prior month accruals.
- A temporary shut-down of most of the Company's production operations began the week of March 23, 2020, which impacted the last week of the second quarter and continued into the third quarter with operations resuming in mid-April in certain areas on a voluntary basis.
- Furloughs implemented for certain production, maintenance and salaried employees. The primary objective is to attempt to minimize spending as sales volume remains depressed.
- Eliminated 183 positions (as of October 31, 2020), or 15% of global workforce, both in production and salary roles, representing \$13.7 million in annual salaries, wages & fringe benefits, implemented a global hiring freeze and eliminated annual merit increases for salaried employees. Required most salaried employees to take one week of unpaid time off during the fourth quarter of fiscal 2020.
- Significant focus on reducing discretionary spending as well as reviewing and prioritizing capital expenditures.
- Focused on reducing inventory to line up with sales volumes. This inventory reduction strategy has and is expected to continue to generate cash.

While the foregoing actions are expected to generate cost savings and cash benefits, additional actions may be required. Due to the current unprecedented market and economic conditions in the U.S. and internationally, the extent of the impact of the COVID-19 pandemic on the Company's operations going forward cannot be reasonably estimated. In general, however, we expect to continue to face challenging operating conditions for the foreseeable future until meaningful progress is made in curtailing the pandemic and its impact on the aerospace and other markets.

### **Summary of Capital Spending**

Capital spending was \$10.0 million and \$9.4 million in fiscal 2019 and 2020, respectively, and the forecast for capital spending in fiscal 2021 is approximately \$10.0 million, which represents a level below the Company's depreciation levels.

### **Volumes, Competition and Pricing**

At the end of fiscal 2019, volume shipped in the fourth quarter was 5.4 million pounds, the Company's highest quarterly volume in four and a half years. Moving into the first half of fiscal 2020, volumes were negatively impacted by the grounding and subsequent production halt of the Boeing 737 MAX aircraft combined with low oil prices, which impacted volumes sold into the chemical processing market. Volumes in the first and second quarter of fiscal 2020 were 4.2 million and 4.3 million pounds, respectively. The second half of fiscal 2020 was then significantly impacted by the global COVID-19 pandemic, which lowered volumes in the third and fourth quarter to 3.2 million and 2.9 million pounds, respectively. This put fiscal 2020 volume at 14.7 million pounds, which is the lowest since fiscal 2003 and represents a 26.8% decline in volume from the prior year.

Pounds shipped by market in the fourth quarter of fiscal 2020 compared to the same quarter last year declined 58.2% in the aerospace market, 40.0% in the chemical processing market, 20.5% in the industrial gas turbine market, and 38.9% in other markets. Total pounds shipped in the fourth quarter of fiscal 2020 were 2.9 million pounds, which declined 45.7% compared to the same quarter last year.

The product average selling price per pound in fiscal 2020 was \$24.33, which is a 4.8% increase over last fiscal year. The increase is partly driven by the realization of contract price increases (primarily contracts adjusting in January 2020) as well as changes in product mix (both alloy and form). Volume of commodity alloys has decreased in greater proportion than proprietary alloys, which increases the overall product average selling price.

The average market price of nickel as reported by the London Metals Exchange for the 30-days ending September 30, 2020 was \$6.74 as compared to the prior year 30-days ending September 30, 2019 average market price of \$8.02 per pound. The Company values inventory utilizing the first-in, first-out (“FIFO”) inventory costing methodology. In a period of decreasing raw material costs, the FIFO inventory valuation normally results in higher costs of sales as compared to the last-in, first out method. Conversely, in a period of rising prices, the FIFO inventory valuation normally results in lower costs of sales as compared to the last-in, first out method.

### Gross Profit Margin Trend Performance

The following tables show net revenue, gross profit margin and gross profit margin percentage for fiscal 2019 and fiscal 2020.

	Trend of Gross Profit Margin and Gross Profit Margin Percentage for Fiscal 2019			
	Quarter Ended			
	December 31	March 31	June 30	September 30
Net revenues	\$ 107,069	\$ 127,474	\$ 126,032	\$ 129,640
Gross Profit Margin	11,335	14,683	18,175	21,310
Gross Profit Margin %	10.6%	11.5%	14.4%	16.4%

	Trend of Gross Profit Margin and Gross Profit Margin Percentage for Fiscal 2020			
	Quarter Ended			
	December 31	March 31	June 30	September 30
Net revenues	\$ 108,453	\$ 111,563	\$ 80,576	\$ 79,938
Gross Profit Margin	18,743	19,296	2,639	3,954
Gross Profit Margin %	17.3%	17.3%	3.3%	4.9%

The significant drop in volumes resulting from the COVID-19 pandemic compressed margins significantly in the third and fourth quarters of fiscal 2020. Particularly challenging is reducing spending commensurate with volume reductions in this environment. In the third and fourth quarter, the Company charged \$5.9 million and \$4.0 million, respectively, directly to cost of goods sold for excess fixed overhead incurred due to abnormally low production levels that could not be capitalized into inventory. Additional unfavorable absorption occurs with typical period costs that are fixed and do not decrease with lower volumes. Further charges to cost of goods sold occurred in the third and fourth quarters to implement manpower reduction measures such as incentives and severance costs for voluntary and involuntary reductions in the workforce. The fourth quarter margin improvement as compared to the third quarter, even with lower revenues, represents continued reduction of spending within operations to match current activity levels to the extent practicable.

### Controllable Working Capital

Controllable working capital, which includes accounts receivable, inventory, accounts payable and accrued expenses, was \$264.9 million at September 30, 2020, a decrease of \$17.5 million or 6.2% from \$282.5 million at September 30, 2019. This decrease resulted primarily from accounts receivable and inventory decreasing \$25.9 million and \$12.7 million, respectively, partially offset by a decrease of accounts payable and accrued expenses of \$21.0 million

in the aggregate. As compared to the third quarter ended June 30, 2020, controllable working capital decreased \$13.5 million, or 4.9%. This decrease resulted primarily from inventory decreasing \$17.8 million and accounts receivable decreasing \$1.2 million, partially offset by decreases in accounts payable and accrued expenses of \$5.4 million in the aggregate.

## Dividends Declared

On November 19, 2020, the Company announced that the Board of Directors declared a regular quarterly cash dividend of \$0.22 per outstanding share of the Company's common stock. The dividend is payable December 15, 2020 to stockholders of record at the close of business on December 1, 2020. The aggregate cash payout based on current shares outstanding will be approximately \$2.8 million, or approximately \$11.1 million on an annualized basis if current dividend levels are maintained.

## Valuation of the Pension Plan and the Retiree Healthcare Plan

The actuarial valuation of the pension and retiree healthcare plans on September 30, 2020 included an unfavorable reduction in the discount rates used to measure the plan liabilities, however the reduction was offset by favorable items including higher than expected return on plan assets and favorable retiree health care spending. This development is expected to reduce expense in fiscal 2021 by \$5.6 million, reflected primarily in the Nonoperating Retirement Benefit Expense in the Statement of Operations.

## Repayment of Draw and Refinancing Credit Facility

During the second quarter of fiscal 2020 the Company borrowed \$30.0 million under its previous credit facility to add to its cash balance in order to further secure its liquidity position and to provide the financial flexibility given uncertain market conditions as a result of the COVID-19 outbreak. The Company repaid the \$30.0 million precautionary draw on the revolver in September 2020, in part, due to generating \$24.8 million in cash in the last six months of the fiscal year. In addition, subsequent to year-end in October 2020, the Company replaced the \$120.0 million credit facility set to expire in July 2021 with a new credit facility expiring in three years. See more detail in the "Liquidity and Capital Resources" section later in this Management's Discussion and Analysis and in Note 8 in the Notes to the Consolidated Financial Statements.

## Backlog

Set forth below is information relating to the Company's backlog and the 30-day average nickel price per pound as reported by the London Metals Exchange. This information should be read in conjunction with the consolidated financial statements and related notes thereto and the remainder of "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

	Quarter Ended				Quarter Ended			
	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020
<b>Backlog</b>								
Dollars (in thousands) . .	\$ 237,802	\$ 253,003	\$ 254,947	\$ 235,204	\$ 237,620	\$ 204,709	\$ 174,639	\$ 153,266
Pounds (in thousands) . .	8,392	8,855	9,072	8,064	8,231	6,930	5,643	5,485
Average selling price per pound . . . . .	\$ 28.34	\$ 28.57	\$ 28.10	\$ 29.17	\$ 28.87	\$ 29.54	\$ 30.95	\$ 27.94
<b>Average nickel price per pound</b>								
London Metals Exchange <sup>(1)</sup> . . . . .	\$ 4.92	\$ 5.93	\$ 5.43	\$ 8.02	\$ 6.26	\$ 5.39	\$ 5.76	\$ 6.74

(1) Represents the average price for a cash buyer as reported by the London Metals Exchange for the 30 days ending on the last day of the period presented.

While the Company has experienced low order entry levels primarily due to the global COVID-19 pandemic, order entry rates slightly increased in the fourth quarter of fiscal 2020 compared to the third quarter, but still below shipment rates. Backlog was \$153.3 million at September 30, 2020, a decrease of approximately \$21.4 million, or 12.2%, from \$174.6 million at June 30, 2020. The backlog dollars decreased during the fourth quarter of fiscal 2020 due to an 9.7% decrease in backlog average selling price combined with a 2.8% decrease in backlog pounds. The decrease in average selling price was due to a lower-value product mix in the backlog.

Backlog decreased by \$81.9 million, or 34.8%, from \$235.2 million at September 30, 2019 to \$153.3 million at September 30, 2020 due to an 32.0% decrease in backlog pounds combined with a 4.2% decrease in backlog average selling price. The decrease in backlog pounds was primarily driven by decreases in demand in the aerospace market. The decrease in average selling price was due to a lower-value product mix in the backlog, predominately because of less titanium tubing in the backlog.

## Revenues by geographic area

Net revenues in fiscal 2018, 2019 and 2020 were generated primarily by the Company's U.S. operations. Sales to domestic customers comprised approximately 59%, 61% and 61% of the Company's net revenues in fiscal 2018, 2019 and 2020, respectively. In addition, the majority of the Company's operating costs are incurred in the U.S., as all of its manufacturing facilities are located in the U.S. It is expected that net revenues will continue to be highly dependent on the Company's domestic sales and manufacturing facilities in the U.S.

The Company's foreign and export sales were approximately \$177.0 million, \$189.5 million and \$149.8 million for fiscal 2018, 2019 and 2020, respectively. Additional information concerning foreign operations and export sales is set forth in Note 13 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

## Quarterly Market Information

	Quarter Ended				Quarter Ended			
	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020
<b>Net revenues</b> (in thousands)								
Aerospace . . . . .	\$ 54,607	\$ 68,858	\$ 66,321	\$ 68,318	\$ 58,843	\$ 59,172	\$ 40,375	\$ 33,590
Chemical processing . . . . .	18,920	21,761	21,197	27,773	16,712	15,832	12,143	18,483
Industrial gas turbine . . . . .	14,083	13,685	15,870	15,792	13,763	16,701	13,673	12,439
Other markets . . . . .	14,285	16,958	15,666	11,037	11,875	12,762	11,203	9,259
Total product revenue . . . . .	101,895	121,262	119,054	122,920	101,193	104,467	77,394	73,771
Other revenue . . . . .	5,174	6,212	6,978	6,720	7,260	7,096	3,182	6,167
<b>Net revenues</b> . . . . .	<b>\$ 107,069</b>	<b>\$ 127,474</b>	<b>\$ 126,032</b>	<b>\$ 129,640</b>	<b>\$ 108,453</b>	<b>\$ 111,563</b>	<b>\$ 80,576</b>	<b>\$ 79,938</b>
<b>Shipments by markets</b> (in thousands of pounds)								
Aerospace . . . . .	2,112	2,857	2,579	2,731	2,303	2,261	1,523	1,142
Chemical processing . . . . .	898	971	1,126	1,315	788	689	578	789
Industrial gas turbine . . . . .	811	757	893	946	825	990	768	752
Other markets . . . . .	509	580	523	432	306	386	302	264
<b>Total shipments</b> . . . . .	<b>4,330</b>	<b>5,165</b>	<b>5,121</b>	<b>5,424</b>	<b>4,222</b>	<b>4,326</b>	<b>3,171</b>	<b>2,947</b>
<b>Average selling price per pound</b>								
Aerospace . . . . .	\$ 25.86	\$ 24.10	\$ 25.72	\$ 25.02	\$ 25.55	\$ 26.17	\$ 26.51	\$ 29.41
Chemical processing . . . . .	21.07	22.41	18.83	21.12	21.21	22.98	21.01	23.43
Industrial gas turbine . . . . .	17.36	18.08	17.77	16.69	16.68	16.87	17.80	16.54
Other markets . . . . .	28.06	29.24	29.95	25.55	38.81	33.06	37.10	35.07
<b>Total average selling price</b> (product only; excluding other revenue) . . . . .	23.53	23.48	23.25	22.66	23.97	24.15	24.41	25.03
<b>Total average selling price</b> (including other revenue) . . . . .	24.73	24.68	24.61	23.90	25.69	25.79	25.41	27.13

## Results of Operations

This section of this Form 10-K generally discusses 2020 and 2019 items and year-to-year comparisons between 2020 and 2019. For discussion related to 2018 items and year-to-year comparisons between 2019 and 2018 that are not included in this Form 10-K, please refer to Part II, Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2019 Form 10-K, filed with the United States Securities and Exchange Commission on November 14, 2019.

### Year Ended September 30, 2020 Compared to Year Ended September 30, 2019

(\$ in thousands, except per share figures)

	Year Ended September 30,				Change	
	2019		2020		Amount	%
Net revenues	\$ 490,215	100.0 %	\$ 380,530	100.0 %	\$ (109,685)	(22.4)%
Cost of sales	424,712	86.6 %	335,898	88.3 %	(88,814)	(20.9)%
Gross profit	65,503	13.4 %	44,632	11.7 %	(20,871)	(31.9)%
Selling, general and administrative expense	44,195	9.0 %	40,307	10.6 %	(3,888)	(8.8)%
Research and technical expense	3,592	0.7 %	3,713	1.0 %	121	3.4 %
Operating income (loss)	17,716	3.6 %	612	0.2 %	(17,104)	(96.5)%
Nonoperating retirement benefit expense	3,446	0.7 %	6,822	1.8 %	3,376	98.0 %
Interest income	(86)	(0.0)%	(44)	(0.0)%	42	(48.8)%
Interest expense	986	0.2 %	1,332	0.4 %	346	35.1 %
Income (loss) before income taxes	13,370	2.7 %	(7,498)	(2.0)%	(20,868)	(156.1)%
Provision for (benefit from) income taxes	3,625	0.7 %	(1,020)	(0.3)%	(4,645)	(128.1)%
Net income (loss)	\$ 9,745	2.0 %	\$ (6,478)	(1.7)%	\$ (16,223)	(166.5)%
Net income (loss) per share:						
Basic	\$ 0.78		\$ (0.53)			
Diluted	\$ 0.78		\$ (0.53)			
Weighted average shares outstanding:						
Basic	12,445,212		12,470,664			
Diluted	12,480,908		12,470,664			

The following table includes a breakdown of net revenues, shipments and average selling prices to the markets served by the Company for the periods shown.

**By market**

	Year Ended September 30,		Change	
	2019	2020	Amount	%
<b><u>Net revenues (dollars in thousands)</u></b>				
Aerospace . . . . .	\$ 258,104	\$ 191,980	\$ (66,124)	(25.6)%
Chemical processing . . . . .	89,651	63,170	(26,481)	(29.5)%
Industrial gas turbine . . . . .	59,430	56,576	(2,854)	(4.8)%
Other markets . . . . .	57,946	45,099	(12,847)	(22.2)%
<b>Total product revenue . . . . .</b>	<b>465,131</b>	<b>356,825</b>	<b>(108,306)</b>	<b>(23.3)%</b>
Other revenue . . . . .	25,084	23,705	(1,379)	(5.5)%
<b>Net revenues . . . . .</b>	<b>\$ 490,215</b>	<b>\$ 380,530</b>	<b>\$ (109,685)</b>	<b>(22.4)%</b>
<b><u>Pounds by market (in thousands)</u></b>				
Aerospace . . . . .	10,279	7,229	(3,050)	(29.7)%
Chemical processing . . . . .	4,310	2,844	(1,466)	(34.0)%
Industrial gas turbine . . . . .	3,407	3,335	(72)	(2.1)%
Other markets . . . . .	2,044	1,258	(786)	(38.5)%
<b>Total shipments . . . . .</b>	<b>20,040</b>	<b>14,666</b>	<b>(5,374)</b>	<b>(26.8)%</b>
<b><u>Average selling price per pound</u></b>				
Aerospace . . . . .	\$ 25.11	\$ 26.56	\$ 1.45	5.8 %
Chemical processing . . . . .	20.80	22.21	1.41	6.8 %
Industrial gas turbine . . . . .	17.44	16.96	(0.48)	(2.8)%
Other markets . . . . .	28.35	35.85	7.50	26.5 %
<b>Total product (excluding other revenue) . . . . .</b>	<b>23.21</b>	<b>24.33</b>	<b>1.12</b>	<b>4.8 %</b>
<b>Total average selling price (including other revenue) . . . . .</b>	<b>\$ 24.46</b>	<b>\$ 25.95</b>	<b>\$ 1.49</b>	<b>6.1 %</b>

*Net Revenues.* Net revenues were \$380.5 million in fiscal 2020, a decrease of 22.4% from \$490.2 million in fiscal 2019, due to a decrease in volume, partially offset by an increase in average selling price per pound. Volume was 14.7 million pounds in fiscal 2020, a decrease of 26.8% from 20.0 million pounds in fiscal 2019, with decreases in each of the major markets. The decrease in volume is primarily attributable to a significant slowdown in demand caused by the COVID-19 pandemic in addition to the impact caused by the grounding of the Boeing 737 MAX. The average product selling price was \$24.33 per pound in fiscal 2020, an increase of 4.8%, or \$1.12, from \$23.21 per pound in fiscal 2019. The average product selling price per pound increased as a result of a higher value product mix and previous price increases as well as other pricing considerations (such as customer mix, timing of customer agreement adjustors, etc.), which increased average selling price per pound by approximately \$0.95 and \$0.44, respectively, partially offset by lower raw material market prices, which decreased the average selling price per pound by approximately \$0.27.

