AMERICAN AXLE & MANUFACTURING HOLDINGS INC
Form 10-K
February 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

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 1-14303

AMERICAN AXLE & MANUFACTURING HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	38-3161171
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
ONE DAUCH DRIVE, DETROIT, MICHIGAN	48211-1198
(Address of principal executive offices)	(Zip Code)

313-758-2000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
COMMON STOCK, PAR VALUE $0.01 PER SHARE	NEW YORK STOCK EXCHANGE
PREFERRED SHARE PURCHASE RIGHTS, PAR VALUE $0.01 PER SHARE	NEW YORK STOCK EXCHANGE

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 x No o

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act).

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if small reporting company)	Smaller reporting company o

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

The closing price of the Common Stock on June 30, 2013 as reported on the New York Stock Exchange was $18.63 per share and the aggregate market value of the registrant's Common Stock held by non-affiliates was approximately $1,278.1 million.

As of February 5, 2014, the number of shares of the registrant's Common Stock, $0.01 par value, outstanding was 75,598,824 shares.

Documents Incorporated by Reference
Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 2013 and Proxy Statement for use in connection with its Annual Meeting of Stockholders to be held on May 1, 2014, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after December 31, 2013, are incorporated by reference in Part I (Items 1, 1A, 1B, 2, 3 and 4), Part II (Items 5, 6, 7, 7A, 8, 9, 9A and 9B), Part III (Items 10, 11, 12, 13 and 14) and Part IV (Item 15) of this Report.

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Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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Part I

Item 1. Business

As used in this report, except as otherwise indicated in information incorporated by reference, references to “our Company,” "we," "our," "us" or “AAM” mean American Axle & Manufacturing Holdings, Inc. (Holdings) and its subsidiaries and predecessors, collectively.

(a) General Development of Business

Holdings, a Delaware corporation, is a successor to American Axle & Manufacturing of Michigan, Inc., a Michigan corporation, pursuant to a migratory merger between these entities in 1999.

(b) Financial Information About Segments

See Item 8, “Financial Statements and Supplementary Data - Note 12 - Segment and Geographic Information” included in this report.

(c) Narrative Description of Business

Company Overview

We are a Tier I supplier to the automotive industry. We manufacture, engineer, design and validate driveline and drivetrain systems and related components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars, crossover vehicles and commercial vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. Our driveline, drivetrain and related products include axles, driveheads, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, transmission parts and metal-formed products. In addition to locations in the United States (U.S.) (Michigan, Ohio, Indiana and Pennsylvania), we also have offices or facilities in Brazil, China, Germany, India, Japan, Luxembourg, Mexico, Poland, Scotland, South Korea, Sweden and Thailand.

We are the principal supplier of driveline components to General Motors Company (GM) for its full-size rear-wheel drive (RWD) light trucks and SUVs manufactured in North America, supplying substantially all of GM's rear axle and four-wheel drive and all-wheel drive (4WD/AWD) axle requirements for these vehicle platforms. Sales to GM were approximately 71% of our consolidated net sales in 2013 and approximately 73% of our consolidated net sales in both 2012 and 2011.

We are the sole-source supplier to GM for certain axles and other driveline products for the life of each GM vehicle program covered by a Lifetime Program Contract (LPC). Substantially all of our sales to GM are made pursuant to the LPCs. The LPCs have terms equal to the lives of the relevant vehicle programs or their respective derivatives, which typically run 5 to 7 years, and require us to remain competitive with respect to technology, design and quality.

