AMPCO-PITTSBURGH CORPORATION

Moderator: Dora Gouveia
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Operator: This is conference # 98013447.

Operator: Good morning. My name is (Jesse), and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2016 Results 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 that time, please press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

Thank you. Melanie Sprowson, Director of Investor Relations, you may begin your conference.

Melanie Sprowson: Thank you, (Jesse). Good morning, everyone, and thank you for joining us for our first quarter earnings call. I am Melanie Sprowson. With me today are John Stanik, our Chief Executive Officer; and Dee Ann Johnson, Vice President of Finance and Chief Accounting Officer. I am also pleased to introduce Mike McAuley who joins us for his first earnings call as our newly appointed Vice President, Chief Financial Officer and Treasurer.

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 intention.

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 Form 10-K. We do not undertake any obligation to update or otherwise release publicly any revision to our forward-looking statements.

I will now turn the call over to our Vice President, Chief Financial Officer and Treasurer, Mike McAuley who will make brief remarks.

Mike McAuley: Thank you, Melanie. I'm very excited to be joining Ampco-Pittsburgh at this important stage of the company's path forward. I'm also pleased to be joining a very dedicated management team and I hope to bring my previous experiences in larger international manufacturing companies to bear on the important decisions ahead for the company. My immediate focus is to fully immerse myself into company's operations and organization in order to accelerate my contribution.

For this first call, since I have only been onboard here for less than two weeks and after Q1, I will ask Dee Ann Johnson, Vice President of Finance and Chief Accounting Officer to take you through the quarter's financials this time. We will then follow with remark from John Stanik, Chief Executive Officer of Ampco-Pittsburgh and then take your questions.

So let me now turn the call over to Dee Ann Johnson. Dee Ann?

Dee Ann Johnson: Thank you, Mike, and good morning everyone. The acquisition of the Åkers AB and certain of its affiliated companies was consummated on March 3, 2016. The base purchase price of approximately $75 million as of that date and subject to certain post-closing adjustments was comprised of roughly $29 million of cash, $26 million in the form of a three-year note and $20 million in shares of common stock of the corporation.

The reported results of Ampco-Pittsburgh Corporation for the first quarter of 2016 includes Åkers for one month. Additionally the Corporation's financial position as of March 31, 2016 includes the acquired assets and assumed liabilities of Åkers at their estimated fair value. Purchase accounting for the acquisition is subject to final adjustments primarily for pre-acquisition contingencies, tax balances and residual goodwill.

Sales for the first quarter of 2016 of $64 million compared to sales for the first quarter of 2015 of $65 million. Total sales for the Forged and Cast Engineered Products Segment including Åkers were slightly less than the same period of the prior year which I will expand on momentarily.

Sales for the Air and Liquid Processing segment for the current year quarter were relatively comparable to the same period of the prior year. Gross profit as a percentage of net sales was 19.6 percent for the first quarter of 2016 versus 20 percent for the first quarter of 2015. The decrease is principally due to the effects of purchase accounting associated with the acquisition which impacted gross margins by approximately 250 basis points.

Selling and administrative expenses were $13.5 million for the first quarter of 2016 in comparison to $9.4 million for the first quarter of 2015, an increase of $4.1 million. Included in 2016 are selling and administrative cost for Åkers of approximately $2.3 million and acquisition related transaction costs of approximately $1.8 million related principally to the purchase of Åkers.

Selling and administrative expenses for 2015 include a pretax curtailment charge of approximately $1 million associated with the partial freezing of the US defined benefit pension plan offset by a pretax credit of approximately $750,000 relating to the collection of accounts receivable previously written off.

Interest expense on the seller notes associated with the acquisition approximated $139,000 for the month. Other income/expense principally benefited from foreign exchange gains during the quarter compared to foreign exchange losses a year ago. Foreign exchange gains resulted primarily from the weakening of the US dollar against the euro and the Swedish krona.

The Corporation's effective tax rate for the three months ended March 31, 2016 approximated 21.3 percent in comparison to 32.7 percent for the three months ended March 31, 2015. The decrease is principally due to the change in the geographic mix of earnings inclusive of the newly acquired Åkers entity.

