AMPCO-PITTSBURGH CORPORATION

Moderator: Dee Ann Johnson
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Operator: This is Conference #: 94581406

Operator: Good morning. My name is Candace and I will be your conference operator today. At this time I would like to welcome everyone to the Ampco Pittsburgh Corporation acquires Akers AB conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. If you would like to ask a question during this time, you may simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, you may press the pound key.

There will be further instructions with the question and answer session when it comes to that time. Thank you. Masha Trainor, vice president and general counsel, you may begin your conference.

Masha Trainor: Good morning everyone, and welcome to our call. With me today are John Stanik, our chief executive officer, and Dee Ann Johnson, our chief financial officer. Before we begin I need to make the following reminder regarding forward-looking information.

Statements or comments made on this call may be forward-looking and may include financial projections or other statements of the corporation's plans, objectives, expectations, or intentions. The corporation's actual results may differ significantly from those projected or suggested in any forward-looking statement due to a variety of factors, including those discussed in the corporation's most recently filed form 10k.

We do not undertake any obligation to update or otherwise release publicly any revision to our forward-looking statement. I will now turn this call over to our chief executive officer, John Stanik.

John Stanik: Thank you, Masha. Good morning everyone. I'm going to begin by summarizing why Ampco Pittsburgh is working on this deal and hoping to bring it into close. First of all, I think it's very important to say that we are very, very excited about joining these two companies together.

This is a deal that brings the top two competitors together, which are recognized for product performance, technology, and customer service. It's a deal that's driven by significant synergies and cost reduction, geographic expansion, technological advance, and complementary products.

It's very attractive to us because it's accretive in year one. It conforms to our strategic plan to stabilize our roll business, and to increase its profitability. And it firmly establishes us as a global player. It benefits us in the short-term while our market is depressed, and of course, it will benefit us even more after the market recovers.

A little bit of background. Akers was formed in the late 18 – in the late 1500s, and began making rolls in the early 1800s. So, it's been around for a long, long time. It's a large producer with excellent technology. It has approximately 850 employees. Its revenue in 2014 was approximately $190 million.

We're acquiring four manufacturing locations. One in Sweden, one in the United States, one in Slovenia, and at joint venture in China which Akers maintains a controlling interest of 60 percent. The company is known for making both forged and cast rolls, and a separate service business that is not one of the four locations I mentioned, is also being added. A company named Vertical Steel, which is located in Pennsylvania.

So, if I were able to show you a map, and sometime in the near future I will do that, you will see that the company is really transformed to a company that competes throughout the world. And very importantly, establishes a real center of strength in the Asia Pacific region where, let's face it, the majority of the market exists.

The acquisition adds to us 14 new sales offices – some in Brazil, Germany, Turkey, Egypt, Singapore, China, of course, and a full complement of sales personnel. One of the most important and best features of the acquisition is its complementary nature. Prior to this acquisition, the company had certain limitations for types of products, sizes of products, and the steel mill or aluminum mill location for where those products are used.

After this acquisition there will no longer be any gaps in our product portfolio. So, just to say it in different words, now we're represented everywhere in the world regionally. And now, we're represented in every type of mill with every type of product. It's a very important piece of this justification.

Also, something that's extremely important is – and you probably noticed this – the acquisition brings two low-cost manufacturing centers. So, for the first time, our corporation will be able to offer customers high-performance, high-technology rolls at a price, and lower-cost rolls to customers who are interested in buying on price.

One of the things that we'll be doing, of course, is optimizing our pricing strategy so that we take advantage of the opportunity to provide to the customer what they want, which should drive our margins up beginning next year.

As you would expect, and as I mentioned earlier, combining these two competitors in the – from the same industry provides significant synergies. While we think that capturing these synergies could take up to a year, or maybe 15 months, and cost perhaps as much as $5 million or $4 million to make them real, we expect to realize cost reductions in other types of synergies that will be valued at roughly $15 million, or perhaps even more.

So, that's why I say when you consider that timeline that I just mentioned, and the potential synergies, even including the costs, the net effect in 2016 is accretive, and the synergy value will grow in the years following 2016 as there are no longer costs to offset them.