Sales to the aerospace market were \$192.0 million in fiscal 2020, a decrease of 25.6% from \$258.1 million in fiscal 2019, due to a 29.7% decrease in volume, partially offset by a 5.8% increase in the average selling price per pound. Demand in the aerospace market declined primarily due to the COVID-19 pandemic, but also due to the continued issues with the Boeing 737 MAX. The airline industry and the commercial aerospace industry have been dramatically impacted by the pandemic. Demand has also been impacted by the elevated amount of inventory throughout the aerospace supply chain, the significant number of undelivered new planes already built (primarily the Boeing 737 MAX) and the significant number of planes taken out of service. Aftermarket MRO sales have also been significantly impacted. The average selling price per pound increase reflects a higher value product mix and other pricing considerations, which increased average selling price per pound by approximately \$1.68, partially offset by a change in market prices of raw materials, which decreased average selling price per pound by approximately \$0.23.



Sales to the chemical processing market were \$63.2 million in fiscal 2020, a decrease of 29.5% from \$89.7 million in fiscal 2019, due to a 34.0% decrease in volume, partially offset by a 6.8%, or \$1.41, increase in the average selling price per pound. Volumes decreased in fiscal 2020 primarily due to decreased demand caused by COVID-19, low oil prices and a decrease in special projects. The average selling price per pound increase reflects a higher value product mix and other pricing considerations, which increased average selling price per pound by approximately \$1.70, partially offset by lower market raw material prices, which decreased average selling price per pound by approximately \$0.29.

Sales to the industrial gas turbine market were \$56.6 million in fiscal 2020, a decrease of 4.8% from \$59.4 million in fiscal 2019, due to a 2.1% decrease in volume combined with a 2.8%, or \$0.48, decrease in the average selling price per pound. The decrease in volume was primarily due to customers' precautionary purchasing patterns relating to COVID-19, combined with small/medium frame engine builds declining due to the slow-down in the oil industry. The Company's share gain initiative continued, which partially offset these negative factors. However, given continued challenging economic conditions, shipments were not consistent quarter to quarter. The decrease in average selling price per pound primarily reflects lower market raw material prices and other pricing considerations which decreased the average selling price per pound by approximately \$0.61, partially offset by a higher-value product mix, which increased the average selling price per pound by approximately \$0.13.

Sales to other markets were \$45.1 million in fiscal 2020, a decrease of 22.2% from \$57.9 million in fiscal 2019, due to a 38.5% decrease in volume, partially offset by a 26.5%, or \$7.50, increase in average selling price per pound. The decrease in volume is due primarily to decreased demand resulting from the effects of the COVID-19 pandemic and lower oil prices; decreases were largest in the flue-gas desulfurization, automotive and oil and gas markets. The increase in average selling price reflects a higher-value product mix, which increased average selling price per pound by approximately \$8.24, partially offset by lower market raw material prices and other pricing considerations, which decreased average selling price per pound by approximately \$0.74.

*Other Revenue.* Other revenue was \$23.7 million in fiscal 2020, a decrease of 5.5% from \$25.1 million in fiscal 2019. The decrease in other revenue is primarily attributable to decreased toll conversion services.

*Cost of Sales.* Cost of sales was \$335.9 million, or 88.3% of net revenues, in fiscal 2020 compared to \$424.7 million, or 86.6% of net revenues, in fiscal 2019. Cost of sales in fiscal 2020 decreased by \$88.8 million primarily due to lower volumes and lower raw material prices combined with the Company's actions taken to lower its breakeven point and lower costs in response to COVID-19. During the second half of fiscal 2020, the Company took safety measures to reduce the risk of spread of COVID-19, which actions included plant shutdowns during the month of April as well as voluntary and involuntary layoffs. The Company also reduced its salaried and hourly workforce and incurred approximately \$0.7 million in severance expenses. However, despite these cost reduction measures, fixed costs did not decline in line with production volumes, which required directly expensing a portion of these fixed costs in the amount of approximately \$11.4 million in fiscal 2020.

*Gross Profit.* As a result of the above factors, gross margin was \$44.6 million for fiscal 2020, a decrease of \$20.9 million from \$65.5 million in fiscal 2019. Gross margin as a percentage of net revenue decreased to 11.7% in fiscal 2020 as compared to 13.4% in fiscal 2019. This percentage decrease was primarily due to the above-mentioned \$11.4 million direct charge to cost of goods sold and other period costs spread over lower volumes.

*Selling, General and Administrative Expense.* Selling, general and administrative expense was \$40.3 million for fiscal 2020, a decrease of \$3.9 million, or 8.8%, from \$44.2 million in fiscal 2019. This decrease is primarily attributable to lower management incentive expenses of \$1.9 million along with cost saving measures taken in response to COVID-19, including salary reductions, temporary layoffs, and workforce reductions, partially offset by severance expenses of \$0.2 million. Selling, general and administrative expense as a percentage of net revenues increased to 10.6% for fiscal 2020 compared to 9.0% for the same period of fiscal 2019 due to lower revenue.

*Research and Technical Expense.* Research and technical expense was \$3.7 million, or 1.0% of revenue, for fiscal 2020, compared to \$3.6 million, or 0.7% of net revenue, in fiscal 2019.

*Operating Income/(Loss).* As a result of the above factors, operating income in fiscal 2020 was \$0.6 million, compared to operating income of \$17.7 million in fiscal 2019.

*Nonoperating retirement benefit expense.* Nonoperating retirement benefit expense was \$6.8 million in fiscal 2020, compared to \$3.4 million in the same period of fiscal 2019. The increase in expense was primarily driven by lower discount rates in the September 30, 2019 valuation which resulted in higher retirement liabilities and ultimately higher expense for fiscal 2020.

*Income Taxes.* Income tax benefit was \$1.0 million during fiscal 2020, a difference of \$4.6 million from an expense of \$3.6 million in the same period of fiscal 2019, driven by a decrease in income before taxes of \$20.9 million as well as a valuation allowance recorded during fiscal 2020 of \$1.0 million on tax credits that are not expected to be realized prior to expiration.

*Net Income/(Loss).* As a result of the above factors, net loss for fiscal 2020 was \$(6.5) million, a decrease of \$16.2 million from net income \$9.7 million in fiscal 2019.

## **Liquidity and Capital Resources**

### *Comparative cash flow analysis (2019 to 2020)*

The Company had cash and cash equivalents of \$47.2 million at September 30, 2020, inclusive of \$11.0 million that was held by foreign subsidiaries in various currencies, compared to \$31.0 million at September 30, 2019. Additionally, there were zero borrowings against the line of credit outstanding as of September 30, 2020. During fiscal 2020, the Company's primary sources of cash were cash on-hand and the revolving credit facility which was drawn against during the first six months of fiscal 2020 but repaid in full by September 30, 2020.

Net cash provided by operating activities was \$36.2 million in fiscal 2020 compared to net cash provided by operating activities of \$43.0 million in fiscal 2019, a decrease of \$6.8 million. The decrease was primarily driven by a net loss of \$6.5 million during fiscal 2020 compared to net income of \$9.7 million during fiscal 2019, partially offset by changes in working capital. During fiscal 2019, changes in accounts receivable and accounts payable resulted in a net cash outflow of \$5.2 million. During fiscal 2020, changes in accounts receivable and accounts payable resulted in a net cash inflow of \$5.5 million.

Net cash used in investing activities was \$9.4 million in fiscal 2020, which was lower than cash used in investing activities during the same period of fiscal 2019 of \$10.0 million, driven by lower additions to property, plant and equipment.

Net cash used in financing activities was \$11.1 million in fiscal 2020, which was slightly lower than cash used in financing activities during fiscal 2019 of \$11.3 million, as a result of, among other factors, higher proceeds received from the exercise of stock options during fiscal 2020 as compared to fiscal 2019. Dividends paid of \$11.1 million in fiscal 2020, were comparable to the prior year. Additionally, during fiscal 2020, the Company borrowed \$30.0 million from the revolving credit facility, which was fully repaid by the end of the fiscal year.

### *Future sources of liquidity*

The Company's sources of liquidity for fiscal 2021 are expected to consist primarily of cash generated from operations (including reduction of inventory), cash on-hand and, if needed, borrowings under our new U.S. revolving credit facility. At September 30, 2020, the Company had cash of \$47.2 million, an outstanding balance of zero on the previous U.S. revolving credit facility and access to a total of approximately \$120.0 million under the prior U.S. revolving credit facility, subject to a borrowing base formula and certain reserves. Subsequent to year-end, the Company replaced the credit facility with a \$100 million facility expiring in three years (described below). Management believes that the resources described above and below will be sufficient to fund planned capital expenditures, any regular quarterly dividends declared and working capital requirements over the next twelve months.

### *U.S. revolving credit facility*

On October 19, 2020, the Company and JPMorgan Chase Bank, N.A. entered into a Credit Agreement (the “Credit Agreement”) and related Pledge and Security Agreement with certain other lenders (the “Security Agreement”, and, together with the Credit Agreement, the “Credit Documents”). The Credit Documents, which have a three-year term expiring in October 2023, replaced the Third Amended and Restated Loan and Security Agreement and related agreements, dated as of July 14, 2011, as amended, previously entered into between the Company and Wells Fargo Capital Finance, LLC with certain other lenders (the “Previous Facility”). The Credit Agreement provides for revolving loans in the maximum amount of \$100.0 million, subject to a borrowing base and certain reserves. The Credit Agreement permits an increase in the maximum revolving loan amount from \$100.0 million up to an aggregate amount of \$170.0 million at the request of the borrower if certain conditions are met. Borrowings under the Credit Agreement bear interest, at the Company’s option, at either JPMorgan’s “prime rate”, plus 1.25% - 1.75% per annum, or the adjusted Eurodollar rate used by the lender, plus 2.25% - 2.75% per annum (with a LIBOR floor of 0.5%). As of September 30, 2020, the Previous Facility had a zero balance. As of the same date, management believes the Company was in compliance with all applicable financial covenants under the Previous Facility.

The Company must pay monthly, in arrears, a commitment fee of 0.425% per annum on the unused amount of the U.S. revolving credit facility total commitment. For letters of credit, the Company must pay a fronting fee of 0.125% per annum as well as customary fees for issuance, amendments and processing.

The Company is subject to certain covenants as to fixed charge coverage ratios and other customary covenants, including covenants restricting the incurrence of indebtedness, the granting of liens and the sale of assets. The covenant pertaining to fixed charge coverage ratios is only effective in the event the amount of excess availability under the revolver is less than the greater of (i) 12.5% of the maximum credit revolving loan amount and (ii) \$12.5 million. The Company is permitted to pay dividends and repurchase common stock if certain financial metrics are met. The Company may pay quarterly cash dividends up to \$3.5 million per fiscal quarter so long as the Company is not in default under the Credit Documents.

Borrowings under the Credit Agreement are collateralized by a pledge of substantially all of the U.S. assets of the Company, including the equity interests in its U.S. subsidiaries, but excluding the four-high Steckel rolling mill and related assets, which are pledged to Titanium Metals Corporation (“TIMET”) to secure the performance of the Company’s obligations under a Conversion Services Agreement with TIMET (see discussion of TIMET at Note 15 in the Company’s Notes to Consolidated Financial Statements in this Annual Report on Form 10-K). Borrowings under the Credit Documents are also secured by a pledge of a 100% equity interest in each of the Company’s direct foreign subsidiaries.

### *Future uses of liquidity*

The Company’s primary uses of cash over the next twelve months are expected to consist of expenditures related to:

- Funding operations;
- Capital spending;
- Dividends to stockholders; and
- Pension and postretirement plan contributions.

Capital investment in fiscal 2020 was \$9.4 million, and the plan for capital spending in fiscal 2021 is \$10.0 million.

## Contractual Obligations

The following table sets forth the Company's contractual obligations for the periods indicated, as of September 30, 2020:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 Years (in thousands)	3-5 Years	More than 5 years
Credit facility fees <sup>(1)</sup> . . . . .	\$ 97	\$ 97	\$ —	\$ —	\$ —
Operating lease obligations <sup>(2)</sup> . . . . .	3,689	2,120	1,144	425	—
Finance lease obligations . . . . .	15,608	1,001	2,036	2,069	10,502
Raw material contracts (primarily nickel) . . . . .	7,161	7,161	—	—	—
Capital projects and other commitments . . . . .	3,641	3,641	—	—	—
Pension plan <sup>(3)</sup> . . . . .	105,788	6,000	12,000	12,000	75,788
Non-qualified pension plans . . . . .	681	95	190	190	206
Other postretirement benefits <sup>(4)</sup> . . . . .	90,032	3,307	7,339	7,396	71,990
Environmental post-closure monitoring . . . . .	602	77	134	156	235
<b>Total</b> . . . . .	<b>\$ 227,299</b>	<b>\$ 23,499</b>	<b>\$ 22,843</b>	<b>\$ 22,236</b>	<b>\$ 158,721</b>

(1) As of September 30, 2020, the revolver balance was zero, therefore no interest is due. However, the Company is obligated to the Bank for unused line fees and quarterly management fees. On October 19, 2020, the Company entered into a new credit facility which requires the Company to pay unused line fees and quarterly management fees that amounts to approximately \$425 per year, which is excluded from the table above. See Note 8 for description of the new credit facility.

(2) Represents payments for all operating lease obligations, including short term lease obligations.

(3) The Company has a funding obligation to contribute \$105,788 to the domestic pension plan. These payments will be tax deductible. All benefit payments under the domestic pension plan will come from the plan and not the Company.

(4) Represents expected other postretirement benefits based upon anticipated timing of payments.

## Inflation or Deflation

The Company may be favorably or unfavorably impacted by inflation or deflation, resulting in a material impact on its operating results. The Company attempts to pass onto customers both increases in consumable costs and material costs because of the value-added contribution the material makes to the final product, however, we may not be able to successfully offset a rapid increase in raw material costs adjustments to customer selling prices. In the event of raw material price declines, the Company's customers may delay order placement, resulting in lower volumes. In the event that raw material price increases that the Company is unable to pass on to its customers occur, the Company's cash flows or results of operations could be materially adversely affected.

## Critical Accounting Policies and Estimates

### Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to bad debts, inventories, income taxes, asset impairments, retirement benefits, matters related to product liability and other

lawsuits and environmental matters. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, pension asset mix and, in some cases, actuarial techniques and various other factors that are believed to be reasonable under the circumstances. The results of this process form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company routinely reevaluates these significant factors and makes adjustments where facts and circumstances dictate. Actual results may differ from these estimates under different assumptions or conditions.

The Company's accounting policies are more fully described in Note 2 in the Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The Company has identified certain critical accounting policies, which are described below. The following listing of policies is not intended to be a comprehensive list of all of the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

#### *Revenue Recognition*

The Company recognizes revenue when performance obligations under the terms of customer contracts are satisfied which occurs when control of the goods has been transferred to the customer and services have been performed. Allowances for sales returns are recorded as a component of net sales in the periods in which the related sales are recognized. The Company determines this allowance based on historical experience. Additionally, the Company recognizes revenue attributable to an up-front fee received from Titanium Metals Corporation ("TIMET") as a result of a twenty-year agreement, entered into on November 17, 2006 to provide conversion services to TIMET. See Note 15 Deferred Revenue for a description of accounting treatment relating to this up-front fee.

#### *Pension and Postretirement Benefits*

The Company has defined benefit pension and postretirement plans covering most of its current and former employees. Significant elements in determining the assets or liabilities and related income or expense for these plans are the expected return on plan assets (if any), the discount rate used to value future payment streams, expected trends in health care costs and other actuarial assumptions. Annually, the Company evaluates the significant assumptions to be used to value its pension and postretirement plan assets and liabilities based on current market conditions and expectations of future costs. If actual results are less favorable than those projected by management, additional expense may be required in future periods.