In summary, the Corporation incurred a net loss of $2.9 million or $0.26 per common share which includes the after tax impact of those transaction related cost and purchase accounting of approximately $2.8 million or $0.26 per common share. For the three months ended March 31, 2015, the Corporation earned net income of $72,000 or $0.01 per common share and includes the after tax impact of the aforementioned curtailment charge, inflection of accounts receivable previously written off of approximately $314,000 or $0.03 per common share.

From a segment perspective, sales for the Forged and Cast Engineered Products segment for the three months ended March 31, 2016 were slightly less than the same period of the prior year. The addition of Åkers provided roughly $12.6 million of additional revenue, but was principally offset by lower cast roll sales of approximately $5.5 million and a decline in the volume of open-die forged shipments to the oil and gas industry of approximately $8.6 million.

Traditional forged rolls sales showed a modest improvement. The segment recorded an operating loss for the quarter led by the inclusion of Åkers including the effects of purchase accounting and the lower volume of open-die forged shipments.

Sales for the Air and Liquid Processing segment for the three months ended March 31, 2016 were consistent with the prior year quarter. The increase in sales of air handling units offset the decrease in sales of heat exchange coils. Sales of pumps were relatively comparable between the quarters. Despite level sales, operating income improved roughly 27 percent from quarter-to-quarter primarily due to a higher volume of shipments for the air handling business and cost containment efforts.

Backlog at March 31, 2016 approximated $280 million, almost double the $142 million in backlog at 12/31/2015. The increase principally represents backlog for the Åkers Group. Backlog for legacy Union Electric Steel and Air and Liquid Processing remained relatively unchanged.

Regarding our balance sheet, accounts receivable increased approximately $23 million from year end. The increase represents the inclusion of accounts receivable for the Åkers Group of about $31 million as of March 31, 2016 offset by lower sales for the first quarter of '16 versus the fourth quarter of '15 and strong cash collections during the quarter.

Inventories increased approximately $34 million at March 31, 2016 from December 31, 2015 of which $29 million represents inventory for the Åkers Group. The remaining increase is primarily due to timing of delivery of rolls, higher backup roll production at our Carnegie facility and purchases of inventory for the second and third quarter pump shipments. Accounts payable increased almost $24 million from year end and represents primarily accounts payable of the Åkers Group.

Cash and cash equivalents equaled $60.1 million at March 31, 2016 in comparison to $95.1 million at December 31, 2015, a decrease of $35 million. Significant cash flows for the quarter included the purchase of Åkers for which the cash portion of the purchase price approximated $29 million, payment of dividends of just under $2 million, payment of asbestos related liabilities, net of insurance recoveries of about $1.5 million and capital expenditures for the quarter were under $1 million.

I will now turn it over to John.

John Stanik: Thank you, Dee Ann. Good morning. Let me begin by emphasizing some points that I believe are important for us to convey to you this morning. First, the results you're seeing include what I call pre-acquisition Union Electric Steel, i.e., prior to the Åkers acquisition for the first three months of the year and one month of Åkers results as the deal was closed on March 3, 2016.

Secondly, acquisition costs and other charges, such as purchase accounting impact, relating to the Åkers acquisition totaled $3.4 million during Q1 and are included in the results. If these acquisition related charges were removed, as well as the March Åkers results, I'm pleased to report that pre-acquisition Union Electric Steel exhibited improved sequential financial performance in Q1 despite a 6 percent decrease in revenue when compared to Q4 of 2015.

I draw two conclusions from these results. First, the cost reduction programs of 2015 are taking effect and providing us with the expected benefit for our legacy Union Electric Steel business. Unfortunately, the second conclusion is that the global steel market had not yet hit its low point last year, as it relates to rolls in Ampco-Pittsburgh. In fact, bookings during the last few months, particularly in Europe, have been lower than ever.

My third point is, as a result of continued market depression and acceptance of low margin contracts that will take time to work off, the Åkers acquisition will not be accretive immediately. However, we expect to see improvement prior to year-end. I want to state emphatically we do not believe we're losing market share. However, the current lack of business available is sudden, unexpected and very disappointing, especially in Europe. I will explain and get into greater detail about these comments in the remainder of my presentation.

