Ampco-Pittsburgh Corporation

Q1 2020 Earnings Results Conference Call

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CORPORATE PARTICIPANTS

Brett McBrayer - *Chief Executive Officer*

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Melanie Sprowson - *Director of Investor Relations*

Sam Lyon - *President of Union Electric Steel Corporation*

Terry Kenny - *President of Air & Liquid Systems Corporation*

PRESENTATION

Operator
Good day and welcome to the Ampco-Pittsburgh Corporation First Quarter 2020 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. Please note this event is being recorded.

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

Melanie Sprowson
Thank you, Sarah, and good morning to everyone joining us on today's first quarter 2020 conference call. I'm joined by Brett McBrayer, our Chief Executive Officer; and Mike McAuley, Senior Vice President, Chief Financial Officer, and Treasurer. Also joining us on the call today are Sam Lyon, President of Union Electric Steel Corporation, and Terry Kenny, President of Air & Liquid Systems Corporation.

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.

With that, I'll turn the call over to Brett McBrayer, Ampco-Pittsburgh's CEO.

Brett McBrayer
Thank you, Melanie. Good morning and welcome to our call. One of the core values of our business is to protect the safety and health of our employees and to ensure that we protect the environment in the communities where we operate. Our environmental record continues to be outstanding as we maintained our incident-free trend through 2019 and into the first quarter of this year. Additionally, our lost-time rate and our recordable-injury rate improved in the quarter, decreasing by 15 percent and 40 percent, respectively. I'm excited about the actions we are taking to further improve our performance and the dedication of our employees to help us create an injury-free workplace.

Our business and that of our customers are considered essential from the guidelines established by the Department of Homeland Security. We continue to follow the requirements and practices outlined by government, state, and local officials where we operate around the globe to protect our employees, their families, and our vendors and customers. We are grateful but not surprised by the engagement of our employees to work safely during these unusual and challenging circumstances.

As I've noted on previous calls, we've taken many actions to improve the profitability of Ampco-Pittsburgh, including divestitures, efficiency improvements, and cost reductions across all areas of our business. These efforts returned our business to profitability in the fourth quarter of 2019. With many actions still in progress, we further improved on our performance in the first quarter of this year, recently announcing an earnings per share of $0.33 cents and an improvement in operating income of 43 percent from quarter 4 of 2019 to quarter 1 this year. Excluding unusual items, our adjusted operating income from continuing operations improved by 85 percent sequentially. Mike McAuley, our CFO, will share more details regarding our results later in the call.

I'd now like Terry Kenny, President of Air & Liquid Systems, and Sam Lyon, President of Union Electric Steel, to share the improvements in their groups' performance. Terry?

Terry Kenny
Thank you, Brett, and good morning. First quarter sales for the Air & Liquid Processing segment increased slightly, when compared to the same period last year. The growth in sales of heat exchangers and custom air handling equipment was partially offset by a minor decrease in sales of centrifugal pumps.

Segment operating income for the quarter improved by 20 percent compared to the same period last year. The favorable results reflect the impact of increased sales prices and improved product mix and savings generated by the process improvement efforts at all three businesses.

The Air & Liquid Processing segment backlog increased to $57.4 million, led by strong orders for heat exchangers and centrifugal pumps. This backlog is the highest in more than ten years. The three businesses that make up the Air & Liquid Processing segment have continued to manufacture throughout the COVID-19 pandemic. This is possible only through the hard work and dedication of all of our employees. The focus of all three businesses is to keep our employees safe, while servicing our customer needs and continuing to drive process improvements and cost reduction efforts.

Brett McBrayer
Thank you, Terry. I will now turn the call over to Sam Lyon. Sam?

Sam Lyon
Thanks, Brett, and good morning. Throughout the first quarter, our focus continued on safety, cost reductions in the U.S. and Europe, and restructuring activities in the UK and Sweden. Our operations in Sweden turned profit for Q1. This improvement, along with record operating income in our Slovenian operations and strong performance from our operations in the U.S. and China allowed the segment to deliver an income from continuing operations of $4.6 million in the quarter. Excluding insurance proceeds, operating income was $3.8 million in the first quarter versus $2.7 million in Q4 of '19 on the same basis. This operating income was achieved with $5 million lower revenue.