A couple of other reasons why Ampco Pittsburgh should buy Akers. I mentioned it brings a profitable Asia and China business, establishing a strong center. One of the things we'll be working on is how can we utilize Ampco Pittsburgh's joint ventures and this joint venture to further our Asian Pacific strategy.

It adds cast roll manufacturing to the United States, where we didn't have any. It adds forged roll supply to Europe, where we didn't have any. It adds a low-cost forged roll manufacturer from Eastern Europe.

It provides us with potential currency balance. It adds new products, as I mentioned before – new sizes. Obviously, it brings more depth to our bench for personnel. And, it gets us an introduction in the service business.

I'll talk a little bit about the deal, which we're financing, incidentally, primarily with cash – at least step one of that deal. The purchase price is split into three parts. A $30 million cash price that will be paid at closing. Twenty million dollars in shares of Ampco common stock, which depending on the share price and the terms of the contract, will probably result in a 15 percent to 17 percent dilution. That's an estimate, of course.

The reason that the seller, Altor, wanted shares is because they believe that there's significant upside in the combination of these two companies. The third piece is a 3-year note, which will be paid three years from closing that will amount to $30 million at a compound interest rate of 6.5 percent, which will amount to roughly $36 million to $37 million at maturity.

Not a lot of extra capital necessary at this point in time. There is some. In fact, our capital expenditures over the next three years are going to average about $19 million. And if you take Union Electric Steel's history and compare that to Akers' history, it roughly equals a doubling. So, we're adding four plants to our four plants.

There's not a real capital intense situation here, so our $9 million to $10 million a year typical expenditure becomes $19 million roughly, so not a capital issue. Not an extraordinary amount of capital that's necessary. That is about $1 million to $1.5 million more than our depreciation, but in the third year in 2018 we are almost back to our depreciation level.

An important question is, what are we going to do with the companies? I'm a firm believer in integration, so after closing, the companies will be integrated beginning immediately. We're working on the plan to do this as we speak, and it will be done as quickly as possible, but as prudently as possible, so that we capture all the value that we believe can possibly come with the acquisition.

In the first three months we'll go through a brief, but thorough, analysis period to analyze all of the programs that we plan to put in place. Naturally, we will meet with customers. We're beginning that already, even before closing. We want to make sure that customers understand our rationale and the extended capability that each of the companies now have as they come together.

We will begin to form a new R&D organization – a stronger one. One that takes the new products that we were developing, and adds the new products that Akers was developing. We will begin to develop a working capital program to ensure that we maximize our cash flow and optimize where our investments are made back into the business. That plan will be done sometime before the end of the second quarter next year.

One of the things that we're going to need to do, and as you would expect bringing two companies together that do pretty much the same thing gives us the opportunity to reduce the overhead expense of the individual companies as they come together. However, we need to create a centralized back office function in Europe. Ours is extremely limited.

The amount of European complexity and capability that bring – that Akers brings to us is going to require typical back office functions like financial, and HR, and IT, et cetera, to be formed and networked within the Ampco Pittsburgh corporate centralized back office functions.

As we get into the second quarter, we'll complete that capital – net working capital improvement program that I mentioned, and we'll begin an Indian and Asian strategic planning process which we'll complete before the end of the year to make sure that we are strengthening our self in that very important and growing region in the world.

This acquisition is the second part of a three-part strategy to improve Ampco Pittsburgh Corporation, to grow our profitability, and to be a world class global growing company. Step one, which is complete and was worked on all during this year, was to reduce the Ampco Pittsburgh Corporation costs, to centralize its overhead functions and to set a strategy.

The second step, and the one that we're making significant progress with here – so the one I'm emphasizing – is to stabilize and optimize the Union Electric Steel portion of the corporation, which is roughly two-thirds of corporate revenue, while increasing our geographic footprint, and complementing our product portfolio regionally to become the undisputed, number one, high-performance roll company in the world. And I believe, honestly and truly, that we will accomplish that very soon after closing.

Step three, which we're currently still working on, is our diversification strategy, which hopefully we'll talk about not too far into the future. I'll close by summarizing with a few remarks as to why we did this, and I'll hopefully present them in a slightly different way.