Revenue for Q1, 2016, excluding March Åkers results, was approximately $14.1 million lower than the first quarter of 2015. That's approximately a 20 percent decline from an already low Q1, 2015 total. This decline mainly consisted of two parts; $8.6 million of our new diversified entry into the oil and gas open-die forged products and $5.6 million principally of lower European roll sales. North American roll sales were up slightly.

This next section is important to describe what's going on with our acquisition. Åkers revenue from March was approximately 20 percent greater than pre-acquisition March revenue for Union Electric Steel. That's a big difference. Unfortunately, that revenue contributed negative operating income overall. This is a disappointment. Prior to the end of our due diligence efforts late last year, the Åkers EBITDA performance for 2015 was expected to be breakeven, excluding the one Belgian and two French entities we did not acquire. That didn't occur for one large facility in the US.

Financial performance in January and February of 2016 for the two largest facilities of Åkers, that same one in the United States and one in Sweden, generated significant losses. This wasn't expected. Performance in the other facilities of Åkers was profitable and as expected. We continued to analyze the January, February and March Åkers performance decline to understand it better, so that we react properly. The European impact is believed to stem from extremely low cast roll sales. But the US plant problem is more significant than just market depression. We will address these challenges aggressively and make adjustments to our operations globally to improve future performance.

Additionally, we will be more aggressive regarding the timing of capturing the synergies, which were identified prior to the close of the transaction and the new synergies that were identified after closing. I want to make it clear that our overall opinion of the acquisition remains as favorable today as it was prior to the close of the transaction. And our conviction in the benefits that the company will derive from the acquisition remains unchanged. However, it is now obvious that adjustments will need to be made to offset what we believe are short-term negative impacts.

This problem is serious and we will deal with it quickly. Operating results for the Air & Liquid Systems segment continue to be strong as Dee Ann pointed out. Although revenue was flat year-over-year, operating income increased. The Buffalo Air Handling company was profitable in Q1, continuing its performance improvement over the past four quarters sequentially. Aerofin revenues were down year-over-year as the company continues to struggle to replace sales from the fossil fuel market segment and the pump business was stable.

So let's summarize this. Pre-acquisition Union Electric Steel showed sequential financial performance improvement when the acquisition related expenses are excluded. Åkers performance in its first months with the company were mixed with the two largest facilities disappointing us. However, the potential synergies have now been confirmed and even increased and the benefits we believed possible for the corporation via the acquisition have been confirmed. During the last two quarters, I reported to you that the company's main challenge was the lack of revenue. That problem continued in Q1 and will extend into Q2. I continue to believe that volume is our major obstacle. Also, I should note we expect Air & Liquid Systems will continue its strong financial performance and is expected to have stable performance in future quarters this year.

I think it's a good idea next to talk about the current state of the industry, because it's quite dynamic. Q1, 2016 represented a lot of change for the industry. Additional import tariffs were assigned for steel products, entering the United States. Natural gas exports from the United States were scheduled. Oil prices recovered to a degree. Several global steel pricing increases were implemented in March and early April throughout the world. All of these items bode well for the future of Union Electric Steel and Ampco-Pittsburgh Corporation if they are sustained. However, it's important to remember that the speed of market recovery, the magnitude of the market recovery and the trickle down benefit timing to Union Electric Steel are still unknown at this time.

As you've probably heard or read, at least some Western steel makers believe that the United States steel industry has begun to turn. Europe remains a concern however because there have been no announcements of trade protection there. Additionally, one of the world's largest steel producers has announced that all of its British operations are in financial distress, a situation that is expected to result in drastic actions on their part. The weak European steel industry has really affected our order intake in the first months of this year, including our acquired new facilities. New orders in the early months of 2016 in Europe are just a little bit more than half of what they were in the prior four months.