The selection of the U.S. pension plan's (the Plan) assumption for the expected long-term rate of return on plan assets is based upon the Plan's target allocation of 60% equities and 40% bonds, and the expected rate of return for each equity/bond asset class. Based upon the target allocation and each asset class's expected return, the Plan's return on assets assumption is 7.25%, and is unchanged since last year's assumption. The return on assets is based on fair value of the plan assets and their investment allocation at the beginning of the fiscal year. The Company also realizes that historical performance is no guarantee of future performance.

In the short term, substantial decreases in plan assets will result in higher plan funding contribution levels and higher pension expenses. A decrease of 25 basis points in the expected long-term rate of return on plan assets would result in an increase in annual pension expense of about \$549,000. To the extent that the actual return on plan assets during the year exceeds or falls short of the assumed long-term rate of return, an asset gain or loss is created. For funding purposes, gains and losses are generally amortized over a 7-year period. As an example, each \$1.0 million in new funding shortfall amounts created by unfavorable investment performance results in seven annual payments (contributions) of approximately \$160,000 depending upon the precise effective interest rate in the valuation and the timing of the contribution.

Decreases in discount rates used to value future payment streams will result in higher liabilities for pension and postretirement plans. A decrease of 25 basis points would result in \$11.3 million higher liability for the U.S. pension plan

and \$4.0 million higher liability for the postretirement plan. This increase in liability would also increase the accumulated other comprehensive loss that would be amortized as higher pension and postretirement expense over an amortization period of approximately 6.3 and 6.7 years, respectively.

Salaried employees hired after December 31, 2005 and hourly employees hired after June 30, 2007 are not covered by the pension plan; however, they are eligible for an enhanced matching program of the defined contribution plan (401(k)). Effective December 31, 2007, the U.S. pension plan was amended to freeze benefits for all non-union employees in the U.S. Effective September 30, 2009, the U.K. pension plan was amended to freeze benefits for employees in the plan.

#### *Impairment of Long-lived Assets*

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of the asset to the undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the fair value of the asset.

#### *Income Taxes*

The Company accounts for deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between book and tax basis of recorded assets and liabilities. A valuation allowance is required if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The determination of whether or not a valuation allowance is needed is based upon an evaluation of both positive and negative evidence. In its evaluation of the need for a valuation allowance, the Company assesses prudent and feasible tax planning strategies. The ultimate amount of deferred tax assets realized could be different from those recorded, as influenced by potential changes in enacted tax laws and the availability of future taxable income.

#### **Recently Issued Accounting Pronouncements**

See Note 2—Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements for information regarding New Accounting Standards.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the potential loss arising from adverse changes in market rates and prices. The Company is exposed to various market risks, including changes in interest rates, foreign currency exchange rates and the price of raw materials, particularly nickel.

Changes in interest rates affect the Company's interest expense on variable rate debt. All of the Company's revolver availability was at a variable rate at September 30, 2019 and 2020. The Company's outstanding variable rate debt was zero at September 30, 2019 and 2020. The Company has not entered into any derivative instruments to hedge the effects of changes in interest rates.

The foreign currency exchange risk exists primarily because the Company's foreign subsidiaries maintain receivables and payables denominated in currencies other than their functional currency. Foreign currency forward contracts are entered into as a means to partially offset the impact of cash transactions occurring at the foreign affiliates in currencies other than the entities' functional currency. The U.S. operations transact their foreign sales in U.S. dollars, thereby avoiding fluctuations in foreign exchange rates. The Company is not party to any currency contracts as of September 30, 2020.

Fluctuations in the price of nickel and cobalt, subject the Company to commodity price risk. The Company manages its exposure to this market risk through internally established policies and procedures, including negotiating raw material escalators within product sales agreements and continually monitoring and revising customer quote amounts to reflect the fluctuations in market prices for nickel. The Company does not presently use derivative instruments to manage this market risk but may in the future. The Company monitors its underlying market risk exposure from a rapid change in nickel prices on an ongoing basis and believes that it can modify or adapt its strategies as necessary. The Company periodically purchases raw material forward with certain suppliers. However, there is a risk that the Company may not be able to successfully offset a rapid increase or decrease in the cost of raw material in the future.

**Item 8. Financial Statements and Supplementary Data**

**HAYNES INTERNATIONAL, INC. AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**Audited Consolidated Financial Statements of Haynes International, Inc. and Subsidiaries as of September 30, 2020 and 2019 and for the years ended September 30, 2020, September 30, 2019 and September 30, 2018**

	<u>Page</u>
Report of Independent Registered Public Accounting Firm .....	59
Consolidated Balance Sheets .....	61
Consolidated Statements of Operations .....	62
Consolidated Statements of Comprehensive Income (Loss) .....	63
Consolidated Statements of Stockholders' Equity .....	64
Consolidated Statements of Cash Flows .....	65
Notes to Consolidated Financial Statements .....	66



## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of Haynes International, Inc.

### **Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets of Haynes International, Inc. and subsidiaries (the "Company") as of September 30, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2020, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2020, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

### **Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management

and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*/s/ Deloitte & Touche LLP*

Indianapolis, IN  
November 19, 2020

We have served as the Company's auditor since fiscal year 1998.

**HAYNES INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2020</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 31,038	\$ 47,238
Accounts receivable, less allowance for doubtful accounts of \$441 and \$545 at September 30, 2019 and September 30, 2020, respectively . . . . .	76,979	51,118
Inventories . . . . .	258,802	246,124
Income taxes receivable . . . . .	1,757	3,770
Other current assets . . . . .	<u>3,297</u>	<u>3,285</u>
Total current assets . . . . .	371,873	351,535
Property, plant and equipment, net . . . . .	169,966	159,819
Deferred income taxes . . . . .	34,132	30,551
Other assets . . . . .	7,756	8,974
Goodwill . . . . .	4,789	4,789
Other intangible assets, net . . . . .	<u>5,284</u>	<u>5,056</u>
Total assets . . . . .	<u>\$ 593,800</u>	<u>\$ 560,724</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable . . . . .	\$ 34,497	\$ 17,555
Accrued expenses . . . . .	18,833	14,757
Accrued pension and postretirement benefits . . . . .	4,250	3,403
Deferred revenue—current portion . . . . .	<u>2,500</u>	<u>2,500</u>
Total current liabilities . . . . .	60,080	38,215
Long-term obligations (less current portion) . . . . .	8,609	8,509
Deferred revenue (less current portion) . . . . .	15,329	12,829
Deferred income taxes . . . . .	2,016	2,131
Operating lease liabilities . . . . .	—	1,719
Accrued pension benefits (less current portion) . . . . .	101,812	105,788
Accrued postretirement benefits (less current portion) . . . . .	<u>109,679</u>	<u>90,032</u>
Total liabilities . . . . .	297,525	259,223
Commitments and contingencies . . . . .		
Stockholders' equity:		
Common stock, \$0.001 par value (40,000,000 shares authorized, 12,566,969 and 12,681,280 shares issued and 12,513,500 and 12,622,371 shares outstanding at September 30, 2019 and September 30, 2020, respectively) . . . . .	13	13
Preferred stock, \$0.001 par value (20,000,000 shares authorized, 0 shares issued and outstanding) . . . . .	—	—
Additional paid-in capital . . . . .	253,843	257,583
Accumulated earnings . . . . .	125,296	120,943
Treasury stock, 53,469 shares at September 30, 2019 and 58,909 shares at September 30, 2020 . . . . .	(2,239)	(2,437)
Accumulated other comprehensive loss . . . . .	<u>(80,638)</u>	<u>(74,601)</u>
Total stockholders' equity . . . . .	296,275	301,501
Total liabilities and stockholders' equity . . . . .	<u>\$ 593,800</u>	<u>\$ 560,724</u>

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

**HAYNES INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per share data)**

	<u>Year Ended September 30, 2018</u>	<u>Year Ended September 30, 2019</u>	<u>Year Ended September 30, 2020</u>
Net revenues .....	\$ 435,326	\$ 490,215	\$ 380,530
Cost of sales .....	<u>379,491</u>	<u>424,712</u>	<u>335,898</u>
Gross profit .....	55,835	65,503	44,632
Selling, general and administrative expense .....	47,030	44,195	40,307
Research and technical expense .....	<u>3,785</u>	<u>3,592</u>	<u>3,713</u>
Operating income .....	5,020	17,716	612
Nonoperating retirement benefit expense .....	8,238	3,446	6,822
Interest income .....	(82)	(86)	(44)
Interest expense .....	<u>918</u>	<u>986</u>	<u>1,332</u>
Income (loss) before income taxes .....	(4,054)	13,370	(7,498)
Provision for (benefit from) income taxes .....	<u>17,697</u>	<u>3,625</u>	<u>(1,020)</u>
Net income (loss) .....	<u>\$ (21,751)</u>	<u>\$ 9,745</u>	<u>\$ (6,478)</u>
Net income (loss) per share:			
Basic .....	<u>\$ (1.75)</u>	<u>\$ 0.78</u>	<u>\$ (0.53)</u>
Diluted .....	<u>\$ (1.75)</u>	<u>\$ 0.78</u>	<u>\$ (0.53)</u>
Weighted Average Common Shares Outstanding			
Basic .....	<u>12,420</u>	<u>12,445</u>	<u>12,471</u>
Diluted .....	<u>12,420</u>	<u>12,481</u>	<u>12,471</u>
Dividends declared per common share .....	<u>\$ 0.88</u>	<u>\$ 0.88</u>	<u>\$ 0.88</u>

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

**HAYNES INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(in thousands)**

	<b>Year Ended September 30, 2018</b>	<b>Year Ended September 30, 2019</b>	<b>Year Ended September 30, 2020</b>
Net income (loss) .....	\$ (21,751)	\$ 9,745	\$ (6,478)
Other comprehensive income (loss), net of tax:			
Pension and postretirement .....	32,029	(34,453)	15,630
Foreign currency translation adjustment .....	<u>(1,900)</u>	<u>(3,620)</u>	<u>3,690</u>
Other comprehensive income (loss).....	<u>30,129</u>	<u>(38,073)</u>	<u>19,320</u>
Comprehensive income (loss) .....	<u>\$ 8,378</u>	<u>\$ (28,328)</u>	<u>\$ 12,842</u>

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

**HAYNES INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Par					
Balance October 1, 2017	12,509,757	\$ 13	\$ 248,733	\$ 159,366	\$ (1,646)	\$ (72,694)	\$ 333,772
Net income (loss)				(21,751)			(21,751)
Dividends paid (\$0.88 per share)				(11,027)			(11,027)
Other comprehensive income (loss)						30,129	30,129
Issue restricted stock (less forfeitures)	1,658						—
Purchase of treasury stock	(6,937)				(223)		(223)
Stock compensation			2,320				2,320
Balance September 30, 2018	12,504,478	\$ 13	\$ 251,053	\$ 126,588	\$ (1,869)	\$ (42,565)	\$ 333,220
Net income (loss)				9,745			9,745
Dividends paid (\$0.88 per share)				(11,037)			(11,037)
Other comprehensive income (loss)						(38,073)	(38,073)
Exercise of stock options	12,084		215				215
Issue restricted stock (less forfeitures)	8,294						—
Purchase of treasury stock	(11,356)				(370)		(370)
Stock compensation			2,575				2,575
Balance September 30, 2019	12,513,500	\$ 13	\$ 253,843	\$ 125,296	\$ (2,239)	\$ (80,638)	\$ 296,275
Net income (loss)				(6,478)			(6,478)
Dividends paid and accrued (\$0.88 per share)				(11,158)			(11,158)
Other comprehensive income (loss)						19,320	19,320
Exercise of stock options	12,400		422				422
Reclass due to adoption of ASU 2018-02				13,283		(13,283)	—
Issue restricted stock (less forfeitures)	101,911						—
Purchase of treasury stock	(5,440)				(198)		(198)
Stock compensation			3,318				3,318
Balance September 30, 2020	12,622,371	\$ 13	\$ 257,583	\$ 120,943	\$ (2,437)	\$ (74,601)	\$ 301,501

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

**HAYNES INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Year Ended September 30, 2018	Year Ended September 30, 2019	Year Ended September 30, 2020
<b>Cash flows from operating activities:</b>			
Net income (loss) .....	\$ (21,751)	\$ 9,745	\$ (6,478)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation .....	22,627	18,871	19,422
Amortization .....	527	255	228
Pension and post-retirement expense - U.S. and U.K. ....	14,110	8,819	13,624
Change in long-term obligations .....	(7)	316	97
Stock compensation expense .....	2,320	2,575	3,318
Deferred revenue .....	(2,500)	(2,500)	(2,500)
Deferred income taxes .....	23,115	1,872	(1,219)
Loss on disposition of property .....	250	138	30
Change in assets and liabilities:			
Accounts receivable .....	(12,590)	(5,002)	26,713
Inventories .....	(29,905)	11,702	15,283
Other assets .....	(2,120)	(1,080)	567
Accounts payable and accrued expenses .....	10,220	(204)	(21,196)
Income taxes .....	(7,406)	5,534	(2,028)
Accrued pension and postretirement benefits .....	(10,627)	(7,994)	(9,664)
Net cash provided by (used in) operating activities .....	(13,737)	43,047	36,197
<b>Cash flows from investing activities:</b>			
Additions to property, plant and equipment .....	(11,085)	(10,041)	(9,374)
Net cash provided by (used in) investing activities .....	(11,085)	(10,041)	(9,374)
<b>Cash flows from financing activities:</b>			
Revolving credit facility borrowings .....	4,200	16,600	30,000
Revolving credit facility repayments .....	(4,200)	(16,600)	(30,000)
Dividends paid .....	(11,013)	(11,011)	(11,058)
Proceeds from exercise of stock options .....	—	215	422
Payment for purchase of treasury stock .....	(223)	(370)	(198)
Payments on long-term obligation .....	(258)	(150)	(297)
Net cash provided by (used in) financing activities .....	(11,494)	(11,316)	(11,131)
Effect of exchange rates on cash .....	(210)	(454)	508
Increase (decrease) in cash and cash equivalents: .....	(36,526)	21,236	16,200
Cash and cash equivalents:			
Beginning of period .....	46,328	9,802	31,038
End of period .....	\$ 9,802	\$ 31,038	\$ 47,238
<b>Supplemental disclosures of cash flow information:</b>			
Interest (net of capitalized interest) .....	\$ 860	\$ 928	\$ 1,242
Income taxes paid (refunded), net .....	\$ 1,965	\$ (3,650)	\$ 2,255
Capital expenditures incurred, but not yet paid .....	\$ 703	\$ 490	\$ 75
Dividends declared but not yet paid .....	\$ 14	\$ 26	\$ 139

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

## HAYNES INTERNATIONAL, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data and as otherwise noted)

#### Note 1. Background and Organization

##### *Description of Business*

Haynes International, Inc. and its subsidiaries (the “Company”, “Haynes”, “we”, “our” or “us”) develops, manufactures, markets and distributes technologically advanced, high-performance alloys primarily for use in the aerospace, industrial gas turbine and chemical processing industries. The Company’s products are high-temperature resistant alloys (“HTA”) and corrosion-resistant alloys (“CRA”). The Company’s HTA products are used by manufacturers of equipment that is subjected to extremely high temperatures, such as jet engines for the aerospace industry, gas turbine engines for power generation, waste incineration and industrial heating equipment. The Company’s CRA products are used in applications that require resistance to extreme corrosion, such as chemical processing, power plant emissions control and hazardous waste treatment. The Company produces its high-performance alloys primarily in sheet, coil and plate forms. In addition, the Company produces its products as seamless and welded tubulars, and in slab, bar, billets and wire forms.

High-performance alloys are characterized by highly engineered, often proprietary, metallurgical formulations primarily of nickel, cobalt and other metals with complex physical properties. The complexity of the manufacturing process for high-performance alloys is reflected in the Company’s relatively high average selling price per pound, compared to the average selling price of other metals, such as carbon steel sheet, stainless steel sheet and aluminum. The high-performance alloy industry has significant barriers to entry such as the combination of (i) demanding end-user specifications, (ii) a multi-stage manufacturing process and (iii) the technical sales, marketing and manufacturing expertise required to develop and sell new applications.

##### *COVID-19 Pandemic*

In March 2020, the World Health Organization characterized the COVID-19 virus as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The rapid spread of the virus, and the continuously evolving responses to combat it, have had a significant negative impact on the global economy and the Company’s business.

COVID-19 related disruptions negatively impacted the Company’s financial and operating results in the second half of fiscal 2020 and could continue to materially affect the Company’s financial condition and results of operations for an extended period of time. In particular, the pandemic negatively impacted the aerospace supply chain which is currently absorbing significant downward adjustments to its forecasted demand. The Company has accepted, with select aerospace customers, requests to delay the shipment of orders and in some cases cancellations. Markets other than aerospace have also been depressed with uncertainty and tight cash management impacting customer ordering patterns. The Company has taken significant actions to position itself to manage through the current market disruption caused by COVID-19.

#### Note 2. Summary of Significant Accounting Policies

##### A. Principles of Consolidation and Nature of Operations

The consolidated financial statements include the accounts of Haynes International, Inc. and its wholly-owned subsidiaries. All intercompany transactions and balances are eliminated. The Company has manufacturing facilities in Kokomo, Indiana; Mountain Home, North Carolina; and Arcadia, Louisiana with service centers in LaPorte, Indiana; LaMirada, California; Houston, Texas; Windsor, Connecticut; Openshaw, England; Lenzburg, Switzerland; Shanghai, China; and sales offices in Paris, France; Zurich, Switzerland; Singapore; Milan, Italy; and Tokyo, Japan.



