

Ampco-Pittsburgh Corporation  
Second Quarter 2018 Earnings Results  
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**CORPORATE PARTICIPANTS**

**Melanie Sprowson** – *Director, Investor Relations*

**Michael McAuley** – *SVP, Chief Financial Officer and Treasurer*

**Brett McBrayer** – *Chief Executive Officer*

## **PRESENTATION**

### **Operator**

Good morning and welcome to the Ampco-Pittsburgh Second Quarter 2018 Earnings Results conference call. All participants will be in 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. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Melanie Sprowson. Please go ahead.

### **Melanie Sprowson**

Thank you, Steven, and good morning to everyone joining us on today's second quarter conference call. I am pleased to introduce Brett McBrayer, who joins us for his first earnings call as our newly appointed Chief Executive Officer. I'm also joined by Mike McAuley, Senior 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](http://ampcopgh.com).

Now I'd like to turn this call over to Mike, who will provide an overview of the corporation's financial performance for the second quarter.

### **Mike McAuley**

Thank you, Melanie. Good morning to everyone on the call today, and thank you for joining. Our earnings release for the second quarter of 2018 was issued this morning and hopefully you've had a chance to read it.

I will start off with giving a financial review for the quarter by taking you through the consolidated P&L, followed by providing more color at the business segment level, and then I'll review some of the key balance sheet and cash flow activity.

Ampco's net sales for the second quarter of 2018 were \$127.4 million. This compares to net sales for the second quarter of 2017 of \$110.6 million. Net sales in the Forged and Cast Engineered Products segment increased approximately 17% compared to prior year driven by higher sales of forged and cast mill rolls, as well as forged engineered products primarily for the oil and gas industry.

Net sales for the Air and Liquid Processing segment for the second quarter of 2018 increased approximately 10% from the prior year quarter. I will comment more on the segment results in just a moment.

Gross profit as a percentage of net sales was 14.8% for the second quarter of 2018 versus 16.7% for the second quarter of 2017. The decrease is primarily due to higher raw material and operating costs than a year ago.

Additionally, unabsorbed costs relating to the idling of a cast roll foundry that was temporarily idled beginning in the prior year quarter, further impacted costs. But these impacts were partly offset by a higher volume of shipments and improved product pricing.

Selling and administrative expenses were comparable at \$14.8 million for the second quarter of 2018 versus \$15.1 million for the second quarter of 2017. The current year period benefited from lower employee-related costs while the prior year period includes proceeds from the recovery of a portion of a trade receivable associated with a customer bankruptcy.

Depreciation and amortization expense of \$5.8 million for the second quarter of 2018 was up slightly compared to \$5.6 million for the second quarter of 2017. Loss from operations for the second quarter of 2018 was \$1.6 million. This compares to a loss from operations in the prior year of \$2.2 million.

The improvement reflects the impact of higher overall shipment volumes, higher product pricing, and favorable product mix, more than offsetting the effect of higher raw material on operating costs, as well as lower absorption cost related to the idling of one of our cast roll foundries. I will expand on operating income changes a bit further in my segment level discussion momentarily.

Other income expense net for the second quarter of 2018 was a \$0.5 million which was up slightly compared to the \$0.1 million for the second quarter of 2017, primarily driven by higher interest expense associated with higher borrowings under our revolving credit facility.

Unfavorable foreign exchange movements year-on-year were approximately offset by higher pension and other postretirement benefit income. The income tax provision for the current year quarter includes income taxes associated with our profitable operations. An income tax benefit is not able to be recognized on losses of certain of our entities, since they remain in a three-year cumulative loss position.

As a result, the corporation reported net loss of \$3 million or \$0.24 per common share for the second quarter of 2018, compared to a net loss of \$1.9 million or \$0.16 per common share for the second quarter of 2017.

Here's a bit more detail on our business segment results. Net sales for the Forged and Cast Engineered Products segment for the second quarter of 2018 increased approximately 17% compared to prior year. The primary drivers for the increase were higher sales volumes and prices of Forged Engineered Products to the oil and gas industry, along with higher shipment volumes and pricing for forged and cast mill rolls.

Despite the increase in net sales, the segment's operating income declined versus prior year for three key reasons. The impacts of higher raw material pricing and higher operating costs, the loss of the key customer due to a plant closure, and lost sales and unfavorable cost absorption related to tariffs imposed by the US on imported steel products of our Canadian subsidiary, ASW. Brett will expand on this a bit more in a moment.

Net sales for the Air and Liquid Processing segment increased approximately 10% for the second quarter of 2018 versus prior year. Higher sales demand for custom air handlers and heat exchange coils were offset by a lower volume of commercial pump shipments. As a result of the higher volume and more favorable product mix, segment operating income increased compared to prior year.

Backlog at June 30, 2018, approximated \$338 million, an increase of just over 3% from the \$326 million in backlog at December 31, 2017, and that's an increase of approximately 12% from the backlog at prior year at June 30, 2017. The backlog increase compared to December 31, 2017, reflects higher order intake and improved demand in most of the Corporation's businesses.