Earlier, I mentioned the Q1 year-over-year comparison for open-die forged products for the oil and gas segment. Last year, Q1 and most of Q2 were strong periods for us in that segment as we continued our growth. Subsequent to that time when oil and gas prices plummeted due to the global supply glut, orders dropped off dramatically and to low levels. During Q1 of 2016, there appears to be a small pickup in activity for these open-die forged products. Perhaps, this is due to our customers working through inventory or perhaps it's due to a partial recovery in production due to recent oil pricing increases. Whatever the case, we will study market developments and be very responsive.

Now, I'll talk a little bit about the state of Ampco-Pittsburgh. The biggest focus for us in the first three months of 2016 was the preparation for integration of newly acquired Åkers. Actually planning began in Q4 of last year so that when the deal was closed on March 3, we were able to hit the ground running and meld Åkers into Union Electric Steel.

At this time, our global commercial organization is in place, our product portfolio has been merged, one significant new product is currently undergoing trials at customer sites and performing extremely well and numerous synergies are already captured. The positive financial impact will improve and benefit future quarters. As discussed previously, our financial performance in the United States and Sweden facilities from the acquisition have been a negative development but we are already preparing action plans to improve performance there and we expect them to behave quickly. The low margin business obtained is unacceptable long-term and we will need to propose price increases along with cost reductions to reverse this condition. In the meantime, we will maintain our contractual commitments to our customers and work off these contracts. Naturally this will take some time.

We continue to make progress in establishing an asset base credit facility. During our first quarter, we intentionally slowed this process because there was no immediate need for additional financial flexibility. However, we decided to move forward finalizing this deal and getting it in place to increase our strategic flexibility for investment. We believe that there may be several very attractive opportunities to expand our capabilities in areas aligned with our strategy. I want to continue to maintain a very strong balance sheet and hold significant cash available.

On the other hand, I also assure you that we will be very careful about the amount of debt we take on, should we take on any debt. So we will only consider new opportunities with a rapid return on investment. Last week we announced an important addition to our leadership team, Mike McAuley who is our new global CFO and Treasurer.

Our company is quickly becoming more global and more complex. I believe we needed to add additional senior capability to the finance team, Dee Ann Johnson has been appointed Global Chief Accounting Officer and has the important assignment of merging financial performance across the world, implementing new automated reporting capabilities throughout all of our facilities, instituting strong internal controls consistent throughout the company, and maintaining accurate reporting. That should give her a lot of spare time. Mike's focus will be more strategic and analytical in nature and to build a strong global team.

Let's look ahead, the second and third quarter will be very important ones for capturing synergies from the acquisition, also realigning our manufacturing capability to address the negative results that occurred in Q1 and promoting our first significant new product as a merged company, and finally, last but not least hopefully instituting a significant price increase. I expect our challenges in acquiring new orders to continue in Q2 for Union Electric Steel particularly in Europe.

If market recovery does begin to trickle down to our order book for either oil and gas, open die forged or rolls, then financial improvement will follow. But considering the typical lag between receiving orders and booking revenue, an increase in revenue for historic Union Electric Steel and historic Åkers in Q2 is unlikely. I am told that in previous metals market recoveries new orders come quickly and come in clumps with short delivery requirements. We welcome that scenario and believe that we are the best company in the world to respond to that scenario considering our manufacturing capability, the breadth of for product portfolio and our excellent geographic footprint.

Thank you for listening, we will now take your questions.

Operator: At this time, I would like to remind everyone in order to ask a question, please press star then one on your telephone keypad. You will be able to ask one question and one follow-up question. We'll pause for just a moment to compile the Q&A roster. Again, if you would like to ask a question press star then the number one on your telephone keypad. Your first question comes from the line Justin Bergner. Your line is open.

Justin Bergner: I might have a few questions, but I'll ask one or two and get back in the queue, there are others. To start John, can you help me just understand the sequential improvement in forged and cast rolls operating profit excluding the Åkers transaction cost, I guess, I realized you didn't give specific numbers. I'm sort of estimating something on the order of $1 million sequential improvement, was that real fundamental improvement in the business or was it driven by sort of the seasonal timing of costs, inventory accounting factors or something else that is more temporary in nature?

