Carnegie, PA, November 9, 2016 -- Edited Transcript of Ampco-Pittsburgh Corporation Earnings Conference Call held Tuesday, November 1, 2016 at 10:30 a.m. ET.

The following transcript has been edited to reflect corrections for an error associated with the Company's Q3 2016 tax provision that was subsequently reported in an amended earnings release issued on November 8, 2016. This correction was issued after the Ampco-Pittsburgh Corporation Third Quarter 2016 Earnings Results call.

The Company's deferred tax valuation allowance was corrected to $26,903,000 and $28,322,000 for the three and nine months ended September 30, 2016, respectively, versus $22,620,000 and $24,039,000, as initially reported. This change affects the Corporation's net loss for the three and nine months ended September 30, 2016, which was $27,382,000 and $36,758,000, respectively, instead of $23,099,000 and $32,475,000, as initially reported; net loss per common share for the three and nine months ended September 30, 2016, which was $2.23 and $3.10, respectively, instead of $1.88 and $2.74 as initially reported; and the per common share impact of the valuation allowance for the three and nine months ended September 30, 2016, which was $2.19 and $2.39, respectively, instead of $1.84 and $2.03, as initially reported.

Corresponding corrections have also been made to the Corporation's Press Release, which was originally issued on Tuesday, November 1, 2016, and reissued with corrections and replacements on Tuesday, November 8, 2016.

AMPCO-PITTSBURGH CORPORATION

Moderator: Melanie Sprowson
November 1, 2016
10:30 a.m. ET

Operator: This is conference # 98671917

Operator: Good morning. My name is Nicole, and I will be your conference operator today. At this time, I would like to welcome everyone to the 3Q Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply 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, you may begin your conference.

Melanie Sprowson: Thank you, Nicole, and good morning to everyone joining us on today's third quarter conference call. I'm joined by John Stanik, our Chief Executive Officer; and Dee Ann Johnson, Vice President of Finance and Chief Accounting Officer. Due to a family emergency, Mike McAuley, our Chief Financial Officer, will not be joining us today.

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, objective, expectations or intention. 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 Web site 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 Web site at ampcopgh.com.

Now let me turn this call over to Dee Ann, who will provide an overview of the Company's financial performance for the third quarter.

Dee Ann Johnson: Thank you, Melanie, and good morning, everyone. Before I begin my review of our third quarter results, I'd like to remind our listeners today that the comparison of our results for the quarter and year-to-date versus the prior year in both our press release and on this call will be largely affected by our acquisition of Åkers AB and certain of its affiliated companies, which we completed on March 3, 2016.

In addition, while our press release this morning provides commentary on both the quarter and year-to-date, I will focus my comments primarily on Q3 results.

Sales for the Corporation for the third quarter of 2016 were $82.9 million. This compares to sales for the third quarter of 2015 of $58.1 million. Total sales for the current quarter for the Forged and Cast Engineered Products segment were up 74 percent, compared to Q3 2015, driven primarily by the inclusion of the acquired Åkers business segment.

Sales for the Air and – sales for the Air and Liquid Processing segment for the third quarter of 2016 were down slightly from the prior year. I'll comment more on the segment results in the – in a moment.

Gross profit as a percentage of net sales was 18.8 percent for the third quarter of 2016 versus 16.2 percent for the third quarter of 2015. The increase is due to a number of factors including actions to reduce employee benefit costs such as pensions and OPEB, lower headcount and favorable product mix versus the prior year.

Selling and administrative expenses were $15 million for the third quarter of 2016 in comparison to $8.7 million for the third quarter of 2015, an increase of $6.3 million. Included in the current quarter are selling and administrative costs for the acquired Åkers businesses of approximately $5 million and restructuring charges of approximately $1.3 million.

Depreciation and amortization of expense of $5.5 million for the third quarter of 2016 is up versus the prior year, primarily due to the inclusion of Åkers. Operating loss for the third quarter of 2016 was $4.9 million, compared to a loss of $2.4 million in the third quarter of 2015. The current quarter operating loss reflects the addition of Åkers and generally weaker market conditions in our cast roll businesses, as well as the restructuring costs recorded through – reductions in force in those businesses.

Compared to the third quarter of 2015, net other expense for the third quarter of 2016 included higher interest expense of approximately $700,000 primarily

– related primarily to the acquisition of Åkers and a foreign exchange loss of $400,000 this quarter versus a modest foreign exchange gain last year.