Now to review changes in the working capital accounts and some other cash related items. Accounts receivable at June 30, 2018, increased \$10.6 million from December 31, 2017, primarily from higher sales partially offset by improved collections.

Inventories at June 30, 2018, increased \$4.4 million from December 31, 2017. The inventory growth is primarily due to increased production levels and work in process inventories in the Air and Liquid Processing segment on higher demand.

Accounts payable at June 30, 2018, increased \$2.9 million from the balance as of December 31, 2017, reflecting higher raw material and operating expenditures associated with higher production volumes.

Cash and cash equivalents of \$22.1 million at June 30, 2018, increased slightly compared to the December 31, 2017 balance. Some key uses of cash for the year thus far included the year-to-date trade working capital growth to support the sales and production growth, which I just reviewed, and year-to-date capital expenditures of \$5.7 million.

Total debt at June 30, 2018, is \$86.3 million. Of this amount, \$40.3 million is the balance drawn on the Ampco revolving credit facility, which is up slightly sequentially in line with higher trade working capital balances.

The company is currently evaluating several financing options in light of certain maturities due in 2019 and longer-term investment needs of the business. In addition to our \$22.1 million cash balance, we also have availability on the revolver of approximately \$37 million at June 30, 2018.

I would now like to turn the call over to Brett McBrayer for his remarks. Brett?

**Brett McBrayer**

Thank you, Mike, and good morning to everyone. Thank you for joining the call today.

It's an honor and privilege to be asked to lead Ampco-Pittsburgh and I'm excited to join this organization. During my first weeks as CEO, I've focused primarily on developing a better understanding of the business. I've travelled to all ten of our North American plant locations to assess our processes and evaluate our assets. I have engaged with our leaders to understand how they're working to improve our business, what challenges they face, and understand how their priorities align with those of the Corporation.

I've visited with some of our key customers and walked their mills, listening what's most important to them in a supplier, what drives them to partner with us, and what we can do better to serve them. In the coming weeks, I will travel to our foreign locations continuing my facility reviews, engaging with our leaders, and meeting our customers. This time spent visiting and seeing, listening and asking questions, is helping me better understand the opportunities and challenges we have in front of us now, as well as ahead of

us, and how to best execute the next steps of the strategy of the Corporation.

There is no denying that we face significant challenges, but I came to Ampco-Pittsburgh because I believe the opportunities outweigh those challenges. Ampco-Pittsburgh is a larger, more diversified and stronger company than we were during the last downturn and recovery cycle.

I see great potential in where Ampco-Pittsburgh is headed, but I'm not satisfied with where we are today. It is quite clear that we must see an improvement in our performance.

As Mike mentioned, we are also now facing new headwinds. The tariffs imposed by the U.S. on imported steel products from Canada are causing a significant negative impact on our Canadian subsidiary, ASW, and it put pressure on the cost structure of our Forged Engineered Products business in the US.

In addition, inventory adjustments in the supply chain are leading to lower frac block order intake, and operating costs continue to increase. We are mobilizing to address these issues through appropriate adjustments to our cost structure, further diversification into our forged engineered products end markets, and the development of new customer partnerships.

As we focus our actions on streamlining and strengthening our business, I believe Ampco-Pittsburgh will become better positioned for sustainable, profitable growth that will enable us to deliver long-term shareholder value.

Thank you. We'll 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 are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Please limit yourself to one question and one follow-up and re-queue if you have further questions.

And our first question comes from Michael Gaugler with Janney. Please go ahead.

### **Michael Gaugler**

I'll start at the cost line, just wondering what the status is. I would guess that you're looking for a waiver on the Canadian operations, and where that initiative stands?

### **Brett McBrayer**

Yes, we have an application for exclusion of tariffs and that is in process as we speak. We're obviously pursuing all the available channels that we have in front of us.

### **Michael Gaugler**

Any idea on when you will hear back on that?

### **Brett McBrayer**

Not at this time, no.

### **Michael Gaugler**

As we look at the cost of goods sold, highest since the fourth quarter of 2016, can we expect this to decline in the back half of the year or this the new normal until you've assessed the operations and made

any changes that you feel are necessary?

**Mike McAuley**

Yes, as you know, we don't give earnings guidance on a forward-look basis but we know the one thing, Brett, did indicate is that, we are seeing lower order intake on our Forged Engineered Products for oil and gas business, the frac block business. That's going to put pressure on our cost structure, as he indicated, for that business. It's going to cause potentially some issues, you could imagine that can cause some issues with the absorption.

There's going to be some pressure on that. It all depends on the mitigation steps that we're working actively right now, to look at cost reductions and look at other opportunities to fill that gap.

**Michael Gaugler**

Ok, all right. That's all I had gentleman. Thank you.

**CONCLUSION**

**Operator**

Again, if you have a question, please press star then one on your telephone keypad. I'm showing no further questions. This concludes our question and answer session. I'd like to turn the conference back over to Brett McBrayer, for any closing remarks.

**Brett McBrayer**

Yes, I'd just like to thank everyone for their time today. Look forward to updating everyone on our progress during the next call. Thank you.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.