John Stanik: Let me answer this way, I'll throw out a couple of things that I think are important. Revenue was low and I've been telling our shareholders that our objective with our strategy was to make money at these new lower conditions or market level, and we accomplished that. So, as we looked at the three months that have just - that were completed in the first quarter, we lost a very tiny amount of money in January under really, really small revenue levels. We lost a little bit larger amount of money in February, despite having a little more significant sales numbers but that was due to an increase in expense, so you're comments about seasonal spending is valid, but most importantly we made money in March and that was something we weren't able to accomplish in the previous three quarters sequentially. So, I believe that when we look at the performance of historic Union Electric Steel, it was evident that our improvement programs from last year are beginning to show themselves in the P&L statement, you also heard Dee Ann talk about margins dropping 250 percent because of or 250 basis points because of purchase accounting for the acquisition. Well, if you throw those back in, we’re roughly 200 basis points above where we were in the first quarter of 2015.

So, all of these things combined together give our management team here a lot more confidence and the belief that what we have accomplished is benefiting the financials. Then throw in the acquisition, we have a bump in the road, a pretty big bump in the road for the two facilities that I mentioned. However, we have detected increased synergies, a considerable amount $3 million. We expect to capture those synergies fairly quickly. We've already captured $5 million worth of synergies that were one third of our old goal after owning the company only one month. Unfortunately, only $400,000 of those $5 million hit in the first quarter. So, I think that the company has made real progress in its historic business and I think other than these early results from the two plants, the one in Sweden and one in US, I think that we see the acquisition as being every bit as good as we thought originally. So, a lot of moving parts Justin, and most of them in a positive direction.

Justin Bergner: But in terms of that sequential improvement in forged and cast rolls, there was no sort of inventory accounting issue that was temporary in nature or I guess seasonal?

John Stanik: I understand what you're saying. As we developed our new business plan and set new standard cost, there was no significant adjustments. This is real business results.

Justin Bergner: One more question if I may, and then I’ll see if there are others. In terms of the Åkers challenges, you mentioned that they have rolls that are under long-term contracts that are unattractively priced. Is that separate from the issues at the US and Sweden plants and did you know about those long-term contracts at the time that you entered into the deal?

John Stanik: No, it's not separate. And, no we didn't know about the magnitude of them, we suspected that some of them were. I will caution you also on how long-term they are, they are - probably the vast majority are less than a year, less than their term. So, I think that we will be able to work these off for the end of the year. We will not accept orders at those levels in the future and we will increase pricing moving forward. So the point is it’s a temporary situation. The issue in Sweden, I think is different. The situation in Sweden I believe is more of a European deterioration in the business that we are seeing in a wide spread nature there in the continent.

Justin Bergner: OK. But are any of the issues operational in nature relating to the quality of the assets and their performance or is it more market contracts and pricing?

John Stanik: Well, with all due candor, I think it was a lot of bad decision making, but to try and absorb fixed costs. And I think that there are some cost issues there that we are dealing with that are labor related, but all of these issues I think are solvable. Yes, we have doubled our backlog, which is a significant thing and certainly implies that revenue has the opportunity to increase significantly in 2016. We also have the opportunity of maintaining those customers hopefully with the quality and the performance of the products that we are selling. And don’t forget, we also now have lower labor facilities in the world should allow us to compete in low priced applications.

Justin Bergner: Great. Thank you.

John Stanik: Justin, you can keep asking. It looks like we don’t have anyone else in queue. So if you have additional questions, fire away.

Justin Bergner: Sure. I guess, you answered most of my other questions in the prepared comments. With respect to the situation in Europe, is the primary difference, the lack of meaningful import tariffs that have been affected to-date and is there anything meaningful on the horizon there in terms of similar action to what we have seen in the US or is it still very much a wait and see environment in regards to restricting imports that are coming on fairly into Europe?