The Corporation's income tax provision for the third quarter of 2016 reflects a valuation allowance recorded against the net deferred tax assets of our U.S. operations of $26.9 million, inclusive of the acquired Åkers businesses. At September 30th, 2016, the Corporation triggered a three-year cumulative loss positioned for our U.S. operations and in accordance with U.S. GAAP accounting rules, caused us to be unable to rely on forward projections to support the realizability of the related deferred tax assets.

This is a non-cash accounting charge and we have not lost the opportunity to actually realize the cash tax benefits in the future. But the accounting guidance causes us to record the valuation in our accounting records because of the substantial negative evidence of our cumulative loss history.

You may recall, we recorded a smaller valuation allowance for certain of our foreign entities last quarter of approximately $1.4 million, so the year-to-date valuation allowance totaled $28.3 million and are recorded in the income tax provision on our income statement. As a result, the Corporation incurred a net loss of $27.4 million, or a $2.23 per common share for the third quarter of 2016, which includes the impact of the unfavorable tax valuation allowance of $2.19 per share. By comparison, the Corporation's net loss for the third quarter of 2015 was $1.5 million or $0.14 per share.

Now looking at our operating segments. Sales for the Forged and Cast Engineered Products segment for the three months ended September 30th, 2016 were up 74 percent compared to the prior-year level, driven predominantly by the inclusion of the acquired Åkers businesses, which added sales of $33.7 million for the current year quarter. This was partly offset by a decline in the volume of legacy roll business shipments, as well as a decline in other forged engineered product shipments for the fracking industry.

The segment recorded an operating loss for the quarter, which was higher than the operating loss in the prior year, driven by the inclusion of Åkers, the previously mentioned restructuring charges and lower legacy European cast

roll volumes. The segment has been experiencing reduced demand for cast roll products and low capacity utilization. John will comment more on plans to address this in a moment.

Sales for the Air and Liquid Processing segment for the three months ended September 30, 2016 were about 9 percent below the prior-year quarter. The change is driven primarily by lower heat exchanger coil shipments to the coal-fired power generation market. Operating income for this segment declined slightly, primarily related from lower volumes.

Backlog at September 30th, 2016, approximated $260 million, an 82 percent increase from the $143 million in backlog at September 30th, 2015, primarily driven by the acquisition of Åkers. Backlog increased approximately 4 percent sequentially compared to June 30th, 2016, principally due to higher order intake for rolls and custom air handlers.

With respect to the balance sheet, accounts receivable increased approximately $24 million at September 30, 2016 from December 31st, 2015. The increase represents the inclusion of accounts receivables for the acquired Åkers Group of about $31 million as of September 30th, 2016, offset by improved collections and to a lesser extent by the effects of foreign exchange translation.

Inventories also increased approximately $24 million at September 30th, 2016 from year-end 2015. Net inventory of the acquired Åkers Group at September 30th, 2016 is a primary driver of this change. Accounts payable at September 30th, 2016 increased approximately $20 million from the balance as of December 31st, 2015, again primarily reflecting the balance of payables of the acquired Åkers Group.

Cash and cash equivalents of $43.5 million at September 30th, 2016 declined $51.6 million compared to the balance of $95.1 million at December 31st, 2015. Some selected significant cash flows year-to-date include the cash portion of the Åkers acquisition purchase price, which was approximately $29 million, payment of dividends of approximately $4.1 million, payment of asbestos-related liabilities, net of insurance recoveries of about $3.3 million

and capital expenditures year-to-date of approximately $7 million. Capital expenditures for the third quarter of 2016 were approximately $4.5 million.

I will now turn the call over to John. John?

John Stanik: Thank you, Dee Ann. Good morning and welcome to our call. The third quarter was a very busy one for the Company. We continue to make numerous moves to aggressively position the Company to optimize performance and integrate Åkers under current market conditions and we have made significant progress.

During this discussion, I will provide added color to the third quarter financial performance, update you on a – on numerous third quarter activities, include some general commentary on our 2016 strategic plan update and talk a bit about a pending acquisition and how important it is to our future. I'll end with a preview of the fourth quarter.

There were three major sources of unfavorability in the Company's performance for the third quarter. One, low cast roll shipments in Europe and the U.S., which is the largest impact by far. Two, plant maintenance turnarounds for all of our roll plants, which occurred in July and August. And three, continued low margin contracts.

I've reported low cast roll sales for each of the first three quarters of 2016. Remember there are two primary roll types – forged rolls and cast rolls. It is our belief that we have not lost significant share. Therefore, we believe this decrease in volume constitutes a negative step change in the roll market size in 2016.