## **B. Cash and Cash Equivalents**

The Company considers all highly liquid investment instruments, including investments with original maturities of three months or less at acquisition, to be cash equivalents, the carrying value of which approximates fair value due to the short maturity of these investments.

## **C. Accounts Receivable**

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company markets its products to a diverse customer base, both in the United States of America and overseas. Trade credit is extended based upon evaluation of each customer's ability to perform its obligation, which is updated periodically.

## **D. Revenue Recognition**

The Company recognizes revenue when performance obligations under the terms of customer contracts are satisfied which occurs when control of the goods has been transferred to the customer and services have been performed. Allowances for sales returns are recorded as a component of net sales in the periods in which the related sales are recognized. The Company determines this allowance based on historical experience. Additionally, the Company recognizes revenue attributable to an up-front fee received from Titanium Metals Corporation (TIMET) as a result of a twenty-year agreement entered into on November 17, 2006 to provide conversion services to TIMET. See Note 16, Deferred Revenue for a description of accounting treatment relating to this up-front fee.

## **E. Inventories**

Inventories are stated at the lower of cost or net realizable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market or scrap value, if applicable, based upon assumptions about future demand and market conditions.

## **F. Goodwill and Other Intangible Assets**

The Company has goodwill, trademarks, customer relationships and other intangibles as of September 30, 2020. As the customer relationships have a definite life, they are amortized over fifteen years. The Company reviews customer relationships for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the assets is measured by a comparison of the carrying amount of the asset to the undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the fair value of the asset.

Goodwill and trademarks (indefinite lived) are tested for impairment at least annually as of January 31 for goodwill and August 31 for trademarks (the annual impairment testing dates), or more frequently if impairment indicators exist. If the carrying value of the trademarks exceeds the fair value (determined using an income approach, based upon a discounted cash flow of an assumed royalty rate), impairment of the trademark may exist resulting in a charge to earnings to the extent of the impairment. The impairment test for goodwill is performed by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment loss in the event that the carrying amount is greater than the fair value. Any goodwill impairment loss recognized would not exceed the total carrying amount of goodwill allocated to that reporting unit. No impairment was recognized in the years ended September 30, 2018, 2019 or 2020 because the fair value exceeded the carrying values.

During fiscal 2018, 2019 and 2020, there were no changes in the carrying amount of goodwill.

Amortization of the patents, customer relationships and other intangibles was \$527, \$255 and \$228 for the years ended September 30, 2018, 2019 and 2020, respectively. The following represents a summary of intangible assets at September 30, 2019 and 2020:

<u>September 30, 2019</u>	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>
Trademarks .....	\$ 3,800	\$ —	\$ 3,800
Customer relationships .....	2,100	(718)	1,382
Other .....	291	(189)	102
	<u>\$ 6,191</u>	<u>\$ (907)</u>	<u>\$ 5,284</u>

<u>September 30, 2020</u>	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount</u>
Trademarks .....	\$ 3,800	\$ —	\$ 3,800
Customer relationships .....	2,100	(858)	1,242
Other .....	291	(277)	14
	<u>\$ 6,191</u>	<u>\$ (1,135)</u>	<u>\$ 5,056</u>

**Estimated future Aggregate Amortization Expense:**

<u>Year Ended September 30,</u>	
2021 .....	\$ 150
2022 .....	133
2023 .....	129
2024 .....	126
2025 .....	124
Thereafter .....	594

**G. Property, Plant and Equipment**

Additions to property, plant and equipment are recorded at cost with depreciation calculated primarily by using the straight-line method based on estimated economic useful lives, which are generally as follows:

Buildings and improvements .....	40 years
Machinery and equipment .....	5 — 14 years
Land improvements .....	20 years

Expenditures for maintenance and repairs and minor renewals are charged to expense; major renewals are capitalized. Upon retirement or sale of assets, the cost of the disposed assets and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations.

The Company records capitalized interest for long-term construction projects to capture the cost of capital committed prior to the placed in service date as a part of the historical cost of acquiring the asset. Interest is not capitalized when the balance on the revolver is zero. During fiscal 2020, capitalized interest was \$0 as there were no long-term construction projects occurring during the time when there were borrowings against the revolver.

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of the asset to the undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the fair value of the asset. No impairment was recognized during the years ended September 30, 2018, 2019 or 2020.

## **H. Environmental Remediation**

When it is probable that a liability has been incurred or an asset of the Company has been impaired, a loss is recognized assuming the amount of the loss can be reasonably estimated. The measurement of environmental liabilities by the Company is based on currently available facts, present laws and regulations and current technology. Such estimates take into consideration the expected costs of post-closure monitoring based on historical experience. Amounts accrued for post-closure monitoring are presented in Note 18, Long-term Obligations.

## **I. Pension and Postretirement Benefits**

The Company has defined benefit pension and postretirement plans covering most of its current and former employees. Significant elements in determining the assets or liabilities and related income or expense for these plans are the expected return on plan assets, the discount rate used to value future payment streams, expected trends in health care costs and other actuarial assumptions. Annually, the Company evaluates the significant assumptions to be used to value its pension and postretirement plan assets and liabilities based on current market conditions and expectations of future costs. If actual results are less favorable than those projected by management, additional expense may be required in future periods. Salaried employees hired after December 31, 2005 and hourly employees hired after June 30, 2007 are not covered by the pension plan; however, they are eligible for an enhanced matching program of the defined contribution plan (401(k)). Effective December 31, 2007, the U.S. pension plan was amended to freeze benefits for all non-union employees in the U.S. Effective September 30, 2009, the U.K. pension plan was amended to freeze benefits for employees in the plan. Effective January 1, 2007, a plan amendment of the postretirement medical plan caps the Company's liability related to retiree health care costs at \$5,000 annually.

## **J. Foreign Currency Exchange**

The Company's foreign operating entities' financial statements are denominated in the functional currencies of each respective country, which are the local currencies. All assets and liabilities are translated to U.S. dollars using exchange rates in effect at the end of the year, and revenues and expenses are translated at the weighted average rate for the year. Translation gains or losses are recorded as a separate component of comprehensive income (loss) and transaction gains and losses are reflected in the consolidated statements of operations.

Gains and losses arising from the impact of foreign currency exchange rate fluctuations on transactions in foreign currency are included in selling, general and administrative expense. Beginning in the third quarter of fiscal 2018, the Company has entered into foreign currency forward contracts (See Note 20, Foreign Currency Forward Contracts). The purpose of these forward contracts is to reduce income statement volatility resulting from transaction gains and losses.

## **K. Research and Technical Costs**

Research and technical costs related to the development of new products and processes are expensed as incurred. Research and technical costs for the fiscal years ended September 30, 2018, 2019 and 2020 were \$3,785, \$3,592 and \$3,713, respectively.

## **L. Income Taxes**

The Company accounts for deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between book and tax basis of recorded assets and liabilities. A valuation allowance is required if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The determination of whether or not a valuation allowance is needed is based upon an evaluation of both positive and negative evidence. In its evaluation of the need for a valuation allowance, the Company utilizes prudent and feasible tax planning strategies. The ultimate amount of deferred tax assets realized could be different from those recorded, as influenced by potential changes in enacted tax laws and the availability of future taxable income. The Company records uncertain tax positions on the basis of a two-step process whereby (1) it is determined whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold,

we recognize the largest amount of tax benefit that is greater than 50 percent likely to be realized upon ultimate settlement with the related tax authority (See Note 7, Income Taxes).

#### **M. Stock-based Compensation**

As described in Note 12, the Company has incentive compensation plans that provide for the issuance of restricted stock, restricted stock units, performance shares, stock options and stock appreciation rights to key employees and non-employee directors. To date, the Company has only issued restricted stock, performance shares and stock options. The Company recognizes compensation expense under the fair-value based method as a component of operating expenses.

#### **N. Financial Instruments and Concentrations of Risk**

The Company may periodically enter into forward currency exchange contracts to minimize the variability in the Company's operating results arising from foreign exchange rate movements. The Company does not engage in foreign currency speculation. At September 30, 2019 and 2020, the Company had no foreign currency exchange contracts outstanding. To date, all foreign currency contracts have been settled prior to the end of the month in which they were initiated.

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. At September 30, 2020, and periodically throughout the year, the Company has maintained cash balances in excess of federally insured limits. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the relatively short maturity of these instruments.

During 2018, 2019 and 2020, the Company did not have sales to any group of affiliated customers that were greater than 10% of net revenues. The Company generally does not require collateral with the exception of letters of credit with certain foreign sales. Credit losses amounted to \$688, \$530 and \$139 in fiscal 2018, 2019 and 2020, respectively, and were within management's expectations. The Company does not believe it is significantly vulnerable to the risk of near-term severe impact from business concentrations with respect to customers, suppliers, products, markets or geographic areas.

#### **O. Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to bad debts, inventories, income taxes, asset impairment, incremental borrowing rates, retirement benefits and environmental matters. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions, product mix, pension asset mix and in some cases, actuarial techniques, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company routinely reevaluates these significant factors and makes adjustments where facts and circumstances dictate. Actual results may differ from these estimates under different assumptions or conditions.

#### **P. Earnings Per Share**

The Company accounts for earnings per share using the two-class method. The two-class method is an earnings allocation that determines net income per share for each class of common stock and participating securities according to participation rights in undistributed earnings. Non-vested restricted stock awards that include non-forfeitable rights to dividends are considered participating securities. Basic earnings per share is computed by dividing net income available to common stockholders for the period by the weighted average number of common shares outstanding for the period. The computation of diluted earnings per share is similar to basic earnings per share, except the denominator is increased to

include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Basic and diluted net income per share were computed as follows:

(in thousands, except share and per share data)	Years ended September 30,		
	2018	2019	2020
<i>Numerator: Basic and Diluted</i>			
Net income (loss) . . . . .	\$ (21,751)	\$ 9,745	\$ (6,478)
Dividends . . . . .	(11,027)	(11,037)	(11,158)
Undistributed income (loss) . . . . .	(32,778)	(1,292)	(17,636)
Percentage allocated to common shares <sup>(a)</sup> . . . . .	100.0 %	100.0 %	100.0 %
Undistributed income (loss) allocated to common shares . . . . .	(32,778)	(1,292)	(17,636)
Dividends paid on common shares outstanding . . . . .	10,933	10,987	11,071
Net income (loss) available to common shares . . . . .	(21,845)	9,695	(6,565)
<i>Denominator: Basic and Diluted</i>			
Weighted average common shares outstanding . . . . .	12,419,564	12,445,212	12,470,664
Adjustment for dilutive potential common shares . . . . .	—	35,696	—
Weighted average shares outstanding - Diluted . . . . .	12,419,564	12,480,908	12,470,664
Basic net income (loss) per share . . . . .	\$ (1.75)	\$ 0.78	\$ (0.53)
Diluted net income (loss) per share . . . . .	\$ (1.75)	\$ 0.78	\$ (0.53)
Number of stock option shares excluded as their effect would be anti-dilutive . . . . .	329,276	371,151	285,699
Number of restricted stock shares excluded as their effect would be anti-dilutive . . . . .	91,008	—	96,999
Number of deferred restricted stock shares excluded as their effect would be anti-dilutive . . . . .	—	—	34,498
Number of performance share awards excluded as their effect would be anti-dilutive . . . . .	—	—	47,195
<sup>(a)</sup> Percentage allocated to common shares - weighted average			
Common shares outstanding . . . . .	12,419,564	12,445,212	12,470,664
Unvested participating shares . . . . .	—	—	—
	12,419,564	12,445,212	12,470,664

## Q. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new guidance requires that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. The new lease accounting requirements are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted the provisions of ASU 2016-02 on October 1, 2019 using the modified retrospective transition method, which did not require the Company to adjust comparative periods. The Company's right-of-use assets ("ROU") and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments. ROU assets are included in Other assets, and the related lease obligation is included in Operating lease liabilities on the consolidated balance sheets. The adoption of the standard had no material impact on the Consolidated Financial Statements.

The Company elected the package of practical expedients included in this guidance which allowed it to not reassess: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and, (iii) the initial direct costs for existing leases. The Company has elected the practical expedient to not separate

lease components from non-lease components for all asset classes. The Company will recognize lease expense for operating leases in the consolidated statements of operations on a straight-line basis over the lease term. The Company also made a policy election to not recognize ROU asset and lease liabilities for short-term leases with an initial term of 12 months or less for all asset classes. Leases with the option to extend their term are reflected in the lease term when it is reasonably certain that the Company will exercise such options. The Company has expanded the disclosure of operating leases included in Note 19.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from accumulated other comprehensive income (loss) to accumulated earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This update is effective for fiscal years beginning after December 15, 2018. The Company adopted the provisions of this standard on October 1, 2019 which had an impact of increasing accumulated other comprehensive loss and increasing accumulated earnings by \$13,283.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. This new guidance removes and modifies disclosure requirements on fair value measurements. This update is effective for fiscal years beginning after December 15, 2019. The standard is not expected to have an impact on the Company's consolidated financial statements other than disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. The new current expected credit loss (CECL) methodology does not have a minimum threshold for recognition of impairment losses, and entities will need to measure expected credit losses on assets that have a low risk of loss. This update is effective for fiscal years beginning after December 15, 2019. The standard is not expected to have a material impact on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. This new update provides optional expedients to ease the potential burden of accounting for the effects of reference rate reform as it pertains to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. These amendments are effective immediately and may be applied prospectively to modifications made or relationships entered into or evaluated on or before December 31, 2022. The Company is in the process of evaluating the impact of the pronouncement.

### **Note 3. Revenues from Contracts with Customers**

On October 1, 2018, the Company adopted Accounting Standards Codification Topic 606 (ASC 606), *Revenue from Contracts with Customers*. This new guidance requires the Company to apply a five-step analysis to: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when, or as, the Company satisfies a performance obligation. This new guidance was adopted using the modified retrospective method. The adoption of ASC 606 did not result in the need to recognize a cumulative effect of initial application as an adjustment to accumulated earnings.

#### *Performance Obligations*

Revenue is recognized when performance obligations under the terms of contracts with the customer are satisfied, which occurs when control of the goods and services has been transferred to the customer. This predominately occurs upon shipment or delivery of the product or when the service is performed.

The Company may occasionally have customer agreements involving production and shipment of goods that would require revenue to be recognized over time in accordance with the new guidance due to there being no alternative use for the product without significant economic loss and an enforceable right to payment including a normal profit margin from the customer in the event of contract termination. Over-time recognition was a change from the accounting for these

products, which was point-in-time prior to the adoption of the new standard. As of October 1, 2018 (date of adoption), September 30, 2019 and September 30, 2020, the Company did not have any customer agreements that would require revenue to be recorded over time.

Each customer purchase order or contract for goods transferred represents a single performance obligation for which revenue is recognized at either a point in time or over-time as described in the preceding paragraph. The standard terms and conditions of a customer purchase order include limited warranties and the right of customers to have products that do not meet specifications repaired or replaced, at the Company's option. Such warranties do not represent a separate performance obligation.

The customer agreement with Titanium Metals Corporation ("TIMET") (See Note 15) includes the performance obligation to provide conversion services for up to ten million pounds of titanium metal annually over a twenty-year period which ends in fiscal 2027. The transaction price under this contract included a \$50,000 up-front fee as well as conversion service fees based upon the fulfillment of conversion services requested at the option of TIMET. In accordance with ASC 606, the \$50,000 fee is allocated to the obligation to provide manufacturing capacity over time and, therefore, is recognized in income on a straight-line basis over the 20-year term of that agreement. The fees for conversion services are based on quantity of service and are recognized as revenue at the time the service is performed.

#### *Transaction Price*

Each customer purchase order or contract sets forth the transaction price for the products and services purchased under that arrangement. Some customer arrangements may include variable consideration, such as volume rebates, which generally depend upon the Company's customers meeting specified performance criteria, such as a purchasing level over a period of time. The Company exercises judgment to estimate the most likely amount of variable consideration at each reporting date.

Revenue is measured as the amount of consideration expected to be received in exchange for the transfer of goods or services to customers. Revenue is derived from product sales or conversion services, and is reported net of sales discounts, rebates, incentives, returns and other allowances offered to customers, if applicable. Payment terms vary from customer to customer depending upon credit worthiness, prior payment history and other credit considerations.

Amounts billed to customers for shipping and handling activities to fulfill the Company's promise to transfer of the goods are included in revenues and costs incurred by the Company for the delivery of goods and are classified as cost of sales in the consolidated statements of operations. Shipping terms may vary for products shipped outside the United States depending on the mode of transportation, the country where the material is shipped and any agreements made with the customers.

#### *Contract Balances*

As of September 30, 2019 and September 30, 2020, accounts receivable with customers were \$77,420 and \$51,663, respectively. Allowance for doubtful accounts as of September 30, 2019 and September 30, 2020 were \$441 and \$545, respectively, and are presented within accounts receivable, less allowance for doubtful accounts on the consolidated balance sheet.