John Stanik: I guess, there is more than one answer to that question. I think the issue in the United Kingdom is very serious and I believe that all of these facilities that I mentioned in my presentation are for sale. I think that they constitute if not the entire steelmaking industry in Great Britain than the vast majority. So I think that something will probably be done to ensure that the 10,000 or so workers that are related to this industry are not suddenly on the street. And I think from a national defense situation that perhaps continuing to make steel is extremely important. Of course, infrastructure and growth. When it does to come to Europe, will also require steel making.

Regarding the protection, I don't know specifically of any effort to institute tariffs by the European Union, so I think there is a certain wait and see. I will mention by the way that there are additional tariffs that are being attempted in the United States. I think two or three of them will be announced in the next two weeks. So additional protection is perhaps on its way for the United States metals industry. So we will - I think the important thing here is to understand that we are, by having our commercial organization centralized and in place, we are going to send the business that we get to best suit our performance. So that means that we will take advantages of our cost advantages in certain locations, we will take advantage of unused capacity in certain locations and I think that those will all have an improved financial impact despite the fact the sales will continue to be low. I hope that made sense.

Justin Bergner: Yes, it did. That's helpful. On the synergy front, again sort of the $18 million newly targeted synergies, I guess $5 million realized so far on a sort of run rate basis, how should we think about sort of the timing to ramp up from the current side to the remaining $13 million to get to the full $18 million of synergies?

John Stanik: Well, I think it's going to be a lot like the cost reductions of 2015. We are going to be capturing them, that's the word I use, we are going to capture them as the year goes on, but we are not going to see the real impact reflected in the P&L for some months into the future. We will not capture all of them in 2016. There will probably be some that will dribble into 2017. I think that will be a minority, maybe $3 million, $4 million. And I think that the new $3 million that we found will occur in the next quarter or two. So vast majority this year, real impact starting to be felt in the second half of this year, certainly next year and then we should finish up with all of the synergies by the middle of next year. So sequentially the impact should get better and better over the next seven quarters.

Justin Bergner: OK, great. Thank you. And then on the (open-die) forged shipments, given that the revenue declined so substantially in that part of the business, I mean, should we essentially see the revenue in the first quarter as very close to zero in that business or that could go down further sequentially?

John Stanik: It can. We don't think it will based on the order intake in the first four months of this year. In fact, as I mentioned in my comments that we actually see a slight increase. You may remember that in a previous quarter, I think two quarters ago, we announced a pretty significant capital project. That project is being completed in the beginning of the third quarter. That will open new opportunities for us. So potentially we could see an increase in the second half. As long as the industry doesn't go into another tailspin in the second half. But I think that we may see in the second half an increased level of order intake, at least I hope we will. As long as the oil price doesn't decrease significantly again.

Justin Bergner: OK. Thanks, John. I think that takes care of all my questions this morning.

John Stanik: You're welcome.

Operator: Again, if you would like to ask a question please press star then the number one on your telephone keypad. There are no further questions at this time. I would turn the call back to the presenters.

John Stanik: All right, thank you, (Jesse). I am pleased with the improved financial performance that we talked about this morning, the pre-acquisition company, and with of course, the continued strong performance of Air and Liquid Systems. We continue to be very excited about the addition of Åkers and our confidence level is higher than has been in previous quarters. And we also are very optimistic about what the acquisition will do for the future of this company. Our employees are working tirelessly to merge into one company and achieve the internal goals for growth and profitability that we have established. Naturally there some who are uneasy about integration process, and that's always the case.

We are concerned about that and we are talking steps to increase communications to allay any of those fears. We structured our company to be profitable for a reduced level of volume that was expected in 2015. Unfortunately market deterioration continued to a new and significantly lower level of volume, which is currently available. We have talked about that. We don't know how long that's going to last, but we will continue to work to generate profit at this new even lower level of business.

Hopefully, the signs that we are now seeing about the turn in the industry, particularly in the United States will continue and certainly with our current manufacturing capability, we will be able to take advantage of those unlike any other in the industry. But getting back to whatever restructuring and action plans we need to execute, I want to assure everyone our analysis will be thoughtful and we will not sacrifice future prosperity for short-term gain. We are confident, but we certainly have work to do.

Thank you for your attention. Have a good day.

Operator: This concludes today's conference call. You may now disconnect.

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