Currently, we have four cast roll manufacturing plants in the world; one's in China that is operating near capacity and is profitable and three total in the U.S. and Europe. These last three have been operating at low utilization rates all year. Judging by the cast roll commitments we've received thus far for 2017 shipments, we cannot continue to operate three plants. Therefore, we have decided to idle our Avonmore, Pennsylvania plant beginning in January of 2017.

Idling a plant requires a process of planning and communication. This process began with evaluations early in Q3 and will continue into the fourth quarter. The idling term is indefinite, but it appears it will last well into 2017 unless cast roll demand increases prior to that time. This move will result in the remaining two cast roll plants in Europe and the United States operating at higher utilization rates, thereby covering their costs effectively and increasing corporate profitability.

We regret the need to take this action. However, our customers in North America and Europe continue to operate at less than desirable capacities themselves, including some customer plant closures. Concerning poor margin contracts, we've made progress. To refresh your memory, there were three primary customers of Åkers who had fixed pricing with negative margins, two through 2016 and one through 2017.

For the first two, we have negotiated volume commitments for 2017 at profitable prices. And in mid-November, we will have an important meeting to discuss pricing for that last remaining customer whose prices were fixed through the end of 2017. Regarding our July 1st price increase and other margin improvement from optimization of plant sourcing, it appears we're gaining traction.

We will continue to monitor progress monthly and continue to push. At this time of the year though, we are competing for 2017 business. Therefore, no price increases or margin increases are expected to hit 2016 results unfortunately, as Q4 2016 revenue will come almost exclusively from backlog.

OK. Item two, the plant maintenance turnarounds. Annual maintenance shutdowns last between one and two weeks for this business and normally occur in July and August at all of our roll plants. Since the acquisition, we now have seven plants. During this maintenance time, there is no production and there is significant maintenance expense.

Customer shipments are made from inventory, so the net result is a negative financial impact for maintenance expense and the lack of cost absorption due

to the absence of production. We are looking at ways to spread these efforts and the associated expenses over a broader time period in the future.

Those were the issues that impacted Q3 results. Now, I'll talk about other developments from Q3. The integration of the Åkers roll business continues. In fact, certain programs of that integration process were accelerated in Q3, which resulted in a $900,000 hit to expenses. To date through the first seven months of ownership, we have captured approximately $5.5 million of synergies with a net $3.5 million of this total hitting 2016 P&L.

Frac block orders began to pick up in Q3. This is good news. We suspect that some of this is for customer inventory replenishment, but with North American drilling sites being added consistently over the past several weeks and with some oil and natural gas price recovery, we expect an ongoing level of frac block business being available but at levels much lower than the peak levels of 2014.

At this point, I'm going to ask Dee Ann to expand her explanation of the cumulative deferred tax adjustment that was included in our third quarter results. Please note though that this is expected to be a temporary situation and also note Dee Ann's description of what will transpire when we return to profitability in the timeframe that she refers to. Dee Ann?

Dee Ann Johnson: Thanks, John. First, I want to make sure everyone understands that this is a non-cash accounting charge and it does not impact actual tax – cash taxes moving forward. We have not lost the benefit of these net operating losses or deferred tax assets.

But given our three-year cumulative loss position, the three years ended September 30th, 2016. Under the accounting rules, our ability to consider other objective evidence such as future earnings forecasts becomes limited because of the substantial negative evidence of losses we've incurred from a historical perspective.

So, we are required to reserve against our deferred tax assets in the form of the – in the form of a valuation allowance. Unfortunately, these are the rules. If

and when the Company returns to a sustained level of profitability, sufficient to conclude that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reversed. Thanks, John.

John Stanik: Well, thank you, Dee Ann. Moving on to other third quarter activities, we successfully negotiated another asbestos insurance buyout. This one valued at $10.9 million. We expect payment this month and in the month of November. Our deep dive into our liabilities which will now extend through 2026 is nearly completed.

The final regional approvals for the Chinese joint venture restructuring still have not been received, believe it or not. All documents have been completed and submitted to the authorities. We now await approval, which is expected in November.

As I've described in last quarter's call, the restructuring will add a Chinese third-party to the joint venture who will be responsible for operating the business on a day-to-day basis.

This company, this third-party, is in the roll business and has been in the roll business and therefore has advantages, when melding this volume into their current operations and achieving a profit for the joint venture. The proceeds from the selling of part of our stock to the third-party are now expected to be a Q4 event.