Contract liabilities are recognized when the Company has received consideration from a customer to transfer goods or services at a future point in time when the Company performs under the purchase order or contract. As of September 30, 2019 and September 30, 2020, no contract liabilities have been recorded except for \$17,829 and \$15,329, respectively, for the TIMET agreement and \$985 and \$1,200 for accrued product returns, respectively.

#### *Practical Expedients*

The Company has elected to use the practical expedient that permits the omission of disclosure for remaining performance obligations which are expected to be satisfied within one year or less. Aside from the TIMET agreement, the Company does not have any remaining performance obligations in excess of one year or contracts that it does not have the

right to invoice as of September 30, 2020. The Company does not adjust for the time value of money as the majority of its contracts have an original expected duration of one year or less; contracts that are greater than one year are related to net revenues that are constrained until the subsequent sales occur.

#### *Disaggregation of Revenue*

Revenue is disaggregated by end-use markets. The following table includes a breakdown of net revenues to the markets served by the Company for the fiscal years ended September 30, 2018, 2019 and 2020.

	Year Ended September 30,		
	2018	2019	2020
<b>Net revenues (dollars in thousands)</b>			
Aerospace . . . . .	\$ 226,898	\$ 258,104	\$ 191,980
Chemical processing . . . . .	79,169	89,651	63,170
Industrial gas turbine . . . . .	52,350	59,430	56,576
Other markets . . . . .	53,417	57,946	45,099
<b>Total product revenue . . . . .</b>	<b>411,834</b>	<b>465,131</b>	<b>356,825</b>
Other revenue . . . . .	23,492	25,084	23,705
<b>Net revenues . . . . .</b>	<b>\$ 435,326</b>	<b>\$ 490,215</b>	<b>\$ 380,530</b>

See Note 13 for revenue disaggregated by geography and product group.

#### **Note 4. Inventories**

Inventories are stated at the lower of cost or net realizable value. The cost of inventories is determined using the first-in, first-out (“FIFO”) method. The following is a summary of the major classes of inventories:

	September 30, 2019	September 30, 2020
Raw Materials . . . . .	\$ 17,935	\$ 22,163
Work-in-process . . . . .	138,859	110,717
Finished Goods . . . . .	100,590	111,744
Other . . . . .	1,418	1,500
	<u>\$ 258,802</u>	<u>\$ 246,124</u>

#### **Note 5. Property, Plant and Equipment**

The following is a summary of the major classes of property, plant and equipment:

	September 30,	
	2019	2020
Land and land improvements . . . . .	\$ 9,446	\$ 10,066
Buildings and improvements . . . . .	45,486	46,135
Machinery and equipment . . . . .	293,542	301,496
Construction in process . . . . .	2,770	2,705
	351,244	360,402
Less accumulated depreciation . . . . .	(181,278)	(200,583)
	<u>\$ 169,966</u>	<u>\$ 159,819</u>

As of September 30, 2019 and 2020, the Company had \$135 and \$138, respectively, of assets under a finance lease for equipment related to the service center operation in Shanghai, China. Additionally, the Company had \$7,070 and \$6,640 of assets under finance leases for two buildings at the LaPorte, Indiana service center as of September 30, 2019 and 2020, respectively.



## Note 6. Accrued Expenses

The following is a summary of the major classes of accrued expenses:

	September 30,	
	2019	2020
Employee compensation . . . . .	\$ 9,936	\$ 8,826
Taxes, other than income taxes . . . . .	2,744	2,798
Accrued product returns . . . . .	985	1,200
Utilities . . . . .	924	714
Professional Fees . . . . .	471	464
Finance lease obligation, current . . . . .	170	195
Employee termination liabilities . . . . .	384	59
Management incentive compensation . . . . .	2,297	—
Other . . . . .	922	501
	<u>\$ 18,833</u>	<u>\$ 14,757</u>

## Note 7. Income Taxes

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (“the Act”), which made significant changes to U.S. federal income tax law including, among other things, lowering corporate income tax rates, permitting bonus depreciation that allows for full expensing of qualified property and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Beginning October 1, 2017 and continuing through September 30, 2018, the Company’s U.S. income was taxed at a 24.5% federal tax rate after which time the federal tax rate applicable to the Company was lowered to 21.0%. During fiscal 2018, deferred tax assets were revalued to the lower statutory rates of 21.0% which resulted in increased tax expense during fiscal 2018 of \$16,633. An additional component of the Act, the transition tax applied on accumulated earnings and profits of controlled foreign corporations, and resulted in increased tax expense of \$2,170 during fiscal 2018.

On December 22, 2017, the United States Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. As of September 30, 2019, the Company completed its accounting for the income tax effects of the Act.

The components of income (loss) before provision for income taxes and the provision for income taxes are as follows:

	<b>Year Ended September 30,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Income (loss) before income taxes:			
U.S. ....	\$ (16,650)	\$ 790	\$ (9,831)
Foreign .....	12,596	12,580	2,333
Total .....	<u>\$ (4,054)</u>	<u>\$ 13,370</u>	<u>\$ (7,498)</u>
Provision for (benefit from) income taxes:			
Current:			
U.S. Federal .....	\$ (7,690)	\$ (267)	\$ (371)
Foreign .....	2,404	2,259	541
State .....	(137)	2	29
Total .....	<u>(5,423)</u>	<u>1,994</u>	<u>199</u>
Deferred:			
U.S. Federal .....	25,141	1,423	(2,266)
Foreign .....	—	132	56
State .....	(2,496)	62	(810)
Valuation allowance .....	475	14	1,801
Total .....	<u>23,120</u>	<u>1,631</u>	<u>(1,219)</u>
Total provision for (benefit from) income taxes .....	<u>\$ 17,697</u>	<u>\$ 3,625</u>	<u>\$ (1,020)</u>

The provision for income taxes applicable to results of operations differed from the U.S. federal statutory rate as follows:

	<b>Year Ended September 30,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Statutory federal tax rate .....	24.53 %	21.00 %	21.00 %
Tax provision for income taxes at the statutory rate .....	\$ (1,059)	\$ 2,808	\$ (1,575)
Foreign tax rate differentials .....	(685)	(157)	107
Provision for state taxes, net of federal taxes .....	(45)	247	(145)
U.S. tax on distributed and undistributed earnings of foreign subsidiaries .....	240	486	(289)
Manufacturer's deduction .....	(86)	—	—
Tax credits .....	(511)	(499)	(1,058)
Transition tax .....	2,170	—	—
Federal and state tax rate change impact on deferred tax asset .....	16,633	314	(60)
Net operating loss carryback .....	407	—	—
Change in valuation allowance .....	475	14	1,801
Stock compensation .....	—	655	24
Other, net .....	158	(243)	175
Provision for (benefit from) income taxes at effective tax rate .....	<u>\$ 17,697</u>	<u>\$ 3,625</u>	<u>\$ (1,020)</u>
Effective tax rate .....	(436.5)%	27.1 %	13.6 %

During fiscal 2018, the Company's effective tax rate was negative relative to the statutory rate primarily due to the Act that resulted in significant impacts on the value of the deferred tax asset as well a one-time transition tax on income generated by foreign entities. The Act lowered the statutory rate from 35% to 21%, however, the 2018 statutory rate is calculated to be 24.53% based on the fiscal year-end date of September 30, 2018.

During fiscal 2019, the Company's effective tax rate was higher than the federal statutory rate primarily due to state income taxes, the global intangible low-tax income tax (GILTI) and the forfeiture of stock options, restricted stock and performance share awards that occurred during the year.

During fiscal 2020, the Company's effective tax rate was lower than the federal statutory rate primarily due to an increased valuation allowance on tax credits that are not expected to be able to be utilized before they expire.

Deferred tax assets (liabilities) are comprised of the following:

	<u>September 30,</u>	
	<u>2019</u>	<u>2020</u>
Deferred tax assets:		
Pension and postretirement benefits . . . . .	\$ 48,367	\$ 44,626
TIMET Agreement . . . . .	4,163	3,585
Inventories . . . . .	1,706	2,350
Accrued compensation and benefits . . . . .	770	1,474
Accrued expenses and other . . . . .	3,308	3,703
Tax attributes . . . . .	4,441	4,892
Other assets . . . . .	—	404
Valuation allowance . . . . .	<u>(1,675)</u>	<u>(3,476)</u>
Total deferred tax assets . . . . .	<u>\$ 61,080</u>	<u>\$ 57,558</u>
Deferred tax liabilities:		
Property, plant and equipment, net . . . . .	\$ (27,873)	\$ (27,434)
Intangible and other . . . . .	(1,091)	(1,186)
Other liabilities . . . . .	—	(518)
Total deferred tax liabilities . . . . .	<u>\$ (28,964)</u>	<u>\$ (29,138)</u>
Net deferred tax assets (liabilities) . . . . .	<u>\$ 32,116</u>	<u>\$ 28,420</u>

As of September 30, 2020, the Company had state tax net operating loss carryforwards of \$12,836, tax credits of \$4,246 and foreign net operating loss carryforwards of \$2,353. These tax attributes begin to expire in 2026, 2025, and 2021, respectively. The Company has recorded a valuation allowance against the foreign net operating loss carryforwards of \$600 and federal and state tax credits of \$2,876 because management does not believe that it is more likely than not that the amounts will be realized.

Undistributed earnings of certain of the Company's foreign subsidiaries amounted to approximately \$76,479 at September 30, 2020. The Company considers those earnings reinvested indefinitely and, accordingly, aside from the one-time transition tax associated with the Act, no additional provision for U.S. income taxes has been provided. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

As of September 30, 2020, the Company is open to examination in the U.S. for the 2016 through 2020 tax years and in various foreign jurisdictions from 2017 through 2020. The Company is also open to examination in various states in the U.S., none of which were individually material.

As of September 30, 2019 and 2020, the Company had no uncertain tax positions.

## **Note 8. Debt**

### *U.S. revolving credit facility*

On October 19, 2020, the Company and JPMorgan Chase Bank, N.A. entered into a Credit Agreement (the "Credit Agreement") and related Pledge and Security Agreement with certain other lenders (the "Security Agreement", and, together with the Credit Agreement, the "Credit Documents"). The Credit Documents, which have a three-year term expiring in October 2023, replaced the Third Amended and Restated Loan and Security Agreement and related agreements, dated as of July 14, 2011, as amended, previously entered into between the Company and Wells Fargo Capital Finance, LLC with certain other lenders (the "Previous Facility"). As of September 30, 2020, the Previous Facility had a zero

balance. The Credit Agreement provides for revolving loans in the maximum amount of \$100.0 million, subject to a borrowing base and certain reserves. The Credit Agreement permits an increase in the maximum revolving loan amount from \$100.0 million up to an aggregate amount of \$170.0 million at the request of the borrower if certain conditions are met. Borrowings under the Credit Agreement bear interest, at the Company's option, at either JPMorgan's "prime rate", plus 1.25% - 1.75% per annum, or the adjusted Eurodollar rate used by the lender, plus 2.25% - 2.75% per annum (with a LIBOR floor of 0.5%).

The Company must pay monthly, in arrears, a commitment fee of 0.425% per annum on the unused amount of the U.S. revolving credit facility total commitment. For letters of credit, the Company must pay a fronting fee of 0.125% per annum as well as customary fees for issuance, amendments and processing.

The Company is subject to certain covenants as to fixed charge coverage ratios and other customary covenants, including covenants restricting the incurrence of indebtedness, the granting of liens and the sale of assets. The covenant pertaining to fixed charge coverage ratios is only effective in the event the amount of excess availability under the revolver is less than the greater of (i) 12.5% of the maximum credit revolving loan amount and (ii) \$12.5 million. The Company is permitted to pay dividends and repurchase common stock if certain financial metrics are met. The Company may pay quarterly cash dividends up to \$3.5 million per fiscal quarter so long as the Company is not in default under the Credit Documents.

Borrowings under the Credit Agreement are collateralized by a pledge of substantially all of the U.S. assets of the Company, including the equity interests in its U.S. subsidiaries, but excluding the four-high Steckel rolling mill and related assets, which are pledged to Titanium Metals Corporation ("TIMET") to secure the performance of the Company's obligations under a Conversion Services Agreement with TIMET (see discussion of TIMET at Note 15). Borrowings under the Credit Agreement are also secured by a pledge of a 100% equity interest in each of the Company's direct foreign subsidiaries.

The Company's U.K. subsidiary (Haynes International Ltd.) has an overdraft facility of 1,700 Pounds Sterling (\$2,177), all of which was available on September 30, 2020. The Company's French subsidiary (Haynes International, S.A.R.L.) has an overdraft banking facility of 240 Euro (\$281), all of which was available on September 30, 2020. The Company's Swiss subsidiary (Haynes International AG) has an overdraft banking facility of 400 Swiss Francs (\$346), all of which was available on September 30, 2020.

## **Note 9. Pension Plan and Retirement Benefits**

### ***Defined Contribution Plans***

The Company sponsors a defined contribution plan (401(k)) for substantially all U.S. employees. The Company contributes an amount equal to 50% of an employee's contribution to the plan up to a maximum contribution of 3% of the employee's salary, except for all salaried employees and certain hourly employees (those hired after June 30, 2007 that are not eligible for the U.S. pension plan). The Company contributes an amount equal to 60% of an employee's contribution to the plan up to a maximum contribution of 6% of the employee's salary for these groups. Expenses associated with this plan for the years ended September 30, 2018, 2019 and 2020 totaled \$1,811, \$1,940 and \$1,950, respectively.

The Company sponsors certain profit sharing plans for the benefit of employees meeting certain eligibility requirements. There were no contributions to these plans for the years ended September 30, 2018, 2019 and 2020.

### ***Defined Benefit Plans***

The Company has non-contributory defined benefit pension plans which cover most employees in the U.S. and the U.K.

Benefits provided under the Company's U.S. defined benefit pension plan are based on years of service and the employee's final compensation. The Company's funding policy is to contribute annually an amount deductible for federal

income tax purposes based upon an actuarial cost method using actuarial and economic assumptions designed to achieve adequate funding of benefit obligations.

The Company has non-qualified pensions for former executives of the Company. Non-qualified pension plan expense for the years ended September 30, 2018, 2019 and 2020 was \$34, \$98 and \$57, respectively. Accrued liabilities in the amount of \$719 and \$681 for these benefits are included in accrued pension and postretirement benefits liability at September 30, 2019 and 2020, respectively.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all domestic employees become eligible for these benefits, if they reach normal retirement age while working for the Company. The Company's liability related to total retiree health care costs is limited to \$5,000 annually.

The Company made contributions of \$8,000, \$4,500, and \$6,000 to fund its domestic Company-sponsored pension plan for the years ended September 30, 2018, 2019 and 2020, respectively. The Company's U.K. subsidiary made contributions of \$782, \$737 and \$517 for the years ended September 30, 2018, 2019 and 2020, respectively, to the U.K. pension plan.

The Company uses a September 30 measurement date for its plans. The status of employee pension benefit plans and other postretirement benefit plans is summarized below:

	<b>Defined Benefit Pension Plans</b>		<b>Postretirement Health Care Benefits</b>	
	<b>Year Ended</b>		<b>Year Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
<b>Change in Benefit Obligation:</b>				
Projected benefit obligation at beginning of year . . . . .	\$ 278,280	\$ 321,478	\$ 108,013	\$ 113,834
Service cost . . . . .	5,239	5,546	318	1,416
Interest cost . . . . .	10,652	8,866	4,353	3,493
Actuarial (gains) losses . . . . .	42,130	24,183	4,245	(22,564)
Benefits paid . . . . .	(13,734)	(13,676)	(3,095)	(2,840)
Administrative expenses . . . . .	(1,089)	(1,007)	—	—
Projected benefit obligation at end of year . . . . .	<u>\$ 321,478</u>	<u>\$ 345,390</u>	<u>\$ 113,834</u>	<u>\$ 93,339</u>
<b>Change in Plan Assets:</b>				
Fair value of plan assets at beginning of year . . . . .	\$ 222,273	\$ 225,917	\$ —	\$ —
Actual return on assets . . . . .	13,230	27,795	—	—
Employer contributions . . . . .	5,237	6,517	3,095	2,840
Benefits paid . . . . .	(13,734)	(13,676)	(3,095)	(2,840)
Administrative expenses . . . . .	(1,089)	(1,007)	—	—
Fair value of plan assets at end of year . . . . .	<u>\$ 225,917</u>	<u>\$ 245,546</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Funded Status of Plan:</b>				
Unfunded status . . . . .	<u>\$ (95,561)</u>	<u>\$ (99,844)</u>	<u>\$ (113,834)</u>	<u>\$ (93,339)</u>

The actuarial losses incurred during the fiscal year ended September 30, 2019 were primarily driven from a decrease in discount rates applied against future expected benefit payments and resulted in an increase in the benefit obligation for both the Defined Benefit Pension Plan and Postretirement Health Care Plan. Similarly, the actuarial loss incurred during the fiscal year ended September 30, 2020 for the Defined Benefit Pension Plan was primarily driven from a decrease in the discount rate applied against future expected benefit payments which resulted in an increase in the defined benefit obligation. Conversely, the actuarial gain incurred during the fiscal year ended September 30, 2020 for the Postretirement Health Care Plan was primarily driven by a reduction in healthcare costs incurred over the past three years which is expected to continue in future years.

