Ampco-Pittsburgh Corporation

First Quarter 2017 Results Conference Call

May 9, 2017 at 10:30 AM Eastern

CORPORATE PARTICIPANTS

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John S. Stanik - *Chief Executive Officer*

PRESENTATION

Operator
Good day welcome to the Ampco-Pittsburgh Corporation First Quarter 2017 Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal, a conference specialist by pressing the star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. Please note that this event is being recorded.

I would now like to turn the conference over to Melanie's Spowson, Director of Investor Relations. Please go ahead.

Melanie Spowson
Thank you, Chad, and good morning to everyone joining us on today's first quarter conference call. I'm joined by John Stanik, our Chief Executive Officer, and Mike McAuley, Vice President, Chief Financial Officer, and Treasurer.

Before we begin, I would like to remind everyone that participants on this call may make statements or comments that are forward-looking and may include financial projections or other statements of the Corporation's plans, objectives, expectations or intentions. These matters involve certain risks and uncertainties, many of which are outside of the Corporation's control. 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 10-K and subsequent filings with the Securities and Exchange Commission. We do not undertake any obligation to update or otherwise release publicly any revision to our forward-looking statements.

A replay of this call will be posted on our website later today and remain available for two weeks following the conclusion of the call. To access the earnings release or the webcast replay, please consult the Investors section of our website at ampcopgh.com.

Now let me turn this call over to Mike who will provide an overview of the Company's financial performance for the first quarter.

Michael McAuley
Thank you, Melanie. Good morning, everyone, and thank you for joining our call. Before I begin discussing this quarter's results, I'd like to remind our listeners today that comparisons to prior periods are still heavily affected by the acquisitions we made in 2016. We have not yet completed a full year with the Åkers group in our portfolio, which we acquired March 3, 2016. So, we have one month of overage results in Q1 last year versus a full quarter this year. ASW Steel was acquired in November of 2016, so we have ASW's results fully in this quarter versus none in the prior-year quarter.

Net sales for the Corporation for the first quarter of 2017 were $103.5 million. This compares to net sales for the first quarter of 2016 of $63.6 million. Net sales in the Forged and Cast Engineered Products segment nearly doubled compared to prior year, driven primarily by the inclusion of the acquired Åkers and ASW businesses. The higher amount of sales year-on-year related to these acquisitions was approximately $32.6 million. Net sales for the Air and Liquid Processing segment for the first quarter of 2017 approximated their Q1 2016 level. I'll provide more detail on the business segments in just a moment.

Selling and administrative expenses were $15.3 million, or 14.8% of net sales for the first quarter of 2017 compared to $13.5 million or 21.2% of net sales for the first quarter of 2016. The increased expense is primarily related to the full-quarter effect of the acquired businesses this year versus only one month of Åkers included last year, offset in part by approximately $1.8 million in acquisition-related transaction expenses incurred in Q1 last year. Depreciation and amortization expense of $5.9 million for the first quarter of 2017 is up $2 million versus the prior year, primarily due to the inclusion of the acquired companies. Our new heat treat facility at the Harmon Creek plant was also brought online in late 2016.

Loss from operations for the first quarter of 2017 was $2.4 million. This compares to a loss from operations in the prior year of $5 million, which included the Åkers acquisition related costs of approximately $1.8 million, as well as the purchase accounting impacts of $1.6 million. Despite recent improvement and order intake in both cast rolls and in forged engineered products for the oil and gas industry, the current quarter operating loss reflects a lag for completing roll orders due to a lack of manufacturing manning in January and February. John will explain this further during his portion of the presentation.

Other expense net for the first quarter of 2017 exceeded prior year due primarily to higher interest expense of approximately $0.9 million related to the acquisitions of Åkers and ASW, as well as foreign exchange losses of $1.1 million dollars in Q1 '17 compared to foreign exchange gains of $1.2 million in Q1's 2016.