First of all, it lowers our costs significantly as a combined entity. It provides us with low-cost supply from Eastern Europe and China. It provides with a profitable majority-owned joint venture in the Asia Pacific region. It provides complementary products for our customers in North America, Europe, Central Europe, and Asia.

It strengthens our technology, and our future technology. It deepens our bench strength as we evaluate and select top people from the combined management pool. And, last but not least, it improves our currency flexibility which has been a significant problem for us in 2015. So, that is a brief summary.

I'll close by saying that, and repeating, that we are extremely excited about this. We're working very hard to get to closing. There are numerous filings and things that need to be done that are customary in an acquisition like this, but hopefully we'll complete those by the end of January or sometime in the first half of February. So, I – that concludes my comments, and we'll take questions at this time, Candace.

Operator: Certainly. I would like to remind everyone in order to ask a question simply press star, then the number one on your telephone keypad. Again, that is star, then the number one on your telephone keypad. You will be allowed one question and one follow-up question, and then will be transferred back into the que if you have further questions.

Your first question comes from Albert Sebastian, from Prospect Advisors. Mr. Sebastian, your line is open.

Albert Sebastian: Good morning.

John Stanik: Good morning, Albert.

Albert Sebastian: Yes. Can you just indicate what the EBITDA was associated with the – with the acquisition for 2014?

John Stanik: Yes, difficult to do that. One of the things I didn't mentioned was we did not buy the entire corporation. We carved out certain entities that we weren't interested in. However, excluding those, a rough approximation is its EBITDA was basically break even. Altor was in a process of restructuring the organization and improving its financial performance, much as we were in 2015.

But, unfortunately, they're suffering from the same market difficulties that we are in terms of sales being unable to balance costs. So, that was a driving force behind the combination of the two companies, whereby even in this depressed market we expect to be profitable.

Albert Sebastian: OK, and are there any regulatory issues concerning antirust that might occur?

John Stanik: Well, it – that's an interesting question, and a good question. We really haven't changed the competitive landscape. For example, I mentioned in North America we didn't have cast roll capability – manufacturing capability. Our cast roll manufacturing capability was in the United Kingdom. So we haven't changed competition at all in North America.

And in terms of Europe, Akers did not have a United Kingdom manufacturing capability. Their cast manufacturing was in Sweden. So, there isn't a significant loss of competition anywhere. However, having said that, we are voluntarily filing in one jurisdiction. We don't expect – it's a marginal – it's a marginal case. Actually it's not even marginal, but we're doing it, nonetheless, because we don't want any surprises. But, we expect no problems.

Operator: And your next question comes from the line of Jarrod Cohen, from JM Cohen & Company. Mr. Cohen, your line is open.

Jarrod Cohen: Well, actually, my question was answered, but on a more normalized business, what would you say their EBITDA should be?

John Stanik: Well, I – let me see. How do I answer that? I think based on the depressed conditions and their restructuring plan that was supposed to be completed in '17 – or, at the end of '16, they would have roughly equaled ours, which is about $10 million this year. So, the combined companies, on a – on a – whatever normalized means. I'm not sure what that means, Jarrod, but…

Jarrod Cohen: A margin basis. That's what I was trying to get – trying to get a rough idea – like I was thinking around 5 percent on a normalized relative to revenue.

John Stanik: What do you think, Dee Ann? I think you know we expect on day one from – with the carve-outs and with the restructuring, it's a $20 million EBITDA. We're going to improve that with the synergies by a roughly a net of 10 or more, so I don't have that data. I don't think Dee Ann has that data in front of her either, but it will be single digit I'm sure.

Jarrod Cohen: OK.

John Stanik: But that's just a jumping off point.

Dee Ann Johnson: Yes.

Jarrod Cohen: That's the combined entity, or just the entity by itself?

John Stanik: That's the combined, but I think that – how do you answer this? If you combine the two companies they become profitable under the pro forma models that we created.

And the accretion that the combination delivers – the expected profitability that UES had projected in its strategic plan for 2016 – I mean multiplies. So – and multiplication is better than addition. So, that's about the best answer I can give you at this point.

Jarrod Cohen: OK. All right. Thank you very much.

John Stanik: Yes.

Operator: Your next question comes for the line of Scott Blumenthal, from Emerald Advisers. Your line is open.