Additionally, during the third quarter, we completed the 2016 updates to our strategic plan, which primarily served to include for the first time the Åkers portion of the business. We also continued due diligence for a pending acquisition which is expected to be signed and closed possibly by the end of the day.

I will now cover both of these topics in more detail. First, the strategic plan update. The update utilizes the three-year 2015 strategic plan developed last year as its base and updates the progress made to the plans initiatives and expected result estimates after the first year of operation. This update includes the addition of the Åkers' acquisition strategic plan for the first time.

Additionally, it updated the state of the industry, regional developments and programs, pricing expectations, et cetera. Perhaps most importantly, the update confirmed our determination to diversify the Union Electric Steel business.

While we believe that we are the strongest roll manufacturer in the world and are very well positioned, at this time considering the state of the industry, we do not see sufficient growth opportunity in this business in the near future, at least not until the steel and aluminum industries recover more fully.

So, consequently, we strengthened our conviction in diversifying our manufacturing capability and expanding our open die forged product opportunities before or beyond their current level. Compound annual growth rates and major increases in operating income are comparable to those that we presented last year from the 2015 base strategic plan.

The open die forged market is approximately 10 times as large as the roll market. It's more diverse, having potential customers in several industries. Even a small penetration into these various verticals will provide long-term sustainable growth for Ampco-Pittsburgh Corporation. In that regard, we have reached an agreement in principle to acquire ASW Steel Incorporated located in Welland, Ontario. All material terms have been agreed to and definitive documentation has been finalized.

We are waiting for signed documents and expect to close the acquisition today or tomorrow at the latest. This pending acquisition is a critically important part of our ability to enter into these markets. ASW is a company that is owned by private equity funds. It has one plant that is located in Welland, Ontario, Canada. We would acquire the Company for a cash payment of roughly $3.5 million and the assumption of debt, which is approximately $10 million. We view this deal as an extremely attractive value.

ASW's primary capability is to manufacture a broad spectrum of refined specialty steel products, including tool steels and stainless steels. Once the acquisition is completed, ASW will provide ingots to our forging operations in Pennsylvania, which will then convert the material into the preliminary forged

shapes that our customers will require. The new combined capability could open the door to a $1.5 billion series of market verticals. This acquisition would be primarily a bolt-on, which means that there would be little integration.

It currently is a very lean company and the only expected synergies are in the area of raw material purchases. It will take some time for us to make new products and have them qualified and proven in customer service. In the meantime, ASW would continue operating its current business model, which is to provide specialty ingots and billets from its continuous caster.

The Company is slightly profitable year-to-date and the pending acquisition is, as I just described, an important step for us and I'm very excited about having their capability in our company.

Looking ahead, it's time to think about the fourth quarter, actually one-third of the way through it. A significant number of very important milestones were achieved by the Company in the third quarter. Regarding the integration of Åkers and the rightsizing of our manufacturing capability, the only major effort remaining is the idling of the cast roll plant capacity.

Naturally, we will continue to push price. We'll test our new products, some of which we expect will be released in Q1 of 2017 and further develop the strategy for the expansion of our open die forged product offering. I'm optimistic that based on the current market condition with hopefully no further negative market step changes, Ampco-Pittsburgh is turning a corner.

Quarterly results will always be dependent on revenue levels. Q4 is no exception. It's very difficult for us to project revenue, even though the vast majority of the contracts that will be completed are already in backlog, holding tentative customer commitments for shipments. However, in my experience in the past 20 months, it's been common practice for our customers to delay shipment even after the finished product has been produced.

This is an issue, an important issue for us that we are trying to work through with the customers. But until we do, it will continue to be very difficult to predict quarterly revenue. On paper, revenue for the fourth quarter should be greater than that of the third quarter. However, the biannual asbestos liability evaluation deep dive which projects two more years into the future will be completed.

As in the past, this could have a non-cash P&L impact but it's too early to know any magnitude. At this point, I expect that our operating performance for the fourth quarter will show improvement over Q3 but again remember that's revenue dependent.

During Q4, there are several important activities that will be completed: the November meeting with our last poor margin contract holder, finalization and initiation of the Avonmore idling plant and the two-year deep dive into our future, asbestos liability. We are hopeful that the recent fracking market pickup continues. However, the likelihood of our profitable quarter in the fourth quarter is low.

We'll now take your questions.

Operator: At this time, I would like to remind everyone, in order to ask a question press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from line of Albert Sebastian from Prospect Advisors. Your line is open.

Albert Sebastian: Good morning.

John Stanik: Good morning.