Despite the loss before income taxes, the Company recorded a small tax provision rather than a benefit due to the full valuation allowances still in place for most of the Corporation's tax entities, having triggered three-year accumulative loss positions in 2016. As a result, the Corporation incurred a net loss of $4.8 million or $0.39 per common share for the first quarter of 2017 compared to a net loss of $2.9 million or $0.26 per common share for the first quarter of 2016.

Now, moving to our operating segment results. Net sales for the Forged and Cast Engineered Products segment for the first quarter of 2017 nearly doubled compared to prior year. Approximately 80% of this increase is attributable to the full quarter effect of the Åkers acquisition completed March 3, 2016, and the addition of ASW Steel acquired in Q4 of 2016. The balance of the increase is due to a combination of higher sales of both forged and cast rolls, as well as other forged products for the oil and gas industry. Operating results improved from the prior-year quarter, which included unfavorable purchase accounting effects of approximately $1.6 million.

Net sales and operating income for the Air and Liquid Processing segment for the first quarter of 2017 were comparable to the prior-year quarter. For the current year quarter, net sales of centrifugal pumps increased roughly 18% on a higher volume of shipments to U.S. Navy shipbuilders. Net sales of air handling units declined principally due to timing of shipment releases. Sales of heat exchange coils remained comparable with prior year.

Backlog at March 31, 2017 approximated $258 million, a 10% increase from the $234 million in backlog at December 31, 2016. The increase is primarily from higher order intake, particularly in cast rolls and frac blocks.

Now taking a look at some of the key balance sheet accounts. Accounts receivable at March 31, 2017 increased approximately $2.9 million from the balance at December 31, 2016, given higher sales, offset in part by collection of older receivables and some mix changes. Inventories at March 31, 2017 increased approximately $8.7 million from December 31, 2016. The inventory build is primarily due to increased production levels in the Forged and Cast Engineered Products segment, on higher order booking levels, and the anticipated idling of the foundry at the Avonmore, Pennsylvania cast roll facility, which was taken down on April 1.

Accounts payable at March 31, 2017 increased approximately $5.1 million from the balance at December 31, 2016, reflecting the higher level of production. Cash and cash equivalents of $21 million at March 31, 2017 declined $17.6 million compared to December 31, 2016 that balance of $38.6 million. Some selected significant uses of cash during the quarter included the retirement of the revolver balance and term loan debt assumed in the ASW Steel acquisition of approximately $8 million, inclusive of early repayment fees, the inventory build in the quarter of nearly $9 million, capital expenditures of just over $3 million in the quarter. I'd like to also indicate that in addition to its cash balance, the Corporation has significant undrawn availability on its revolving credit facility of approximately $57 million for a combined total liquidity of $78 million at March 31, 2017.

I'd now like to turn the call over to John Stanik. John?

John S. Stanik
Thank you, Mike. Good morning. There are certain items of the first quarter that I would like to amplify and provide more detail. The most positive development in the first quarter occurred within the two largest markets of our Forged and Cast Engineered Products segment. From our March call, you may remember that I reported that roll bookings were up significantly and fracking block inquiries were very strong. The weak demand for cast rolls in 2016 has dramatically reversed itself in the fourth quarter and continued that trend throughout Q1. In fact, for the two cast roll plant operations that we currently have fully operational, we are fully booked well into Q3. Likewise, forged roll bookings have also been strong and forged and cast engineered products manufacturing is at current capacity throughout the second quarter and well into the third quarter.

Also during Q1, fracking block inquiries increased through the three months, and did as well again in April. Thus, we are building a fairly significant backlog of open die block orders. As we review first quarter revenue and compare it to first quarter revenue from 2016, it's clear, as Mike mentioned, that the two additional months of Åkers' revenue—January and February—and the addition of ASW, were responsible for most of the sizable increase year-over-year for our Forged and Cast Engineered Products segment. However, I want to point out there were also substantial organic sales growth, $7.5 million, or approximately 18%. Bookings for our Air and Liquid Processing segment were also favorable in Q1, up roughly 10% compared to a year ago at this time.

So, 2017 revenue potential is very attractive at this time and I remain cautiously optimistic about the outlook for the near-term future. All indications are that steel producers throughout the world expect to maintain the current level of operation throughout the remainder of this year and into next. It has been profitable for most of them in the Western half of the world. This is evidenced to us by the number of orders we are already receiving for 2018.