Scott Blumenthal: Good morning. Thank you for taking my call, John.

John Stanik: You're welcome, Scott.

Scott Blumenthal: John, I understand that this is a relatively fragmented industry, and you did mention that this is going to – the combination is going to create the leader in the industry. Can you maybe give us an idea as to what you think the combined entity share would be? Maybe the second largest competitor. And also, I guess, why it is that you didn't want the rest of the Akers organization with this acquisition.

John Stanik: OK, two questions. The first question, you'll be surprised at the numbers I'm going to mention to you. And I'll have to begin by explaining that there are really two types of rolls – forged rolls and cast rolls. And you heard a little bit about that in my – in my remarks.

UES, or the division of Ampco Pittsburgh that sells rolls, was the lead – had the leading market share in North America, which I would guess would be somewhere in the 30 percent range. And had a much, much lower percentage in the cast roll market in North America – low single digits perhaps, or mid-single digits roughly.

The converse was true. Even though the French entities that we chose not to acquire made forged rolls, Akers strength in Europe was cast rolls, where they were the market leader. I don't know – I don't remember off the top of my head the exact number, but let's say it's a little bit less than what our forged roll was here. And we were a player in forged rolls in North America.

Not a small player, so I think we were probably number two – number three at worst. So, my point earlier is you know you're talking about a business that's well – well, well below 50 percent in both of those regions. There's a reason for that. Many of the large steelmakers, our customers, have rules in place in this industry about a maximum percentage that they internally allow themselves to award to one company, which helps the situation ironically, and holds down strong market share.

Regarding your second question, we excluded the French operations and the Belgian operation. The Belgian operation has a virtually identical operation in Ampco Pittsburgh in Erie, Pennsylvania, so it was completely redundant and unnecessary. So we chose not to invest there.

And secondly, the French operations we viewed as being less competitive from a cost standpoint, and chose to strengthen the Slovenian operation and perhaps ship from North America forged products – or from Asia, forged products, as opposed to keeping those operations and trying to restructure them and improve them beyond the very strong effort that I think Altor already had put into trying to improve those organizations.

Scott Blumenthal: Got it. Thank you.

John Stanik: You're welcome.

Operator: Your next question comes from the line of Justin Bergner from Gabelli & Company. Your line is open.

Justin Bergner: Good morning, John, and congratulations on the deal.

John Stanik: Thank you, Justin.

Justin Bergner: I just had a couple of quick clarification questions to start. The EBITDA that you mentioned would break even for Akers. That a '14 number?

John Stanik: Yes. No, no, that's a '15 number. Is that a '15 number? '15 number.

Dee Ann Johnson: Yes, for the nine months.

John Stanik: Yes. Based on that first nine months, that's a '15 number and projected through the end of the year.

Justin Bergner: OK, good. That's helpful. And then secondly, which country are you going to have to file in?

John Stanik: U.K. We don't have to, it's voluntary. But, it's the U.K.

Justin Bergner: OK, and then third, when you were mentioning that Akers market share is near your level in Europe, were you referring to forged or cast rolls?

John Stanik: Cast – cast, in that example.

Justin Bergner: OK, so the higher market share of the combined entity in Europe would be in cast versus forged?

John Stanik: Correct.

Justin Bergner: OK, great. Thank you. And then, in terms of the stock issuance, could you give us a range or specifics as to you know what sort of is the minimum and maximum number of shares that could be issued?

John Stanik: Well, it's $20 million. Perhaps I wasn’t clear. It's $20 million divided by the stock price 10 days – the average of the stock price 10 days before the signing and 10 days after the signing. So – and I did the quick math at, I think – I chose yesterday's closing number which put it at roughly 17.2 percent.

I can't remember what the number of shares is. And then, who knows, hopefully the stock is going to climb, so we'll see – we'll see what the low end of the range is. But, I think my range of 15 to 17 percent is probably realistic. So that would be 1.5 million shares – 1.6 million.

Operator: And your next question comes from the line of (John Waltheson) from (Waltheson & Company). Your line is open.

(John Waltheson): Yes, good morning.

John Stanik: Good morning.

(John Waltheson): Two questions. With the stock issuance, then will the sellers have representation on the board?