We also supply driveline system products for the Chrysler Group LLC's (Chrysler) heavy-duty Ram full-size pickup trucks and its derivatives, as well as the 2014 AWD Jeep Cherokee. Sales to Chrysler were approximately 12% of our consolidated net sales in 2013, 10% in 2012 and 8% in 2011. In addition to GM and Chrysler, we supply driveline systems and other related components to Volkswagen AG (Volkswagen), Audi AG (Audi), Mack Trucks Inc. (Mack Truck), PACCAR Inc., Harley-Davidson Inc., Beijing Benz Automotive Co., Ltd., Nissan Motor Co., Ltd. (Nissan), Deere & Company, Scania AB, Tata Motors, Ford Motor Company (Ford) and other original equipment manufacturers (OEMs) and Tier I supplier companies such as Jatco Ltd. and Hino Motors Ltd. Our consolidated net sales to customers other than GM increased 17% to $926.7 million in 2013 as compared to $792.6 million in 2012 and

$710.0 million in 2011.

We estimate our principal served market to be approximately $35 billion based on information available at the end of 2013. Our principal served market is the driveline market, which consists of driveline, drivetrain and related components and chassis modules for light trucks, SUVs, passenger cars, crossover vehicles and commercial vehicles, in the regions in which we compete.

The following chart sets forth the percentage of total revenues attributable to our products for the periods indicated:

	Year ended December 31,					
	2013		2012		2011	
Axles and driveshafts	82	%	82	%	81	%
Drivetrain components, forged products and other	18	%	18	%	19	%
Total	100	%	100	%	100	%

Business Strategy

We are focused on profitable net sales growth and strengthening our balance sheet by capitalizing on our competitive strengths and continuing to diversify our customer, product and geographic sales mix while providing exceptional value to our customers. Over the past several years, we have taken necessary restructuring actions that allowed us to make significant, sustainable structural cost reductions which have enabled us to be market cost competitive on a global basis.

We have aligned our business strategy to build value for our key stakeholders. This strategy emphasizes a commitment to deliver industry leading quality, technology leadership and operational excellence. By focusing on this commitment, we can achieve our key critical business objectives of product and customer diversification, globalization and solid financial performance. This strategy includes the following actions:

Maintain our high quality standards which are the foundation of our product durability and reliability.

- AAM has an outstanding daily track record for delivering quality products, having averaged less than 10 discrepant parts per million (PPM) since 2003, as measured by our largest customer.

- Our quality performance has resulted in improved warranty performance for our customers. As a result, customer incidents per thousand vehicles have improved an average of approximately 15% annually since 2006, as measured by our largest customer.

Achieve technology leadership by delivering innovative driveline products which improve the diversification of our product portfolio while increasing our total global served market.

- AAM's significant investment in research and development has resulted in the development of advanced technology products designed to assist our customers in meeting the market demands for higher fuel-efficiency; lower emissions; more sophisticated electronic controls; improved safety, ride and handling performance; and enhanced reliability and durability for light trucks, SUVs, passenger cars, crossover vehicles and commercial vehicles.

- In recognition of AAM's innovative approach to provide enhanced vehicle control while maximizing fuel economy, AAM's industry-first EcoTrac® Disconnecting AWD technology was selected as a 2014 Automotive News PACE Award Finalist. AAM's EcoTrac® Disconnecting AWD system is a fuel-efficient and environmentally friendly driveline system that provides OEMs the option of an all-wheel-drive system that disconnects when not needed to improve fuel efficiency and reduce CO_2 emissions compared to conventional AWD systems. AAM's EcoTrac® Disconnecting AWD system is featured on the all-new 2014 Jeep Cherokee.

- e-AAM Driveline Systems AB (e-AAM), previously a joint venture between AAM and Saab Automobile AB (Saab), was created to design and commercialize electric and hybrid driveline systems designed to improve fuel efficiency, reduce CO_2 emissions and provide AWD capability. AAM now has 100% ownership of e-AAM, and will continue engineering, developing and commercializing electric and hybrid driveline systems for passenger cars and crossover vehicles. In 2013, we announced that we had secured a new driveline systems contract featuring patented e-AAM™ hybrid & electric driveline systems technology with Qoros Auto Co., Ltd. in China.