Let's talk about Q1 manufacturing for a few moments. During 2016, with the lower level of orders being placed, we were in the mode of reducing operations and, therefore, reducing headcount. The unexpected and sudden surge of orders in late 2016 presented a problem for us in January and early February, especially in forged rolls, because we needed to add manufacturing personnel to handle the load. We accomplished that, but not until February. Therefore, January's performance was weak and constituted more than 80% of the Q1 operating loss, 80%. Now I'm pleased to say that we are fully manned and operating smoothly.

On the cast roll side, we were compelled to delay the Avonmore idling for the same reason, lack of manning to complete roll production. But as Mike said, on April 1 we begin idling the foundry there and are continuing to work our way through idling the remainder of the plants. At this time, even with the current backlog that we have, we do not see a need to return the foundry to operation in Avonmore, most likely through the third quarter. I have mentioned in previous calls, as a result of the idling, there will be fixed cost absorption variances and benefit cost charges beginning in April, which will hit the remainder of the idling time and in the first six months of idling. These charges could exceed $1 million per month, but they should somewhat be mitigated by higher utilization of our two remaining cast roll plants.

Margin. Comparing margins in the fourth quarter of 2016 is not meaningful. There were so many charges in Q4 of last year that served to lower the gross margin and did not reoccur in the first quarter that, of course, we should've been more than 500 basis points better. Rather, it's more useful, I believe, to compare margin for the first quarter with the average margin of year 2016. Based on that comparison, Q1 of 2017 is 150 basis points better. This improvement is mainly due to the capture of synergies from the acquisition and cost reduction programs during 2016. As I told you in March, we do not expect price increases to impact gross margin until late in the second quarter or early in the third quarter when shipments under the contracts entered into late last year begin to be delivered.

Other noteworthy elements in the financial comparison year-over-year include the effects of currency. In Q1 of 2016 there was a foreign currency exchange translation benefit of $1.2 million versus a loss on foreign exchange of $1.1 million in Q1 of 2017. That's a negative $2.3 million swing year-over-year. Additionally, last year we were able to claim income tax benefits of $850,000 in Q1. As you know, since Q3 of 2016, we're not permitted any longer to claim any tax benefits for non-profitable operations in Q1. That's nearly a $1 million detriment year-over-year on the net income line.

That summarizes the salient points about Q1's financial performance. So let's talk about a few other things and start with pricing. We continue to attempt to raise price on all proposals, the supplies to Air and Liquid Processing segment, frac blocks, as well as foraged and cast rolls. Raw material costs in the metals industry have significantly increased in Q1. We have partial coverage in the form of raw material surcharges that are automatically imposed for the roll business.

However, there is a lag between when we receive the associated benefit of the surcharges compared to when we accept an order and complete the manufacturing process, including the purchasing of the raw materials to make the product. That lag is anywhere from three to six months and it's one of the reasons our margins are not higher, or were not higher, in Q1. Our efforts to raise the price in all areas have been fruitful. This is true not only for 2017, but further increases are being added to most orders already being received for 2018.

On the cost side of manufacturing, we continue to vigorously apply lean manufacturing techniques to further capture manufacturing cost reductions, and we expect approximately $5 million more in net savings year-over-year from Åkers' integration synergies. Offsetting some of these cost reductions will be expenses for R&D and a very strictly reviewed addition of senior personnel to improve the Company's bench step and succession planning. We are expecting a level of attrition in the Company in the coming years due to age.

New product update. I mentioned on our March call that the Union Electric Steel-Åkers combination has been working on delivering new high-tech products for the roll industry. Our progress is continuing. Prototype test rolls have been installed for several months at a few steel manufactures in the Western world, and they have had strong performance success. We're presenting a technical presentation of these performance results to the industry this week at the AIST Conference in Nashville, Tennessee. The commercialization of these additional products are on target for the third and fourth quarters, with another product launching in the first half of 2018.