Amounts recognized in the consolidated balance sheets are as follows:

	<b>Defined Benefit Pension Plans</b>		<b>Postretirement Health Care Benefits</b>		<b>Non-Qualified Pension Plans</b>		<b>All Plans Combined</b>	
	<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
Accrued pension and postretirement benefits:								
Current . . . . .	\$ —	\$ —	\$ (4,155)	\$ (3,307)	\$ (95)	\$ (96)	\$ (4,250)	\$ (3,403)
Non-current . . . . .	(95,561)	(99,844)	(109,679)	(90,032)	(624)	(585)	(205,864)	(190,461)
Accrued pension and postretirement benefits .	\$ (95,561)	\$ (99,844)	\$ (113,834)	\$ (93,339)	\$ (719)	\$ (681)	\$ (210,114)	\$ (193,864)
Accumulated other comprehensive loss:								
Net loss . . . . .	80,711	84,873	24,650	239	—	—	105,361	85,112
Prior service cost . . . . .	2,066	1,837	—	—	—	—	2,066	1,837
Total accumulated other comprehensive loss .	\$ 82,777	\$ 86,710	\$ 24,650	\$ 239	\$ —	\$ —	\$ 107,427	\$ 86,949

The non-current portion of the defined benefit pension plan portion of accrued pension and postretirement benefits amounts to \$95,561 and \$99,844 in fiscal 2019 and 2020, respectively. These amounts include the UK pension plan net pension asset of \$5,627 and \$5,359, respectively, which is included in Other assets on the consolidated balance sheets as well as the US pension plan accrued pension liability of \$101,188 and \$105,203, respectively, which are recorded in accrued pension benefit (less current portion) on the consolidated balance sheet.

The accumulated benefit obligation for the pension plans was \$309,410 and \$333,618 at September 30, 2019 and 2020, respectively.

The cost of the Company's postretirement benefits is accrued over the years employees provide service to the date of their full eligibility for such benefits. The Company's policy is to fund the cost of claims on an annual basis.

The components of net periodic pension cost and postretirement health care benefit cost are as follows:

	<b>Defined Benefit Pension Plans</b>		
	<b>Year Ended September 30,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Service cost . . . . .	\$ 5,536	\$ 5,239	\$ 5,546
Interest cost . . . . .	10,801	10,652	8,866
Expected return on assets . . . . .	(15,157)	(14,907)	(15,061)
Amortization of prior service cost . . . . .	374	228	228
Recognized actuarial loss . . . . .	4,910	1,449	7,288
Net periodic cost . . . . .	\$ 6,464	\$ 2,661	\$ 6,867

	<b>Postretirement Health Care Benefits</b>		
	<b>Year Ended September 30,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Service cost . . . . .	\$ 336	\$ 318	\$ 1,416
Interest cost . . . . .	4,311	4,353	3,493
Recognized actuarial loss . . . . .	2,999	1,487	1,848
Net periodic cost . . . . .	\$ 7,646	\$ 6,158	\$ 6,757

*Assumptions*

A 5.0% annual rate of increase for the costs of covered health care benefits for ages under 65 and a 5.0% annual rate of increase for ages over 65 were assumed for 2019 and 2020 and remained at 5.0% for the under 65 and over 65 age groups in the years thereafter.

The actuarial present value of the projected pension benefit obligation and postretirement health care benefit obligation for the plans at September 30, 2019 and 2020 were determined based on the following assumptions:

	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2020</u>
Discount rate (postretirement health care) . . . . .	3.13 %	2.50 %
Discount rate (U.S. pension plan) . . . . .	2.88 %	2.25 %
Discount rate (U.K. pension plan) . . . . .	1.70 %	1.50 %
Rate of compensation increase (U.S. pension plan only) . . . . .	2.50 %	2.50 %

The net periodic pension and postretirement health care benefit costs for the plans were determined using the following assumptions:

	<b>Defined Benefit Pension and Postretirement Health Care Plans</b>		
	<b>Year Ended September 30,</b>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Discount rate (postretirement health care plan) . . . . .	3.75 %	4.13 %	3.13 %
Discount rate (U.S. pension plan) . . . . .	3.63 %	4.00 %	2.88 %
Discount rate (U.K. pension plan) . . . . .	2.50 %	2.80 %	1.70 %
Expected return on plan assets (U.S. pension plan) . . . . .	7.25 %	7.25 %	7.25 %
Expected return on plan assets (U.K. pension plan) . . . . .	3.30 %	3.20 %	2.20 %
Rate of compensation increase (U.S. pension plan only) . . . . .	2.50 %	2.50 %	2.50 %

*Plan Assets and Investment Strategy*

The Company’s pension plan assets by level within the fair value hierarchy at September 30, 2019 and 2020, are presented in the table below. The pension plan assets were accounted for at fair value. A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Investments in U.S and International equities, and Fixed Income are held in mutual funds and common /

collective funds which are valued using net asset value (NAV) provided by the administrator of the fund. For more information on a description of the fair value hierarchy, see Note 16.

September 30, 2019				
	Level 1 Active Markets for Identical Assets	Level 2 Other Observable Inputs	NAV	Total
U.S. Pension Plan Assets:				
U.S. common stock mutual funds . . . . .	\$ —	\$ —	\$ 67,954	\$ 67,954
Common /collective funds				
Bonds . . . . .	—	—	81,871	81,871
U.S. common stock . . . . .	—	—	30,292	30,292
International equity . . . . .	—	—	24,561	24,561
Total U.S. . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 204,678</u>	<u>\$ 204,678</u>
U.K. Plan Assets:				
Equities . . . . .	\$ —	\$ —	\$ 6,585	\$ 6,585
Bonds . . . . .	—	—	12,106	12,106
Other . . . . .	—	—	2,548	2,548
Total U.K. . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 21,239</u>	<u>\$ 21,239</u>
Total pension plan assets . . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 225,917</u>	<u>\$ 225,917</u>

September 30, 2020				
	Level 1 Active Markets for Identical Assets	Level 2 Other Observable Inputs	NAV	Total
U.S. Pension Plan Assets:				
U.S. common stock mutual funds . . . . .	\$ —	\$ —	\$ 74,224	\$ 74,224
Common /collective funds				
Bonds . . . . .	—	—	89,426	89,426
U.S. common stock . . . . .	—	—	33,088	33,088
International equity . . . . .	—	—	26,828	26,828
Total U.S. . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 223,566</u>	<u>\$ 223,566</u>
U.K. Plan Assets:				
Equities . . . . .	\$ —	\$ —	\$ 6,594	\$ 6,594
Bonds . . . . .	—	—	12,529	12,529
Other . . . . .	—	—	2,857	2,857
Total U.K. . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 21,980</u>	<u>\$ 21,980</u>
Total pension plan assets . . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 245,546</u>	<u>\$ 245,546</u>

The primary financial objectives of the plans are to minimize cash contributions over the long term and preserve capital while maintaining a high degree of liquidity. A secondary financial objective is, where possible, to avoid significant downside risk in the short run. The objective is based on a long-term investment horizon so that interim fluctuations should be viewed with appropriate perspective.

It is the policy of the U.S. pension plan to invest assets with an allocation to equities as shown below. The balance of the assets is maintained in fixed income investments, and in cash holdings, to the extent permitted by the plan documents.



Asset classes as a percent of total assets:

Asset Class	Target <sup>(1)</sup>
Equity .....	60 %
Fixed Income .....	40 %
Real Estate and Other .....	— %

<sup>(1)</sup> From time to time the Company may adjust the target allocation by an amount not to exceed 10%.

In choosing the assumption for the expected long-term rate of return on U.S. pension plan assets, the Company takes into account the plan’s target asset allocation at September 30, 2020 of 60% equities and 40% fixed income, as well as capital market assumptions relating to the asset classes. The Company believes that its assumption of a 7.25% long-term rate of return on plan assets is reasonable, and comparable to the asset return assumptions of other companies, given the target allocation of the plan assets. Note that over very long historical periods, the realized return on plan assets has met or exceeded the expected rate of return. Also note that in recognition of the variability of future market returns, it is reasonable to consider a modest range around the expected future return, and there exists the potential for the use of a lower, or higher, expected rates of return in the future.

The U.K. pension plan assets follow a more conservative investment objective due to the higher funding status of the plan.

*Contributions and Benefit Payments*

The Company has not yet determined the amounts to contribute to its domestic pension plans, domestic other postretirement benefit plans and the U.K. pension plan in fiscal 2021.

Pension and postretirement health care benefits, which include expected future service, are expected to be paid out of the respective plans as follows:

Fiscal Year Ending September 30	Pension	Postretirement Health Care
2021 .....	\$ 15,646	\$ 3,307
2022 .....	15,982	3,578
2023 .....	16,409	3,761
2024 .....	16,734	3,707
2025 .....	17,051	3,690
2026 - 2030 (in total) .....	87,288	18,222

**Note 10. Legal, Environmental and Other Contingencies**

*Legal*

The Company is regularly involved in litigation, both as a plaintiff and as a defendant, relating to its business and operations, including environmental, commercial, asbestos, employment and federal and/or state Equal Employment Opportunity Commission administrative actions. Future expenditures for environmental, employment, intellectual property and other legal matters cannot be determined with any degree of certainty.

In January 2017, a customer based in the United Kingdom wrote to the Company making a claim in relation to certain product sold to that customer by the Company. This writing was followed up by claim correspondence in 2018, 2019 and January of 2020. The Company has engaged its legal advisors in the United Kingdom to respond to the claim. However, no further interaction has occurred since January 2020. The Company intends to pursue insurance coverage as and if necessary while vigorously defending against the customer claim. Based on the facts presently known,

management does not believe that the claim will have a material effect on the Company’s financial position, results of operations or cash flows.

*Environmental*

The Company has received permits from the Indiana Department of Environmental Management and the North Carolina Department of Environment and Natural Resources to close and provide post-closure environmental monitoring and care for certain areas of its Kokomo, Indiana and Mountain Home, North Carolina facilities, respectively.

The Company is required to, among other things, monitor groundwater and to continue post-closure maintenance of the former disposal areas at each site. As a result, the Company is aware of elevated levels of certain contaminants in the groundwater, and additional testing and corrective action by the Company could be required. The Company is unable to estimate the costs of any further corrective action at these sites, if required. Accordingly, the Company cannot assure that the costs of any future corrective action at these or any other current or former sites would not have a material effect on the Company’s financial condition, results of operations or liquidity.

As of September 30, 2020, the Company has accrued \$602 for post-closure monitoring and maintenance activities, of which \$525 is included in long-term obligations as it is not due within one year. Accruals for these costs are calculated by estimating the cost to monitor and maintain each post-closure site and multiplying that amount by the number of years remaining in the post-closure monitoring.

Expected maturities of post-closure monitoring and maintenance activities (discounted) included in long-term obligations are as follows at September 30, 2020.

<b>Expected maturities of post-closure monitoring and maintenance activities (discounted)</b>	
<b>Year Ended September 30,</b>	
2022 .....	\$ 67
2023 .....	65
2024 .....	87
2025 .....	65
2026 and thereafter .....	<u>241</u>
	<u>\$ 525</u>

On February 11, 2016, the Company voluntarily reported to the Louisiana Department of Environmental Quality a leak that it discovered in one of its chemical cleaning operations at its Arcadia, Louisiana facility. As a result of the discovery, the Company is working with that department to determine the extent of the issue and appropriate remediation. Management does not currently expect that any remediation costs related to this matter will have a material adverse effect on the Company’s results of operations.

**Note 11. Stock-based Compensation**

**Restricted Stock Plan**

On March 1, 2016, the Company adopted the 2016 Incentive Compensation Plan which provides for grants of restricted stock, restricted stock units and performance shares, among other awards. Up to 275,000 shares of restricted stock, restricted stock units and performance shares may be granted in the aggregate under this plan. Following the adoption of the 2016 Incentive Compensation Plan, the Company ceased granting awards from the 2009 restricted stock plan, although awards remain outstanding thereunder. On January 24, 2020, the Company adopted the 2020 Incentive Compensation Plan which provides for grants of restricted stock, restricted stock units and performance shares, among other awards. Up to 250,000 shares of restricted stock, restricted stock units and performance shares may be granted in the aggregate under this plan. Following the adoption of the 2020 Incentive Compensation Plan, the Company ceased granting award from the 2016 Incentive Compensation Plan, although awards remain outstanding thereunder.

Grants of restricted stock are comprised of shares of the Company’s common stock subject to transfer restrictions, which vest in accordance with the terms and conditions established by the Compensation Committee. The Compensation Committee may set vesting requirements based on the achievement of specific performance goals or the passage of time.

Restricted shares are subject to forfeiture if employment or service terminates prior to the vesting date or if any applicable performance goals are not met. The Company will assess, on an ongoing basis, the probability of whether the performance criteria will be achieved. The Company will recognize compensation expense over the performance period if it is deemed probable that the goals will be achieved. The fair value of the Company’s restricted stock is determined based upon the closing price of the Company’s common stock on the trading day immediately preceding the grant date. The Company’s plans provide for the adjustment of the number of shares covered by an outstanding grant and the maximum number of shares for which restricted stock may be granted in the event of a stock split, extraordinary dividend or distribution or similar recapitalization event.

The shares of time-based restricted stock granted to employees vest on the third anniversary of their grant date if the recipient is still an employee of the Company on such date. The shares of restricted stock granted to non-employee directors will vest on the earlier of (a) the first anniversary of the date of grant or (b) the failure of such non-employee director to be re-elected at an annual meeting of the stockholders of the Company as a result of such non-employee director being excluded from the nominations for any reason other than cause.

The following table summarizes the activity under the 2016 restricted stock plan and the 2020 Incentive Compensation Plan with respect to restricted stock for the year ended September 30, 2020:

	<u>Number of Shares</u>	<u>Weighted Average Fair Value At Grant Date</u>
Unvested at September 30, 2019 .....	61,838	\$ 34.94
Granted .....	97,811	\$ 25.35
Forfeited / Canceled .....	(1,050)	\$ 33.89
Vested .....	<u>(16,919)</u>	\$ 40.12
Unvested at September 30, 2020 .....	<u>141,680</u>	\$ 27.71
Expected to vest .....	<u>141,680</u>	\$ 27.71

Compensation expense related to restricted stock for the years ended September 30, 2018, 2019 and 2020 was \$836, \$631, and \$1,160, respectively. The remaining unrecognized compensation expense related to restricted stock at September 30, 2020 was \$2,260, to be recognized over a weighted average period of 1.18 years. During fiscal 2020, the Company repurchased 5,440 shares of stock from employees at an average purchase price of \$36.38 to satisfy required withholding taxes upon vesting of restricted stock-based compensation.

**Deferred Restricted Stock**

On November 20, 2017, the Company adopted a deferred compensation plan that allows directors and officers the option to defer receipt of cash and stock compensation. Beginning in fiscal 2018, the Company has granted shares of restricted stock from the 2016 Incentive Compensation Plan with respect to which elections have been made by certain individuals to defer receipt to a future period. Such shares vest in accordance with the parameters of the 2016 Incentive Compensation Plan, however, receipt of the shares and any corresponding dividends are deferred until the end of the deferral period. In the event the deferred shares are forfeited prior to the vesting date, deferred dividends pertaining to those shares will also be forfeited. During the deferral period, the participants who elected to defer shares will not have voting rights with respect to those shares.

The following table summarizes the activity under the 2016 Incentive Compensation Plan with respect to deferred restricted stock for the year ended September 30, 2020.

	<u>Number of Shares</u>	<u>Weighted Average Fair Value At Grant Date</u>
Unvested and deferred at September 30, 2019 .....	12,500	\$ 33.98
Granted.....	7,449	\$ 33.39
Vested and deferred.....	<u>(14,797)</u>	\$ 34.45
Unvested and deferred at September 30, 2020 .....	<u>5,152</u>	\$ 31.78
Vested and deferred at September 30, 2020 .....	<u>26,197</u>	\$ 33.07

Compensation expense related to deferred restricted stock for the year ended September 30, 2018, 2019 and 2020 was \$438, \$442 and \$271, respectively. The remaining unrecognized compensation expense related to restricted stock at September 30, 2020 was \$30, to be recognized over a weighted average period of 0.17 years.

### **Performance Shares**

In November 2019, the Company granted to certain employees target numbers of performance shares under the 2016 Incentive Compensation Plan. The number of performance shares that will ultimately be earned, as well as the number of shares that will be distributed in settling those earned performance shares, if any, will not be determined until the end of the performance period. Performance shares earned will depend on the calculated total shareholder return of the Company at the end of the three-year period commencing from the beginning of the fiscal year in which the award was granted as compared to the total shareholder return of the Company's peer group, as defined by the Compensation Committee for this purpose. The fair value of the performance shares is estimated as of the date of the grant using a Monte Carlo simulation model.

The following table summarizes the activity under the 2016 Incentive Compensation Plan with respect to performance shares for the twelve months ended September 30, 2020.