Albert Sebastian: John, can you just give us your thoughts on if the Company's benefited at all from the imposition of anti-dumping, countervailing duties against imported steel into the country?

John Stanik: I think it is but it's just beginning. I – In the months of August and September, and now October, with October being the strongest month, we are beginning to see more customer commitments. Prices are still fragile in the U.S. or excuse me, yes, prices for us and volume of the business is still fragile in the U.S., primarily because the economy just isn't creating enough demand for steel.

In Europe that situation seems to be getting a little better and remember European tariffs lagged U.S. tariffs by roughly three months. China continues to raise prices, which I think for the world and for the market is a very good thing and I'm talking about steel prices not roll prices. So, I think and I mentioned this, a couple of quarters ago when the tariffs began that this would require a trickle-down effect to hit us.

I think we're starting to see it. And in fact, I can clearly say that in the past significant period of time, the bookings that we had in October are the highest we've seen. And some of those are cast rolls. So, I think the tariffs are helping. I think that the Chinese price increases that are occurring in China are helping and hopefully, we will continue to see some more volume increases. But I am concerned about the U.S.

Albert Sebastian: OK. Couple other questions. Cash flow from operations, what was that for the quarter and also CapEx in the quarter?

Dee Ann Johnson: CapEx in the quarter was approximately – let me go back to my…

John Stanick: $4.5 million.

(Crosstalk)

Dee Ann Johnson: Yes, $4.5 million. Working capital, cash flows from operations, we expect to have a negative cash flows from operations due to the loss and changes in working capital.

John Stanik: Yes. One comment about the capital expenditure, we are very close to finishing the $9 million heat treat facility in our Harmon Creek, Pennsylvania facility. This was one of the other very strategic needs that we had for the

open die forged business. So that project is being started up currently and will be closed within the next month or two and will have another fairly significant capital hit in Q4 that was projected and expected.

Albert Sebastian: OK. Good. Thank you. And one last question. In terms of the dividend, you reduced the dividend earlier in the year when you made the Åkers acquisition. Are you comfortable with the dividend at these levels?

John Stanik: Well, I think that our strategic plan makes us believe that the future is very promising and is not going to create an urgent situation that would require us to change the dividend. I continue to think and I continue to recommend to our Board of Directors that the shareholders deserve at least some type of return, considering how poor the Company's performance has been over the last few years.

So, I'm fighting to keep the dividend. We're still – obviously, as we're announcing another acquisition, we're still able to meet the strategic needs of the Company. So, I think while I can't speak for the Board of Directors, my position is that we should maintain the dividends going into the future.

Albert Sebastian: Thank you very much.

John Stanik: Yes. Let me make another statement before we take another question. There – you know the roll business and the acquisition of Åkers was a very important strategic item for us. And I'm not going to go over all the reasons that we made the acquisition but clearly, it has positioned us to be very, very strong in the industry.

And we are making so many changes to the Company through the integration process that I'm convinced will be positive for the Company in the near future. But there were two things that were missing when we elected in the – in last year's strategic plan to pursue expanding our penetration into the open die forging market.

One was heat treat and I just talked about that a few seconds ago and the other was our inability to have the broad spectrum of metals that are needed by the potential customers in those numerous market verticals that I referred to in my

prepared comments. The heat treat facility is, as I said nearly complete, complete for all intents and purposes. This acquisition – this is a very experienced company.

It has all of the physical assets in terms of ladle metallurgy that will allow us to make all of the specialty types of metals that we will need to be a player in this business. It's going to take a little bit of time for us to get our products qualified. But with our success in the fracking industry, we already have somewhat of a reputation in the oil industry. And then ASW, of course has a reputation in some of these other markets.

So, we have now by this announcement which hopefully, we will make in the next 24 hours or 48 hours, this third piece of the three-piece puzzle now completes where we need to be in our strategic plan to diversify the Company and that's a very positive accomplishment for us.

Operator: Again, if you have a question please press star one. There are no further questions at this time.

John Stanik: OK. We do have a closing comment. I've said in the past that we are not waiting for industry recovery to occur before this company becomes profitable and that maybe getting a little tired to hear for our shareholders.

But I assure you we've worked endlessly to restructure Ampco-Pittsburgh to expand its focus to new markets, as I just described, to improve our market strength in the roll industry which I believe is complete, and to provide for future growth.

I'm very pleased and proud of what the Company has accomplished. There've been many hurdles. However, we are clearly making progress. And very soon this will be a company with a strong, profitable performance and a great future. Thank you and have a good day.

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

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