I think it's appropriate to say a few words about ASW, our November 2016 acquisition. The timing of the acquisition literally couldn't have been any better. Since ASW has joined Ampco-Pittsburgh, it has exceeded our expectations for generating positive operating income and providing the specialty metal that is needed to supply stainless steel frac blocks and other early advances into the open-die forged market. It's a well-managed, tightly run organization that has clearly learned and benefited from the financial struggles that it had suffer through in recent years. I'm very pleased with their early contributions to our Company and hopefully see their role expanding and having an even greater positive impact on our financial performance in the future.

Air and Liquid Processing. As usual, the Air and Liquid Processing segment performed well. However, in Q1, revenue was flat year-over-year. Operating income, on the other hand, increased by approximately 3% due to the strong management within that group. Aerofin continues to struggle to replace business due to weak market conditions of the coal-fired power plant industry, and Buffalo Air Handling's year-over-year reduced revenues were mainly due to scheduled project completion that was light in Q1 and will be stronger in Q2.

Two comments about cash. There's not a lot more to talk about regarding the review of the first quarter but some significant things did happen with our cash balance. Anytime the order book increases as much as it has for us, and forces the Company to step up manufacturing, more cash is necessary in the form of working capital, and that clearly happened in Q1. Also, significant, as Mike mentioned, we retired the $8 million debt that ASW had at its higher historical interest rate.

Looking ahead, Q2 revenue could be even higher than in the first quarter, unless there are unexpected delays or cancellations of orders. I always consider that possibility in looking ahead as it has happened to us in the past. I mentioned previously that there could be margin improvement. I expect that to be small compared to Q1 because, again, we don't expect significant price increase impact and there are the idling costs that will hit the entire quarter from the Avonmore plant, and they're substantial. The balance of these costs, with further improvements in our manufacturing cost structure, will determine the operating income generated in Q2. I will be disappointed if it is not better than Q1.

Summarizing the status of Ampco-Pittsburgh, here in early May of 2017, we have stronger market conditions. Our efficiency and costs are lower, the impact of price increases are on the way, and we are preparing a new strategy to expand our open die industry penetration. Benefits from our two-year turnaround process are manifesting themselves in our financial performance and I am cautiously optimistic about gradual quarterly improvements in 2017, as long as market conditions do not change.

We will now take your questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. We please ask that you limit yourself to one question and one follow-up. You may reenter the question queue if you have additional questions. At this time, we will pause momentarily to assemble our roster.

The first question comes from Michael Gaugler with Janney Montgomery Scott. Please go ahead.

Michael Gaugler
Good morning, everyone.

John S. Stanik
Morning, Mike.

Michael McAuley
Hi, Mike.

Michael Gaugler
John, just a question on your customers, one in particular, USX, announcing recently they're going to be investing in some other facilities. That would obviously entail some additional downtime across their footprint. I'm wondering how that would affect you at all. Would it be positive given—positive or negative? I mean, I could see it going actually either way.

John S. Stanik
Yes. I think that's astute, Mike. I think it could go either way. U.S. Steel is a very important customer of ours. I think in the long term, they are doing what is best for them, something that's going to be very positive and improve their competitiveness in the long-term. I agree, in the short term there will be some pain for them perhaps. But it's a point, in my opinion, that reminds us just how bad the industry suffered over the past four or five years. I think that these costs perhaps were delayed until this point in time, until business picked up a little bit because it was difficult to manage the business with conditions as poor as they are.

So, I applaud what they're doing. I think it's a good thing. We're confident right now that our other customers who are profitable will continue to operate, as I said in my comments, over at least the next several quarters, at about the same level or perhaps marginally a little higher in the Western world. So, at this point, I don't consider the U.S. Steel situation something that will negatively affect us in 2017 or even early 2018.

Michael Gaugler
Okay. That's helpful. Then also, you had some brief comments on Avonmore and what your thoughts were there. It sounds like, given the pickup in business, those assets might be required later in the year, so I'm kind of wondering how you're thinking about that? I know that's a higher cost facility. Wondering if it makes more sense to perhaps try and put on more capacity at the other facilities to perhaps stave that off somewhat?