	<u>Number of Shares</u>	<u>Weighted Average Fair Value At Grant Date</u>
Unvested at September 30, 2019 .....	38,553	\$ 42.52
Granted.....	23,880	\$ 44.13
Forfeited / Canceled .....	<u>(1,071)</u>	\$ 38.43
Unvested at September 30, 2020 .....	<u>61,362</u>	\$ 43.22

Compensation expense related to the performance shares for the years ended September 30, 2018, 2019 and 2020 was \$500, \$738 and \$849, respectively. The remaining unrecognized compensation expense related to performance shares at September 30, 2020 was \$1,130, to be recognized over a weighted average period of 1.17 years.

### **Stock Option Plans**

The Company's 2020 Incentive Compensation Plan and its previous stock option plans authorize, or formerly authorized, the granting of non-qualified stock options and stock appreciation rights to certain key employees and non-employee directors for the purchase of shares of the Company's common stock. For the 2020 Incentive Compensation Plan, the maximum number of shares granted subject to options is 350,000. Following the adoption of the 2020 Incentive Compensation Plan, the Company ceased granting awards from its previous stock option plan, although awards remain outstanding from previous plans. Each plan provides for the adjustment of the maximum number of shares for which options may be granted in the event of a stock split, extraordinary dividend or distribution or similar recapitalization event. Unless the Compensation Committee determines otherwise, options are exercisable for a period of ten years from the date of grant and vest 33<sup>1</sup>/<sub>3</sub>% per year over three years from the grant date. The amount of compensation cost recognized in

the financial statements is measured based upon the grant date fair value.

The Company has elected to use the Black-Scholes option pricing model to estimate fair value, which incorporates various assumptions including volatility, expected life, risk-free interest rates and dividend yields. The volatility is based on historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected term of the stock option granted. The Company uses historical volatility because management believes such volatility is representative of prospective trends. The expected term of an award is based on historical exercise data. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the awards. The dividend yield assumption is based on the Company's history and expectations regarding dividend payouts at the time of the grant. The following assumptions were used for grants during fiscal 2018, 2019 and 2020:

<u>Grant Date</u>	<u>Fair Value</u>	<u>Dividend Yield</u>	<u>Risk-free Interest Rate</u>	<u>Expected Volatility</u>	<u>Expected Life</u>
November 19, 2019 . . . . .	\$ 9.66	2.38 %	1.65 %	35 %	5 years
May 24, 2019 (Part 1) . . . . .	\$ 8.75	2.88 %	2.11 %	40 %	5 years
May 24, 2019 (Part 2) . . . . .	\$ 7.94	2.88 %	2.11 %	40 %	5 years
May 24, 2019 (Part 3) . . . . .	\$ 7.23	2.88 %	2.11 %	40 %	5 years
February 25, 2019 . . . . .	\$ 10.86	2.52 %	2.47 %	41 %	5 years
November 21, 2018 . . . . .	\$ 10.61	2.59 %	2.88 %	41 %	5 years
September 17, 2018 . . . . .	\$ 11.03	2.55 %	2.89 %	40 %	5 years
June 1, 2018 . . . . .	\$ 13.92	2.07 %	2.68 %	41 %	5 years
November 21, 2017 . . . . .	\$ 9.74	2.77 %	2.06 %	42 %	5 years

The stock-based employee compensation expense for stock options for the years ended September 30, 2018, 2019 and 2020 was \$546, \$764 and \$1,038, respectively. The remaining unrecognized compensation expense at September 30, 2020 was \$1,579, to be recognized over a weighted average vesting period of 1.47 years.

The following table summarizes the activity under the stock option plans for the year ended September 30, 2020:

	<u>Number of Shares</u>	<u>Aggregate Intrinsic Value (000s)</u>	<u>Weighted Average Exercise Prices</u>	<u>Weighted Average Remaining Contractual Life</u>
Outstanding at September 30, 2019 . . . . .	482,391		\$ 38.05	
Granted . . . . .	91,466		\$ 37.00	
Exercised . . . . .	(12,400)		\$ 34.00	
Outstanding at September 30, 2020 . . . . .	<u>561,457</u>	\$ —	\$ 37.97	7.07 yrs.
Vested or expected to vest . . . . .	509,918	\$ —	\$ 37.92	7.11 yrs.
Exercisable at September 30, 2020 . . . . .	299,093	\$ —	\$ 40.67	5.67 yrs.

## Note 12. Quarterly Data (unaudited)

The unaudited quarterly results of operations of the Company for the years ended September 30, 2019 and 2020 are as follows:

	2019			
	Quarter Ended			
	December 31	March 31	June 30	September 30
Net revenues	\$ 107,069	\$ 127,474	\$ 126,032	\$ 129,640
Gross profit	11,335	14,683	18,175	21,310
Gross profit percentage of net revenues	10.6%	11.5%	14.4%	16.4%
Net income (loss)	(1,603)	1,509	3,802	6,037
<b>Net income (loss) per share:</b>				
Basic	\$ (0.13)	\$ 0.12	\$ 0.30	\$ 0.48
Diluted	\$ (0.13)	\$ 0.12	\$ 0.30	\$ 0.48

	2020			
	Quarter Ended			
	December 31	March 31	June 30	September 30
Net revenues	\$ 108,453	\$ 111,563	\$ 80,576	\$ 79,938
Gross profit	18,743	19,296	2,639	3,954
Gross profit percentage of net revenues	17.3%	17.3%	3.3%	4.9%
Net income (loss)	3,268	4,068	(8,097)	(5,717)
<b>Net income (loss) per share:</b>				
Basic	\$ 0.26	\$ 0.32	\$ (0.65)	\$ (0.46)
Diluted	\$ 0.26	\$ 0.32	\$ (0.65)	\$ (0.46)

## Note 13. Segment Reporting

The Company operates in one business segment: the design, manufacture, marketing and distribution of technologically advanced, high-performance alloys for use in the aerospace, industrial gas turbine, chemical processing and other industries. The Company has operations in the United States, Europe and Asia, which are summarized below. Sales between geographic areas are made at negotiated selling prices. Revenues from external customers are attributed to the geographic areas presented based on the destination of product shipments.

	Year Ended September 30,		
	2018	2019	2020
<b>Net Revenue by Geography:</b>			
United States	\$ 258,275	\$ 300,728	\$ 230,764
Europe	113,967	119,246	91,480
China	24,640	24,329	17,398
Other	38,444	45,912	40,888
Net Revenues	<u>\$ 435,326</u>	<u>\$ 490,215</u>	<u>\$ 380,530</u>
<b>Net Revenue by Product Group:</b>			
High-temperature resistant alloys	\$ 352,614	\$ 392,172	\$ 308,229
Corrosive-resistant alloys	82,712	98,043	72,301
Net revenues	<u>\$ 435,326</u>	<u>\$ 490,215</u>	<u>\$ 380,530</u>

	September 30,	
	2019	2020
<b>Long-lived Assets by Geography</b>		
United States.....	\$ 163,158	\$ 152,915
Europe.....	6,661	6,754
China.....	147	150
Total long-lived assets.....	<u>\$ 169,966</u>	<u>\$ 159,819</u>

#### Note 14. Valuation and Qualifying Accounts

	Balance at Beginning of Period	Charges (credits) to Expense	Deductions <sup>(1)</sup>	Balance at End of Period
<b>Allowance for doubtful accounts receivables:</b>				
September 30, 2018.....	620	688	(178)	1,130
September 30, 2019.....	1,130	530	(1,219)	441
September 30, 2020.....	441	139	(35)	545

<sup>(1)</sup> Uncollectible accounts written off net of recoveries.

#### Note 15. Deferred Revenue

On November 17, 2006, the Company entered into a twenty-year agreement to provide conversion services to Titanium Metals Corporation (TIMET) for up to ten million pounds of titanium metal annually. TIMET paid the Company a \$50,000 up-front fee and will also pay the Company for its processing services during the term of the agreement (20 years) at prices established by the terms of the agreement. TIMET may exercise an option to have ten million additional pounds of titanium converted annually, provided that it offers to loan up to \$12,000 to the Company for certain capital expenditures which may be required to expand capacity. In addition to the volume commitment, the Company has granted TIMET a first priority security interest in its four-high Steckel rolling mill, along with rights of access if the Company enters into bankruptcy or defaults on any financing arrangements. The Company has agreed not to manufacture titanium products (other than cold reduced titanium tubing). The Company has also agreed not to provide titanium hot-rolling conversion services to any entity other than TIMET for the term of the Conversion Services Agreement. The agreement contains certain default provisions which could result in contract termination and damages, including liquidated damages of \$25,000 and the Company being required to return the unearned portion of the up-front fee. The Company considered each provision and the likelihood of the occurrence of a default that would result in liquidated damages. Based on the nature of the events that could trigger the liquidated damages clause, and the availability of the cure periods set forth in the agreement, the Company determined and continues to believe that none of these circumstances are reasonably likely to occur. Therefore, events resulting in liquidated damages have not been factored in as a reduction to the amount of revenue recognized over the life of the contract. The cash received of \$50,000 is recognized in income on a straight-line basis over the 20-year term of the agreement. If an event of default occurred and was not cured within any applicable grace period, the Company would recognize the impact of the liquidated damages in the period of default and re-evaluate revenue recognition under the contract for future periods. The portion of the up-front fee not recognized in income is shown as deferred revenue on the consolidated balance sheet.

#### Note 16. Fair Value Measurements

The fair value hierarchy has three levels based on the inputs used to determine fair value:

- Level 1—Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

- Level 2—Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3—Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

When available, the Company uses unadjusted quoted market prices to measure fair value. If quoted market prices are not available, fair value is based upon internally-developed models that use, where possible, current market-based or independently-sourced market parameters such as interest rates and currency rates. Items valued using internally-generated models are classified according to the lowest level input or value driver that is significant to the valuation. The valuation model used depends on the specific asset or liability being valued.

U.S and International equities, Fixed Income, and Other Investments held in the Company’s pension plan are held in mutual funds and common / collective funds which are valued using net asset value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. These investments are not classified in the fair value hierarchy in accordance with guidance included in ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

The fair value of Cash and Cash Equivalents is determined using Level 1 information.

The following table represents the Company’s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 and 2020:

<b>September 30, 2019 Fair Value Measurements at Reporting Date Using:</b>					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
<b>Assets:</b>					
Pension plan assets .....	\$ —	\$ —	\$ —	\$ 225,917	\$ 225,917
Total fair value .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 225,917</u>	<u>\$ 225,917</u>
<b>September 30, 2020 Fair Value Measurements at Reporting Date Using:</b>					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
<b>Assets:</b>					
Pension plan assets .....	\$ —	\$ —	\$ —	\$ 245,546	\$ 245,546
Total fair value .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 245,546</u>	<u>\$ 245,546</u>

The Company had no other financial assets or liabilities measured at fair value on a recurring basis as of September 30, 2019 or 2020.



## Note 17. Comprehensive Income (Loss) and Changes in Accumulated Other Comprehensive Income (Loss) by Component

Comprehensive income (loss) includes changes in equity that result from transactions and economic events from non-owner sources. Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) items, including pension and foreign currency translation adjustments, net of tax when applicable.

### Comprehensive Income (Loss)

	Year Ended September 30,								
	2018			2019			2020		
	Pre-tax	Tax	Net	Pre-tax	Tax	Net	Pre-tax	Tax	Net
Net income (loss) . . . . .			\$ (21,751)			\$ 9,745			\$ (6,478)
Other comprehensive income (loss):									
Pension and postretirement:									
Net gain (loss) arising during period . . . . .	\$ 33,518	\$ (7,576)	25,942	\$ (48,052)	11,266	(36,786)	\$ 11,121	(2,381)	8,740
Amortization of prior service cost . . . . .	374	(99)	275	228	(58)	170	228	(58)	170
Amortization of (gain) loss . . . . .	7,887	(2,075)	5,812	2,935	(772)	2,163	9,129	(2,409)	6,720
Foreign currency translation adjustment . . . . .	(1,900)	—	(1,900)	(3,620)	—	(3,620)	3,690	—	3,690
Other comprehensive income (loss) . . . . .	\$ 39,879	\$ (9,750)	30,129	\$ (48,509)	\$ 10,436	(38,073)	\$ 24,168	\$ (4,848)	19,320
Total comprehensive income (loss) . . . . .			\$ 8,378			\$ (28,328)			\$ 12,842

### Accumulated Other Comprehensive Income (Loss)

	Year Ended September 30, 2019			
	Pension Plan	Postretirement Plan	Foreign Exchange	Total
Accumulated other comprehensive income (loss) as of September 30, 2018 . . . . .	\$ (21,473)	\$ (11,201)	\$ (9,891)	\$ (42,565)
Other comprehensive income (loss) before reclassifications . . . . .	(33,578)	(3,209)	(3,620)	(40,407)
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of Pension and Postretirement Plan items <sup>(1)</sup> . . . . .	228	—	—	228
Actuarial losses <sup>(1)</sup> . . . . .	1,449	1,487	—	2,936
Tax benefit . . . . .	(437)	(393)	—	(830)
Net current-period other comprehensive income (loss) . . . . .	(32,338)	(2,115)	(3,620)	(38,073)
Accumulated other comprehensive income (loss) as of September 30, 2019 . . . . .	\$ (53,811)	\$ (13,316)	\$ (13,511)	\$ (80,638)

	Year Ended September 30, 2020			
	Pension Plan	Postretirement Plan	Foreign Exchange	Total
Accumulated other comprehensive income (loss) as of September 30, 2019 . . . . .	\$ (53,811)	\$ (13,316)	\$ (13,511)	\$ (80,638)
Other comprehensive income (loss) before reclassifications . . . . .	(8,604)	17,344	3,690	12,430
Amounts reclassified from accumulated other comprehensive income (loss):				
Amortization of Pension and Postretirement Plan items <sup>(1)</sup> . . . . .	228	—	—	228
Actuarial losses <sup>(1)</sup> . . . . .	7,281	1,848	—	9,129
Tax benefit . . . . .	(1,978)	(489)	—	(2,467)
Net current-period other comprehensive income (loss) . . . . .	(3,073)	18,703	3,690	19,320
Reclass due to adoption of ASU 2018-02 . . . . .	(8,509)	(4,774)	—	(13,283)
Accumulated other comprehensive income (loss) as of September 30, 2020 . . . . .	\$ (65,393)	\$ 613	\$ (9,821)	\$ (74,601)

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost.

### Note 18. Long-term Obligations

The following table sets for the components of Long-term obligations as of September 30, 2019 and 2020.

	<u>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2020</u>
Finance lease obligations . . . . .	\$ 7,979	\$ 7,809
Environmental post-closure monitoring and maintenance activities . . . . .	606	602
Long-term disability . . . . .	251	251
Deferred dividends . . . . .	40	139
Less amounts due within one year . . . . .	<u>(267)</u>	<u>(292)</u>
Long-term obligations (less current portion) . . . . .	<u>\$ 8,609</u>	<u>\$ 8,509</u>

### Note 19. Leases

On October 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*. This new guidance requires that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. The Company adopted the provisions of ASU 2016-02 in the first quarter of fiscal 2020 using the modified retrospective transition method, which did not require the Company to adjust comparative periods. The Company’s right-of-use assets (“ROU”) and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments. ROU assets are included in Other assets, and the related lease obligation is included in Operating lease liabilities on the consolidated balance sheets.

#### *Nature of the Leases*

The Company has operating and finance leases for buildings, equipment (e.g. trucks and forklifts), vehicles, and computer equipment. Leasing arrangements require fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Some lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is not reasonably certain not to exercise the option, respectively. The leases have remaining terms of one to 17 years.

For all leases with an initial expected term of more than 12 months, the Company recorded, at the adoption date of ASC 842 or lease commencement date for leases entered into after the adoption date, a lease liability, which is the lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or to control the use of, a specified asset for the lease term. The Company utilizes its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases, unless the Company can specifically determine the lessor’s implicit rate.

On January 1, 2015, the Company entered into a finance lease agreement for the building that houses the assets and operations of LaPorte Custom Metal Processing (LCMP). The leased asset and obligation are recorded at the present value of the minimum lease payments. The asset is included in Property, plant and equipment, net on the Consolidated Balance Sheet and is depreciated over the 20 year lease term. The long term component of the finance lease obligation is included in Long term obligations.

The Company entered into a twenty-year “build-to-suit” lease for a building that houses the assets and operations of the service center located in LaPorte, Indiana that was relocated from Lebanon, Indiana. During the first quarter of

fiscal 2017, the Company took occupancy of the building. The Company retained substantially all of the construction risk and was deemed to be the owner of the facility for accounting purposes, even though it is not the legal owner. Construction costs incurred relative to the buildout of the facility of approximately \$4,100 are included in Property, plant and equipment, net on the Consolidated Balance Sheet and depreciated over the 20-year lease term. The Company accounts for the related build-to-suit liability as a financing obligation.

*Significant Judgments and Assumptions*

*Determination of Whether a Contract Contains a Lease*

The Company determines whether a contract is or contains a lease at the inception of the contract. The contract is or contains a lease if the contract conveys the right to control the use of identified assets for a period of time in exchange for consideration. The Company generally must also have the right to obtain substantially all of the economic benefits from use of the property, plant, and equipment and have the right to direct its use.