John Stanik: Yes, and we're looking forward to that. We have a major amount of respect for Altor. They are the people that we have dealt with – have deep European experience, a very significant amount of business savvy. And personally, I'm really looking forward to having a greater European representation on the board since such a large amount of our revenue will be derived from that region of the world.

(John Waltheson): Good, good. In your strategic presentation a couple of weeks ago you stressed that it was very important in this business to have made consistent investments in the business, both in the facilities and in the new product developments. How would you rank their efforts against Union’s?

John Stanik: In terms of new product development, candidly, they may have been just a little bit more successful than us. And on the capital investment side, perhaps just a little bit less successful than us, which is why you know we're putting in maybe $1 million more a year than customary. That might be a little unfair to say that because – and I just should mention, we were very, very thorough in our due diligence – very thorough.

And we did not find significant problems anywhere. However, there are some things that we would like to do just a little differently. Their manufacturing process is fundamentally the same as ours, but there are small differences, as you may expect, between the companies. We don't know which way that's going to go.

There are certain – there are certain advantages to the things that they do that we think could drive our costs down significantly below what I mentioned in the synergies. So we have to – we want a little bit of financial flexibility there to see exactly what we can do on the manufacturing side with the combined company.

Operator: As a further reminder, to ask a question you may press star and then the number one on your telephone keypad. Your next question comes from the line of Scott Blumenthal from Emerald Investors. Your line is open.

Scott Blumenthal: Thanks for taking my follow-up, John.

John Stanik: No problem.

Scott Blumenthal: You did mention that you were very excited about being able to get into the services business – something that you're not participating in right now. Can you talk a little bit about the services business that's coming with the acquisition? What portion of the revenue of the acquired company is in services, and what you think that the potential for that business is when applied to your existing UES customers?

John Stanik: Yes, we – rolls are consumables, but they are consumed over a period of time. So, as rolls are utilized they undergo deterioration. And all steelmakers have internal capabilities to remachine and revitalize rolls before they are tossed or sold back to companies like us as scrap to be remade into new rolls. Vertical Steel also does some other things that help the steel – the steelmakers.

We need to study that capability. It's a relatively small (op), and I have a pretty significant service background in my previous life at Calgon Carbon, so I'm always very excited about the opportunity to bring customer service, especially to an industry such as this one where they're trying to cut costs and limit the number of people that they have as full-time employees.

So, I guess the short answer and the candid best answer to give you, Scott, is that we have to study this business – look at it regionally. It's located in the United States. It may fit a little bit with our acquisition, from July, of Alloys Unlimited. We don't know that for sure. It may not. But it's going to start small. It's going to not have a significant impact in the financials in the beginning.

But we need to look at strategy to see what we can do with it, and see how big we can make it. At Calgon, our service business became roughly the same size as our new product sales. So, I'm hopeful that we – that we can do something with this business, be innovative, and be first at offering some service that our competitors don't offer.

Scott Blumenthal: OK, and I guess part of my question was the portion of the acquired business that is represented by services. Would you have that number or be able to take a guess at what you think that might be?

John Stanik: We don't have it in front of us, Scott. We can – we can get it to you if you send me your e-mail address. We have it here, but we don't have it with us. I want to say it's like $20 million. Yes, Dee Ann's going to get it, and so if we have a couple more questions maybe you can – I'll make the announcement, Scott, when she comes back.

Operator: Excellent. Your next question is from (Greg Venit), a private investor. Your line is open.

(Greg Venit): Thank you for taking my call. The genesis of the deal – did they approach you or did you approach – could you give us a little background how possibly this came about?

John Stanik: We were approached back in the early part of the year – roughly the end of the first quarter. And, I think Altor had done some research. Of course, we like to think that we understand our competitors, so we had a significant level of respect for them. So, we were immediately interested and we began to discuss the possibilities.

And roughly mid-year we started to consider the financial benefits of bringing the two companies together, and what they potentially might be, and started to work on refining those estimates. And it was a snowball rolling down a steep hill.

(Greg Venit): I see that they bought this business, I believe, in 2008. Did they buy other businesses and put it together, or are you buying – are you participating in what they purchased in 2008?