John S. Stanik
Yes. Again, Mike, another good comment. It is a consideration for us. The other plants will be operating at their capacity. That's a good thing. It's our goal that we intended to have as a result of these activities. However, the business level that we have, especially with the potential in the fracking block market could force us to do some things because of timing at Avonmore with respect to machining.

So, time will tell. We're evaluating all options. Avonmore's cost structure is something that is quite concerning, but I think in the short-term we probably don't have too many other options, at least for a small level of machining to be done there. But in the longer term, we will do a very thorough numerical analysis of what's the best option for us and then select that one.

Michael Gaugler
Okay. That's all I had, gentlemen. Thank you.

John S. Stanik
Thank you.

Operator
Our next question will come from Justin Bergner of Gabelli & Company. Please go ahead.

Justin Bergner
Hi. Good morning.

John
Good morning, Justin.

Mike
Hey, Justin.

Justin Bergner
Morning. Just to make sure I understood correctly on the price increases, so the price increases that you're expecting in the second half of '17 and sort of looking into early '18 in the order book, those are price increases that are above and beyond the raw material surcharge?

John
Correct. So, let me just interrupt you for just a second please. So, what we are saying is the price increases for '17 have been developed or have been received probably now for about six, seven months. Those projects, those orders, are being manufactured or will soon be manufactured, so we'll get the benefit of those price increases in the end of the second quarter probably, definitely in the third quarter.

The lag on the surcharge is three to six months from when the raw materials increased and that begin began largely in January. So, again, we might see some surcharge increase of margin in the second half of Q2 and then beyond. Then I also mentioned, since we're talking about price increases, that the orders we're getting for '18 so far have yet an additional price increase over the price increase that we've been getting for the last six months.

Justin Bergner
Okay. Great. So, three to six months on the surcharges, for those to kick in. That's completely sort of detached from the delay in the pricing recognition?

John
Mm-hm.

Justin Bergner
Okay. Could you perhaps take us—just remind us sort of what the innovative roll introduction is about, what type of characteristics are you trying to introduce to the market and what makes you believe you'll be sort of differentially compensated for those?

John S. Stanik
We are focusing on certain parts or certain sections of the rolling mill process, certain stands. What we are trying to achieve is increased longevity of the roll, and smooth operation, less difficulties. As the fact that that is a cannibalistic type of approach in terms of volume, our expectation will be to have a significant price increase for the sale of those rolls and for that additional performance that they will give our customer. All three of those new product introductions are for different types of mills and different locations in the rolling mill process.

Justin Bergner

How would these be different from sort of your past operating practice where you claim to have less commoditized rolls that would merit a premium in the market?

John S. Stanik
I think it's an extension. What I mean by that is that there are different types of rolls that are currently being marketed. Some of them are technologies from the 50s and 60s and 70s, some of them are technologies from the 70s and the 80s and perhaps even the 90s.

The older technologies are ones that are targeted, at least partially are targeted to be replaced, and as I said, we're targeting certain areas of the rolling mill more than others for the introduction of these products. So, what I see happening is retiring some of those old products. Hopefully they will leave the marketplace, giving us an edge, because our cost performance will be superior and our pricing and the longevity of the roll will give us a competitive advantage.

Justin Bergner
Okay. Then just finally, I'm not sure if I heard the use of cash in Q1 and if the use of cash will sort of be as large in Q2 or potentially a little bit less than in Q1.

John S. Stanik
I think I'll let Mike finish this and give you a much more accurate answer than I will. There were really three major cash events. We talked about retiring the debt from ASW and I think that was a very good decision. Then there was the working capital build of nine point. It was $9.1 million?

Michael McAuley
About $9 million.

John S. Stanik
About $9 million?

Michael McAuley
Yes.

John S. Stanik
We expect the payment, the accounts receivable, will eventually catch up with that increased working capital. With payment terms still being unattractive, unattractive meaning somewhere between 60 and 90 days, that's going to take a little bit of time. Our business is still ramping up in the form of blocks, and as you heard from Mike's presentation, our backlogs—and you'll see it in the Q—our backlogs in every area of the Company are increasing.