- AAM has established a high efficiency product portfolio that is designed to improve axle efficiency and fuel economy through innovative product design technologies. In 2012, AAM launched a high efficiency axle on the Cadillac ATS compact luxury sport sedan, which was named the 2013 North American Car of the Year. AAM's new and incremental business backlog launching from 2014-2016 also includes our high efficiency rear-drive module on the all-new Cadillac CTS, Motor Trend's 2014 Car of the Year.

Sustain our operational excellence and focus on cost management to deliver exceptional value to our customers.

- We had 28 successful launches in 2013. These launches included three key programs; the next generation RAM Heavy Duty pickups, the 2014 North American Truck of the Year, GM’s new full size pickups (K2XX Program), and the all-new 2014 Jeep Cherokee.

- Our focus on cost management has led to sustainable structural reductions in AAM's fixed cost structure. We continue to focus on cost management through the implementation of the AAM Manufacturing System to improve quality, eliminate waste, and reduce lead time and total costs globally.

- Our stand alone United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) agreement covers hourly associates at our Three Rivers Manufacturing Facility ensures market competitiveness at AAM's largest U.S. facility into 2017. The collective bargaining agreements that cover our hourly associates at our Colfor Manufacturing Inc. and MSP Industries Corporation subsidiaries expire in 2014 and 2017, respectively.

- With the closure of our Detroit Manufacturing Complex (DMC) and Cheektowaga Manufacturing Facility (CKMF) in 2012, we have achieved market competitive labor cost structures at each of our global locations.

Diversify our business through the growth of new and existing customer relationships and expansion of our product portfolio.

- In addition to maintaining and building upon our long standing relationships with GM and Chrysler, we have focused on generating profitable growth with new and existing global OEM customers, as well as commercial vehicle, off-road and emerging market OEMs. As a result, new business launches in 2013 included business with Scania, Nissan, Jaguar Land Rover, Daimler Truck and Honda. New and expanded business launches in 2014 through 2016 include business with Chrysler, Daimler Truck, Ford, Honda, Jaguar Land Rover, Mercedes-Benz, Nissan, Tata Motors, Volvo and others.

- We have accelerated the development and launch of products for passenger cars and crossover vehicles and the global light truck and commercial vehicle markets. We have approximately $900 million of new and incremental business backlog launching from 2014 to 2016, of which approximately 70% relates to AWD and RWD applications for passenger cars, crossover vehicles and driveline applications for the commercial vehicle market.

- Over 70% of our new and incremental business backlog launching from 2014 to 2016 is for customers other than GM. In addition, we have over $1 billion in quoted and emerging new business opportunities. These opportunities would allow us to continue the diversification and expansion of our customer base, product portfolio and global footprint. Substantially all of these opportunities are for customers other than GM.

Achieve globalization by increasing our presence in growth markets to support our customers' global platforms.

- Over the past few years, we have significantly increased our installed capacity in cost competitive global growth markets to support current programs and future opportunities. Specific actions included expanding capacity in Brazil, China, Mexico, Poland, Thailand and the U.S. and constructing new facilities in India and Mexico.

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- In 2011, we also expanded our existing joint venture (JV) with Hefei Automobile Axle Co., Ltd. (HAAC), a subsidiary of the JAC Group (Anhui Jianghuai Automotive Group Co., Ltd.) to include 100% of HAAC's light commercial axle business. By adding the light and medium duty commercial axle business, this expanded joint venture will supply front and rear beam axles to several leading Chinese light truck manufacturers, including JAC and BAIC Foton, making AAM the second largest axle supplier in China's light commercial truck segment. Sales for this unconsolidated JV were approximately $181 million in 2013 and are expected to nearly double in the next five years.

- Approximately 35% of our $900 million of new and incremental business backlog launching from 2014 to 2016 is for end use markets outside the U.S. and approximately 70% has been sourced to our manufacturing facilities outside the U.S.

Achieve solid financial performance to build value for our key stakeholders.

- Over the past three years, AAM's compound annual growth rate (CAGR) for sales has exceeded the growth rate of the industry. We expect AAM's new and incremental business backlog to drive our sales growth to exceed a targeted 10% CAGR through 2015. This is more than double the rate of growth expected for the industry, which is expected to grow by less than 5% based on current industry estimates.