John Stanik: I think they purchased Akers at that time, and the French entities, the Belgian entity, I think, was a part of the company at that time. There were, I think, at least one or two other manufacturing sites that they acquired at that time that they subsequently closed, thereby taking some capacity out of the industry.

But – and Altor is a private equity company, so this is what they do to a certain extent. So, beyond that I really don’t know much about the details. We looked at the history of the company during the process, and nothing sticks out in my memory other than what I just said.

(Greg Venit): Do you know – the plants that you're not going to take – the plants that you're not going to acquire, like in France and the other locations – do you know what's going to happen to those? Are those going to be competitors of yours, or do you think they'll ultimately be shut down?

John Stanik: Well, there are a few facilities involved, and it's really difficult to speculate what will happen, so I'm reluctant to do that. As I mentioned, the entities in France were less competitive from a cost standpoint. I think that's a pretty significant disadvantage. And as I also said, Altor has worked very hard at trying to restructure that business to make it more profitable.

So, I think they have certain disadvantages, but in this business it's impossible to say what will happen to companies. Some people try to revive them. Some companies go away for, perhaps, a short period of time and resurface with a different idea. But they certainly won't have scale in terms of our current and future competition as compared to them. They would be a very small entity, at best.

Operator: Your next question comes from the line of (John Waltheson) from (Waltheson & Company). Your line is open.

(John Waltheson): Oh yes, a quick follow-up. Based on our earlier discussions, is it wrong to conclude that purchase price was more based on the value of the assets, rather than an expected EBITDA?

John Stanik: Yes, it is, (John). We – Altor was a difficult negotiator. They believe in this business. They believe that there's significant value in this business. We're a public company with a board of directors and shareholders, and it was a difficult negotiation process.

And the reason that we got to this very, very attractive price, I believe, is because of the market condition. And, only because of the market condition. You know I think that in normal times this deal would have been, perhaps, a lot more expensive.

(John Waltheson): Good, thank you. That's very helpful.

Operator: Your next question comes from the line of (Aron English) from ECP. Your line is open.

(Aron English): Hi, John. Thanks for taking the call.

John Stanik: My pleasure.

(Aron English): Just wanted to talk a little bit about the dividend policy going forward, and how the acquisition now will, or will not, impact cash flow specifically. Are you guys looking to be cash flow positive in 2016?

John Stanik: I really can't answer that question, or at least I don't want to at this point. There's other things that we're working on as part of our strategy that could involve the answer to that question. I will say that we have a substantial amount of cash. We are in the process of putting a – an asset-based loan together with three banks.

And we expect and project, at this time, to have a significant amount of cash on the books at the completion of any and all acquisitions that we complete in the – in the near future. So, we're expecting to be somewhere between $60 million and $65 million in cash to handle everything that we need to handle, including capital expense, and asbestos payments, and dividends.

The board is considering a number of things right now. We're considering share buybacks because we feel the share price is tremendously undervalued at this point. That's our opinion, so we're considering that. We haven't reached a decision yet. We are talking about the dividend, to be candid about that, but I would not say that we're close to making a decision.

My recommendation to the board, as I've said previously, is that the dividend should stay in place as – until we have a better thing to invest our money in because our shareholders have not enjoyed the kind of success that we want them to enjoy. So, I don't know exactly where that's going to come out in the future, but we'll let you know as soon as possible. And I can tell you that we'll probably talk about it at our next board meeting in December.

Operator: There are no further questions at this time. At this time, I do conclude today's conference and I thank everybody for your attendance, and enjoy the rest of your day. This concludes today's…

John Stanik: Before you break – before you break, Candace, we owe an answer to Scott. So, go ahead…

Operator: Oh, I'm so sorry. Please go ahead.

John Stanik: No, that's OK.

Dee Ann Johnson: That's OK. This is Dee Ann Johnson. The U.S. operations represent roughly 30-35 percent of the sales of the company that we've acquired.

John Stanik: And the Vertical Steel piece is buried inside that number.

Dee Ann Johnson: Yes, a portion of that.

John Stanik: Yes. We haven't been able – we're not able to dig that out during the call, Scott. We'll dig further and let you know. OK, Candace, thanks. Sorry for the interruption.

Operator: No, no, not at all. Thank you. Again, this concludes today's conference call. Thank you all for your attendance. You may now disconnect.

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