So, I suspect that the cash use will still increase in the second quarter, probably not as much as it increased in the first quarter but there will be an increase, and it's logical that in the third quarter business, the AR will catch up, the AP will eventually be paid, and we'll start to see more free cash flow in the third quarter. Mike?

Michael McAuley
Yes, John. I would agree with what John said there. Looking ahead, I think our networking capital with the pace that we're on from an order and production standpoint, our net working capital will likely peak in May or June and then start retracting thereafter a little bit. So, John's right, inventory is going to continue to grow, receivables we expect to come down a little bit, so there's going to be just a little bit more pressure on cash, but it's not—we believe it's going to be completely manageable with our cash balance and our liquidity available to us.

Justin Bergner
Okay. Thank you.

Operator
The next question will come from John Walthausen with Walthausen & Company. Please go ahead.

John Walthausen
Yes. Good morning.

John S. Stanik
Morning, John.

John Walthausen
A couple of questions. With your efforts in the open die forging market, are there other markets you're finding attractive and are making some progress with, beyond the ones that we've talked about with the fracking blocks and, of course your steel mill rolls?

John S. Stanik
Yes. Yes. This is a little bit more of a complicated picture, so let me step back for a minute and begin with the business that we acquired in July of 2015 in Ohio. That business is a quick turnaround metals sales and distribution business that specializes more or less in tool steels. The ASW business provides an intermediate metal product typically in the form of cast billets or ingots. Those two businesses are the ones that are primarily expanding beyond frac blocks. They have an established customer base in both of their respective regards that continue and that they are trying to increase.

The Forged and Cast Roll or Engineered—Forged and Cast Engineered Products segment, in general, is expected to catch up somewhat on those. But the key difference for them is the forging capability, and I would say that of the three groups, this is the one that is the least evolved.

So, what we're doing right now in our strategic planning process is we are looking at each market vertical that is established for the open die business, and we are looking at what forged products, our forged and cast engineered products segment can add value to for ASW and for Alloys Unlimited. So, those are the two companies that I'd previously mentioned.

So, we will continue with that three-way progress and evolution and I'll have more specifics in the fourth quarter about which verticals we have selected, at least some update. I don't want to reveal too much to our competition, but there'll be some update as to which verticals we feel we can be most successful early on.

John Walthausen
Okay. At this point, it sounds like we're still fairly—early enough on, so can't declare victory, but you're not declaring a loss. Is it looking as though we may need to make significant capital investments to realize some of these potentials?

John S. Stanik
No. No. I think that what we see is the need for more reheat furnaces. You probably heard Mr. Gaugler's question about where we might expand capacity in our lower cost structure facilities. If that analysis points to that being the right solution, then we could spend more capital. But in terms of just handling the volume of business, I would say that we're in need of furnaces. Furnaces cost anywhere from $300,000 to $500,000 apiece. We may need—I can't really speculate on the number, but let's say

half a dozen or so. In my opinion, that's not a significant capital cost.

Then, of course, we always have our maintenance capital, which, Mike, is what—$8 million to $10 million a year?

Michael McAuley
Eight million dollars to $10 million, roughly.

John S. Stanik
Yes. I think that's the outlook, John, for that.

John Walthausen
Good. Then the other question I had was with ASW. It sounds like you're very pleased with that acquisition. They were, of course, operating, I guess, well below capacity. Are they able to build a stronger customer base outside what they're supplying you internally, or is that not part of the initiative at this point?

John S. Stanik
No, it is part of the initiative and, yes, we think they can. So, they are going in two directions. They are going into what I'll call a—and probably inappropriately call it this, but I'll say it anyway—they're going in a selfish growth direction and then they're going also in an integrated open die direction. Then the biggest element within that second piece is the stainless-steel supply for the frac blocks, which is exclusively coming—it's the exclusive source of Ampco-Pittsburgh's frac block stainless steel material supply.