- We have established a cost competitive, operationally flexible global manufacturing, engineering and sourcing footprint by re-aligning our global installed capacity to increase our presence in global growth markets, support global product development initiatives and establish regional cost competitiveness. This includes having manufacturing facilities in Brazil, China, India, Mexico, Poland, Scotland, Thailand and the U.S.

- In 2013, we successfully closed on over $1.25 billion in new and amended financing agreements. As a result, we reduced our weighted average interest cost, extended our debt maturities and improved debt covenant terms and conditions. By taking advantage of favorable market conditions, we improved our flexibility to manage and grow our business and to support AAM's long-term strategic objectives.

Competition and Strengths

We compete with a variety of independent suppliers and distributors, as well as with the in-house operations of certain OEMs. Our principal competitors include Dana Holding Corporation, GKN plc, Magna International Inc., ZF Friedrichshafen AG, Linamar Corporation, Meritor Inc. and the in-house operations of various global OEMs. The sector is also attracting new competitors from Asia, some of whom are entering both of our product lines through the acquisition of OEM non-core operations.

With a focus on engineering and manufacturing, we support our business strategy and differentiate ourselves through outstanding long-term daily track records on quality, reliability, delivery and launch performance. We reduced our discrepant PPM performance, as measured by our largest customer, from 13,441 PPM in 1994 to an average of less than 10 PPM for the last 10 years.

We have converted our former fixed legacy labor cost structure to a highly flexible, competitive and variable cost structure.

We continuously evaluate the need to rationalize excess capacity through consolidation, divestiture, idling or closing facilities to maximize productivity and capacity utilization and further minimize operating and overhead costs. This is evidenced by the following actions:

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In 2012, we closed DMC and CKMF upon the expiration of our collective bargaining agreement for these locations with the International UAW. The programs previously sourced to these locations were moved to our market cost competitive North American facilities. DMC's business was resourced to Three Rivers Manufacturing Facility, our largest U.S. manufacturing facility, and CKMF's business was resourced to our facilities in Indiana, Ohio and Mexico.

- In 2011, we closed our Spurrier Manufacturing Facility in England.

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All of our global facilities utilize the AAM Manufacturing System, a business philosophy focused on lean manufacturing designed to facilitate cost reductions, improve quality, reduce inventory and improve our operating flexibility. This philosophy is demonstrated through the following:

- Ability to drive home the benefits of market cost competitiveness and productivity initiatives - our Three Rivers Manufacturing Facility was named one of the 10 best plants in North America by IndustryWeek Magazine, which recognizes North American manufacturing facilities that foster productive and competitive work environments and optimize customer satisfaction. The AAM Manufacturing System and associate involvement were noted as key enablers for the plant to be awarded new business.

- Recognition for demonstrating outstanding achievements in manufacturing processes, quality enhancements, productivity improvement and customer satisfaction - our Guanajuato Manufacturing Complex is a prior "Shingo Prize" award recipient for Manufacturing Excellence, which focuses on lean manufacturing techniques and promotes world-class business performance through continuous improvements in core manufacturing and business processes.

Industry Trends

See Item 7, “Management's Discussion and Analysis - Industry Trends.”

Productive Materials

We believe that we have adequate sources of supply of productive materials and components for our manufacturing needs. Most raw materials (such as steel) and semi-processed or finished items (such as castings) are available within the geographical regions of our operating facilities from qualified sources in quantities sufficient for our needs. We currently have contracts with our steel suppliers that ensure continuity of supply to our principal operating facilities in North America. We also have validation and testing capabilities that enable us to strategically qualify steel sources on a global basis. As we continue to expand our global manufacturing footprint, we will rely on suppliers in local markets that have not yet proven their ability to meet our requirements.

Research and Development (R&D)

We continue to invest in the development of new products, processes and systems to improve efficiency and flexibility in ou