*Practical Expedients (Policy Elections)*

The Company elected certain practical expedients and transition relief, including the short-term lease recognition exemption, which excludes leases with a term of 12 months or less from recognition on the balance sheet, recognizing lease components and non-lease components together as a single lease component, and the transition relief package which, among other things, includes not reassessing the lease classification or whether a contract is or contains a lease.

The following table sets forth the components of the Company’s lease cost for the year ended September 30, 2020.

	<u>September 30, 2020</u>
Finance lease cost:	
Amortization of right of use asset . . . . .	\$ 430
Interest on lease liabilities . . . . .	825
Total finance lease cost . . . . .	<u>\$ 1,255</u>
Operating lease cost . . . . .	<u>\$ 1,402</u>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases . . . . .	825
Operating cash flows from operating leases . . . . .	1,402
Financing cash flows from finance leases . . . . .	170
Total cash paid for amounts included in measurement of lease liabilities . . . . .	<u>\$ 2,397</u>

Lease costs associated with short term leases are not material.

The following table sets forth the Company's right of use assets and lease liabilities as of September 30, 2020.

	<u>September 30, 2020</u>
Finance lease assets (included in Property, plant and equipment, net) . . . . .	\$ 6,503
Operating right of use lease assets (included in Other assets) . . . . .	\$ 1,718
Finance lease liabilities	
Accrued expenses . . . . .	\$ 195
Long-term obligations (less current portion) . . . . .	<u>7,614</u>
Total Finance lease liabilities . . . . .	<u>\$ 7,809</u>
Operating lease liabilities . . . . .	<u>\$ 1,718</u>

	<u>September 30, 2020</u>
Weighted average lease term (Years)	
Finance leases . . . . .	15.1
Operating leases . . . . .	3.2
Weighted average discount rate	
Finance leases . . . . .	10.33 %
Operating leases . . . . .	5.25 %

The following is a table of future minimum lease payments during each fiscal year under operating and finance leases and the present value of the net minimum lease payments as of September 30, 2020.

<u>Future minimum lease payments</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2021 . . . . .	\$ 1,001	\$ 808
2022 . . . . .	1,012	427
2023 . . . . .	1,024	292
2024 . . . . .	1,031	281
2025 . . . . .	1,038	71
Thereafter . . . . .	<u>10,502</u>	<u>113</u>
Total minimum lease payments . . . . .	15,608	1,992
Less: amount representing interest . . . . .	<u>(7,799)</u>	<u>(274)</u>
Present value of net minimum lease payments . . . . .	<u>\$ 7,809</u>	<u>\$ 1,718</u>

The following is a table of future minimum lease payments as of September 30, 2019.

<u>Future minimum lease payments as of September 30, 2019</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2020 .....	\$ 993	\$ 2,542
2021 .....	1,000	1,254
2022 .....	1,013	460
2023 .....	1,024	277
2024 .....	1,032	259
Thereafter .....	<u>11,623</u>	<u>60</u>
Total minimum lease payments .....	16,685	4,852
Less: amount representing interest .....	<u>(8,706)</u>	<u>—</u>
Present value of net minimum lease payments .....	<u>\$ 7,979</u>	<u>\$ 4,852</u>

**Note 20. Foreign Currency Forward Contracts**

Beginning in the third quarter of fiscal 2018, the Company entered into foreign currency forward contracts. The Company enters into foreign currency forward contracts with the purpose of reducing income statement volatility resulting from foreign currency denominated transactions. The Company has not designated the contacts as hedges; therefore, changes in fair value are recognized in earnings. All of these contracts are designed to be settled within the same fiscal quarter they are entered into and, accordingly, as of September 30, 2018, 2019 and 2020, there are no contracts that remain unsettled. As a result, there is no impact to the balance sheet as of September 30, 2019 or September 30, 2020. Foreign exchange contract gains and losses are recorded within Selling, General and Administrative expenses on the Consolidated Statements of Operations along with foreign currency transactional gains and losses as follows.

	<u>Year Ended September 30, 2018</u>	<u>Year Ended September 30, 2019</u>	<u>Year Ended September 30, 2020</u>
Foreign currency transactional gain (loss) .....	\$ 411	\$ 1,071	\$ (567)
Foreign exchange forward contract gain (loss) .....	<u>(918)</u>	<u>(1,638)</u>	<u>(273)</u>
Net gain (loss) included in selling, general and administrative expense. . .	<u>\$ (507)</u>	<u>\$ (567)</u>	<u>\$ (840)</u>

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, including to ensure that information required to be disclosed by the Company that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. Pursuant to Rule 13a-15(b) of the Exchange Act the Company has performed, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2020.

#### *Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### *Management's Annual Report on Internal Control Over Financial Reporting*

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined by Exchange Act rules 13a-15(f) and 15d-15(f)) for the Company. With the participation of the Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of The Treadway Commission (2013). Based on the Company's assessment, management has concluded that, as of September 30, 2020, the Company's internal control over financial reporting is effective based on those criteria.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's effectiveness of internal control over financial reporting as of September 30, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in its attestation report which is included herein.

Michael L. Shor  
President & Chief Executive Officer  
November 19, 2020

Daniel W. Maudlin  
Vice President of Finance and Chief Financial Officer  
November 19, 2020

### **Item 9B. Other Information**

None.

### Part III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information included under the caption “Business—Executive Officers of the Company” in this Annual Report on Form 10-K, and under the captions “Election of Directors”, “Corporate Governance—Code of Ethics”, “Corporate Governance—Corporate Governance Committee and Director Nominations”, “Corporate Governance—Board Committee Structure”, “Corporate Governance—Family Relationships” and “Corporate Governance—Independence of the Board of Directors and Committee Members” in the Proxy Statement to be issued in connection with the 2021 meeting of the Company’s stockholders is incorporated herein by reference.

#### Item 11. Executive Compensation

The information included under the captions “Executive Compensation”, “Corporate Governance—Compensation Committee Interlocks and Insider Participation” and “Corporate Governance—Director Compensation Program” in the Proxy Statement to be issued in connection with the 2021 meeting of the Company’s stockholders is incorporated herein by reference in response to this item.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained under the captions “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Management” in the Proxy Statement to be issued in connection with the 2021 meeting of the Company’s stockholders is incorporated herein by reference in response to this item. For additional information regarding the Company’s stock option plans, please see Note 11 in the Notes to Consolidated Financial Statements in this report.

#### Equity Compensation Plan Information

The following table provides information as of September 30, 2020 regarding shares of the Company’s common stock issuable pursuant to its stock option and restricted stock plans:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the second column)</u>
Equity compensation plans approved by security holders <sup>(1)</sup> .	561,457	\$ 37.97	538,800 <sup>(2)</sup>

<sup>(1)</sup> For a description of the Company’s equity compensation plans, see Note 11 to the Consolidated Financial Statements in Item 8.

<sup>(2)</sup> Includes (i) 350,000 shares of stock options or stock appreciation rights and (ii) 188,800 shares of restricted stock, restricted stock units, performance shares or performance units.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained under the caption “Corporate Governance—Independence of Board of Directors and Committee Members” and under “Conflict of Interest and Related Party Transactions” in the Proxy Statement to be issued in connection with the 2021 meeting of the Company’s stockholders is incorporated herein by reference in response to this item.

#### **Item 14. Principal Accountant Fees and Services**

The information included under the caption “Ratification of the Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement to be issued in connection with the 2021 meeting of the Company’s stockholders is incorporated herein by reference in response to this item.

#### **Part IV**

#### **Item 15. Exhibits, Financial Statement Schedules**

(a) *Documents filed as part of this Report.*

1. *Financial Statements:*

The Financial Statements are set forth under Item 8 in this Annual Report on Form 10-K.

2. *Financial Statement Schedules:*

Financial Statement Schedules are omitted as they are not required, are not applicable or the information is shown in the Notes to the Consolidated Financial Statements.

(b) *Exhibits.* See Index to Exhibits, which is incorporated herein by reference.

(c) *Financial Statement Schedules:* None



## INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
3.1	Second Restated Certificate of Incorporation of Haynes International, Inc. (incorporated by reference to Exhibit 3.1 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194).
3.2	Amended and Restated By-laws of Haynes International, Inc. (incorporated by reference to Exhibit 3.2 to the Haynes International, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.01 to the Haynes International, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2009).
4.2**	Description of Registrant's Securities.
10.1	Form of Termination Benefits Agreements by and between Haynes International, Inc. and certain of its employees, conformed to give effect to all amendments thereto (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2011).
10.2	Form of Director Indemnification Agreement between Haynes International, Inc. and certain of its directors named in the schedule to the Exhibit (incorporated by reference to Exhibit 10.21 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194).
10.3	Conversion Services Agreement by and between the Company and Titanium Metals Corporation, dated November 17, 2006 (incorporated by reference to Exhibit 10.22 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194). Portions of this exhibit have been omitted pursuant to a request for confidential treatment and filed separately with the Securities and Exchange Commission.
10.4	Access and Security Agreement by and between the Company and Titanium Metals Corporation, dated November 17, 2006 (incorporated by reference to Exhibit 10.23 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194).
10.5	Form of Non-Qualified Stock Option Agreement used in conjunction with grants made pursuant to the Haynes International, Inc. 2007 Stock Option Plan (incorporated by reference to Exhibit 10.26 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194).
10.6	Second Amended and Restated Haynes International, Inc. Stock Option Plan as adopted by the Board of Directors on January 22, 2007 (incorporated by reference to Exhibit 10.27 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194).
10.7	Form of Non-Qualified Stock Option Agreements between Haynes International, Inc. and certain of its executive officers and directors named in the schedule to the Exhibit pursuant to the Haynes International, Inc. Second Amended and Restated Stock Option Plan (incorporated by reference to Exhibit 10.28 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194).
10.8	Haynes International, Inc. 2009 Restricted Stock Plan (incorporated by reference to Exhibit 10.02 to the Haynes International, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009).
10.9	Summary of 2020 Management Incentive Plan and Deferred Compensation Plan (incorporated by reference to Item 5.02 of the Haynes International, Inc. Form 8-K filed November 22, 2019).
10.10	Amendment No.1 to the Haynes International, Inc. 2009 Restricted Stock Plan (incorporated by reference to Exhibit 10.02 to the Haynes International, Inc. Form 10-Q for the fiscal quarter ended December 31, 2011).
10.11	Amendment No. 2 to the Haynes International, Inc. 2009 Restricted Stock Plan (incorporated by reference to Exhibit 10.01 to the Haynes International, Inc. Form 10-Q for the fiscal quarter ended March 31, 2013).
10.12	Amendment No. 3 to the Haynes International, Inc. 2009 Restricted Stock Plan (incorporated by reference to Exhibit 10.01 to the Haynes International, Inc. Form 10-Q for the fiscal quarter ended December 31, 2014).
10.13	Amendment No. 4 to the Haynes International, Inc. 2009 Restricted Stock Plan (incorporated by reference to Exhibit 10.02 to the Haynes International, Inc. Form 10-Q for the fiscal quarter ended December 31, 2014).
10.14	Haynes International, Inc. 2016 Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Haynes International, Inc. Current Report on Form 8-K filed March 7, 2016).
10.15	Form of Restricted Stock Award Agreement between Haynes International, Inc. and certain of its directors, issued pursuant to the Haynes International, Inc. 2016 Incentive Compensation Plan (incorporated by reference to Exhibit 10.22 to the Haynes International, Inc. Form 10-K for the fiscal year ended September 30, 2017).

Exhibit Number	Description
10.16	Form of Performance Share Award Agreement between Haynes International, Inc. of certain of its officers, issued pursuant to the Haynes International, Inc. 2016 Incentive Compensation Plan (incorporated by reference to Exhibit 10.23 to the Haynes International, Inc. Form 10-K for the fiscal year ended September 30, 2017).
10.17	Form of Non-Qualified Stock Option Agreement between Haynes International, Inc. and certain of its officers, issued pursuant to the Haynes International, Inc. 2016 Incentive Compensation Plan (incorporated by reference to Exhibit 10.24 to the Haynes International, Inc. Form 10-K for the fiscal year ended September 30, 2017).
10.18	Form of Restricted Stock Award Agreement between Haynes International, Inc. and certain of its officers and other employees, issued pursuant to the Haynes International, Inc. 2016 Incentive Compensation Plan (incorporated by reference to Exhibit 10.25 to the Haynes International, Inc. Form 10-K for the fiscal year ended September 30, 2017).
10.19	Form of Indemnification Agreement between the Company and certain of its officers (incorporated by reference to Exhibit 10.24 the Haynes International Form 10K filed November 15, 2018).
10.20	Executive Employment Agreement, effective as of September 1, 2018, by and between the Company and Michael L. Shor (incorporated by reference to Exhibit 10.25 to the Haynes International, Inc. Form 10-K filed November 15, 2018).
10.21	Haynes International, Inc. 2020 Incentive Compensation Plan (incorporated by reference to Exhibit 99.1 to the Haynes International, Inc. Current Report on Form 8-K filed February 27, 2020).
10.22**	Form of Restricted Stock Award Agreement between Haynes International, Inc. and certain of its directors, issued pursuant to the Haynes International, Inc. 2020 Incentive Compensation.
10.23**	Form of Performance Share Award Agreement between Haynes International, Inc. of certain of its officers, issued pursuant to the Haynes International, Inc. 2016 Incentive Compensation.
10.24**	Form of Non-Qualified Stock Option Agreement between Haynes International, Inc. and certain of its officers, issued pursuant to the Haynes International, Inc. 2016 Incentive Compensation Plan.
10.25**	Form of Restricted Stock Award Agreement between Haynes International, Inc. and certain of its officers and other employees, issued pursuant to the Haynes International, Inc. 2016 Incentive Compensation Plan.
10.26	Credit Agreement, dated as of October 19, 2020, by and among Haynes International, Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Haynes International, Inc. Current Report on Form 8-K filed October 20, 2020).
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Haynes International, Inc. Form 10-K for the fiscal year ended September 30, 2018).
23.1**	Consent of Deloitte & Touche LLP.
31.1**	Rule 13a-14(a)/15d-4(a) Certification of Chief Executive Officer
31.2**	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1**	Section 1350 Certifications
101**	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Stockholders Equity; (v) the Consolidated Statements of Cash Flows; and (vi) related notes.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

---

\*\* Filed herewith

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HAYNES INTERNATIONAL, INC.

By: /s/ MICHAEL L. SHOR

Michael L. Shor

*President and Chief Executive Officer*

Date: November 19, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MICHAEL L. SHOR</u> Michael L. Shor	President and Chief Executive Officer; Director (Principal Executive Officer)	November 19, 2020
<u>/s/ DANIEL W. MAUDLIN</u> Daniel W. Maudlin	Vice President of Finance and Chief Financial Officer (Principal Financial Officer)	November 19, 2020
<u>/s/ DAVID S. VAN BIBBER</u> David S. Van Bibber	Controller and Chief Accounting Officer (Principal Accounting Officer)	November 19, 2020
<u>/s/ ROBERT H. GETZ</u> Robert H. Getz	Chairman of the Board, Director	November 19, 2020
<u>/s/ DONALD C. CAMPION</u> Donald C. Campion	Director	November 19, 2020
<u>/s/ DAWNE S. HICKTON</u> Dawne S. Hickton	Director	November 19, 2020
<u>/s/ LARRY O. SPENCER</u> Larry O. Spencer	Director	November 19, 2020

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-236760, 333-215172, 333-145499 and 333-134989 on Form S-8 of our report dated November 19, 2020, relating to the consolidated financial statements of Haynes International, Inc. and the effectiveness of Haynes International, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Haynes International, Inc. for the year ended September 30, 2020.

*/s/ Deloitte & Touche LLP*

Indianapolis, IN  
November 19, 2020

**CERTIFICATIONS**

I, Michael L. Shor, certify that:

1. I have reviewed this Annual Report on Form 10-K of Haynes International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-159f) and 15(d)-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 19, 2020

/s/ MICHAEL L. SHOR  
\_\_\_\_\_  
Michael L. Shor  
*President and Chief Executive Officer*

## CERTIFICATIONS

I, Daniel W. Maudlin, certify that:

1. I have reviewed this Annual Report on Form 10-K of Haynes International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 19, 2020

/s/ DANIEL W. MAUDLIN

---

Daniel W. Maudlin  
*Vice President of Finance and  
Chief Financial Officer*

**Certifications Pursuant to 18 U.S.C. Section 1350  
As Adopted Pursuant to Section 906 of the  
Sarbanes—Oxley Act of 2002**

I, Daniel W. Maudlin, the Vice President Finance and Chief Financial Officer of Haynes International, Inc., certify that (i) the Annual Report on Form 10-K for the fiscal year ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Haynes International, Inc. as of the dates and for the periods set forth therein.

\_\_\_\_\_  
/s/ DANIEL W. MAUDLIN

Daniel W. Maudlin  
*Vice President Finance and  
Chief Financial Officer*

\_\_\_\_\_  
November 19, 2020

Date

I, Michael L. Shor, the President and Chief Executive Officer of Haynes International, Inc., certify that (i) the Annual Report on Form 10-K for the fiscal year ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Haynes International, Inc. as of the dates and for the periods set forth therein.

\_\_\_\_\_  
/s/ MICHAEL L. SHOR

Michael L. Shor  
*President and Chief Executive Officer*

\_\_\_\_\_  
November 19, 2020

Date