John Walthausen
In spite of, instructions, I guess, one more question if I may. With the frac blocks, what level of comfort can you get that there's not inventory building as it comes back on stream?

John S. Stanik
Well, that's a very good question. I don't know how much comfort I really have, to be candid with you. I think there is some inventory build. I think that there was quite a bit of inventory that existed in 2015, two years ago from this very month when the market collapsed. I think there was an extreme amount of inventory. I think that was worked off in the ensuing two years. I think that inventory replenishment is occurring and has occurred.

But on a brighter note, when you look at the records of the number of wells that have been activated in the United States, not so much in Canada—actually, yes, drilling has reduced in Canada this year—but in the U.S., I think it's a combination and I hope that combination continues.

I'm a little bit concerned about the current direction and trend of oil pricing. It's been down, I think yesterday it was at $46 if I remember correctly. Natural gas seems to be a little stronger, so we'll still see some activity there, I think. But it's a key.

Now that we see our Company turning and clearly doing much better and doing the kinds of things that we predicted and hoped would happen in the turnaround process we went through, it's very important to us that both of these market opportunities, the rolls and the blocks, continue to flourish for us to continue to progress and see some of the big numbers that we're hoping to achieve in the next year or two.

John Walthausen

Good. Thank you very much.

Operator
Once again, as a reminder, if you'd like to ask a question, please press star, then one.

The next question comes from Albert Sebastian with Prospect Advisors. Please go ahead.

Albert Sebastian
Good morning.

John S. Stanik
Good morning, Albert.

Michael McAuley
Hey, Al.

Albert Sebastian
Could you just give maybe a little bit of a summary in terms of your various lines of business, the timeframe between receiving an order and actually shipping?

John S. Stanik
Okay. Let's begin with the equipment business because I think that most of the businesses within that segment operate similarly. I would say that the time between order and delivery fluctuates between six months and 12 months normally. There are exceptions. Some of the military orders, for example, are already being placed for next year. Some of the other types of turbine orders, etc., that we're getting for pumps are already being placed. So, I think there are exceptions, but I would say for the majority of the Aerofin, Buffalo Air, we're talking about six months to a year, unless it's a really big job, really big project. Then pumps are probably within that same category with exceptions.

The ASW business, very, very different. We typically get an order and sell it—or, excuse me, ship it within a month. So, exceptions there are perhaps maybe two months, and I guess—I shouldn't guess. But my speculation is that because ASW is providing these, what I call, intermediate products, ingots and billets; they're essentially specialty metal that somebody is going to convert into a finished product or is going to add value to a more intermediate level product. Their turnaround is quicker.

On the roll side, we get orders that are typically one to two years and then they are released. The specific rolls within those orders are released on a time basis, and the—once we are released to make a roll, they typically take anywhere from three months to perhaps a little bit longer than three months, but less than six months. The key is when they're released. So, a customer may say to us, we would like you to provide us with 300-rolls for 2017. Then we wait for them to say we want 20 by June 1 and another 50 by August 1, etc. Then they release them and then we work on them.

Albert Sebastian
Okay. Okay. That's quite helpful. Obviously, a lot of your businesses have pretty significant lead times, so, thank you.

Operator
Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to John Stanik for any closing remarks.

CONCLUSION

John S. Stanik
Yes. We feel really good about the business here obviously. I think this is the second consecutive call where we have been quite upbeat and quite optimistic about the results of our turnaround. I do want to say that there are some moving items, such as the Avonmore idling, obviously, a big item. When the price increases begin to hit is another big item.

So, operating income financial performance for the second quarter could be a loss—a small loss, hopefully. As I look at the Company, I see these significant improvements being achieved in all facets of the business—pricing, manufacturing costs, efficiency, leadership, strategy. So the turnaround process is bearing fruit. I expect to see gradual improvement sustained quarter-by-quarter into the future, but it's very important that in the short term, and may be less so in a few quarters out, but in the short term we really need our current markets to maintain their favorable level of recovery.

I'd like to thank everybody for listening and I wish you a great remainder of your day. Thank you.

Operator
Thank you, Mr. Stanik. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect. Take care.