Now I'd like to highlight some improvements that we made in the U.S. and Sweden during the quarter. In the U.S., our focus is on maintenance and the cost of poor quality. Our actions in the quarter resulted in an $800,000 reduction in maintenance spend, when compared to the last year. We achieved this reduction by taking a more proactive approach in our activities. Year to date 45 percent of our maintenance tasks were planned versus 20 percent in the prior year. We have assembled a team focused solely on this activity. They look at the most critical assets and analyze the failure potential and the impact of that failure.

The items determined to be most at risk are reworked or mitigation plans are put in place such as critical spares. I'm very excited about the potential of this effort. From a quality perspective, several large issues have been improved upon, and we are running at a $1.7 million favorable annualized cost-of-quality rate, when compared to the prior year. Like the maintenance team, the critical quality issues were identified and resolved, and corrective actions were put into place.

I will now move to the improvements in our Swedish operations. In prior calls, I stated that we had identified $2 million of improvement activities, exclusive of the reorganization of the sales and operations teams in Europe. These improvement activities targeted raw material savings, process improvements, and the cost of poor quality. In the first quarter, the team delivered over $1.3 million of savings when compared to Q1 of 2019, and $800,000 of savings, when compared to Q4 of 2019, far exceeding the original goal. A majority of the $2.9 million of restructured savings will start to be realized during Q2 of this year.

Looking ahead to the next two quarters, we expect to complete the restructuring of our European operations and will continue to focus on our maintenance and quality improvements. We continue to address the safety and wellbeing of our employees and vendors as we confront the new and changing realities of operating in the current COVID-19 environment.

We will also be laser focused on cash, due to the uncertainties in the market. We have already taken steps to conserve cash, including the implementation of furloughs in the Untied States, the UK, Slovenia, and Sweden, taking advantage of the Social Security tax deferral in the United States, deferring merit increases in the UK, and deferring growth CapEx in the U.S. We expect these actions will save over $10 million in 2020.

Brett McBrayer
Thank you, Sam. At this time, Mike McAuley will share more detail regarding our financial performance for the quarter. Mike?

Michael McAuley
Thank you, Brett. My commentary today includes the use of certain non-GAAP financial measures. I refer you to our disclosures regarding non-GAAP financial measures and the related non-GAAP financial measures reconciliation schedule included in our Q1 2020 earnings release issued this morning. Q1 2020 continued and, in fact, improved upon the return to profitability for Ampco-Pittsburgh from last quarter. This was the first time dating back to 2014 that the corporation has reported positive income from continuing operations for consecutive quarters.

Ampco's net sales from continuing operations for the first quarter of 2020 were $91.1 million. This compares to net sales from continuing operations for the first quarter of 2019 of $107.5 million. Net sales in the Forged and Cast Engineered Product segment of $68.8 million for the first quarter of 2020 declined approximately 19 percent compared to the prior-year quarter due to a lower volume of shipments of mill rolls, both forged and cast, and of forged engineered products. Net sales for the Air & Liquid Processing segment for the first quarter of 2020 of $22.3 million increased slightly compared to the prior-year period.

Gross profit as a percentage of net sales was 23.0 percent for the first quarter of 2020 versus 16.1 percent for the first quarter of 2019. The improvement is primarily attributable to the Forged and Cast Engineered Product segment, which is benefiting principally from a lower cost structure, due to the sale of the Avonmore facility last year, lower raw material costs, and improved manufacturing and operating efficiencies. Additionally, the Forged and Cast Engineered Product segment received business interruption insurance proceeds of $0.8 million in the first quarter of 2020 from a 2018 insurance claim. These insurance proceeds were recorded as a reduction to cost of products sold in the current quarter. For the Air & Liquid Processing segment, gross profit increased slightly, benefitting primarily from changes in the product mix and cost efficiencies.

Selling and administrative expenses of $11.8 million, or 13 percent of net sales, for the first quarter of 2020 were down compared to $13.9 million, or 12.9 percent of net sales, for the first quarter of 2019. We were able to deliver approximately a 15 percent year-over-year reduction in SG&A expense for the quarter, principally due to lower employee-related costs, in part due to completed reduction-in-force actions from 2019, lower professional fees, as well as lower volume-related commission expense.

Depreciation and amortization expense of $4.7 million for the first quarter of 2020 was down compared to $5.3 million for the first quarter of 2019, principally due to the 2019 divestiture of the Avonmore Cast Roll Plant.

Income from continuing operation on an as-reported GAAP basis for the first quarter of 2020 was $4.4 million, including the $0.8 million benefit for the business interruption proceeds. This compares to a loss from continuing operations in the prior-year quarter of $12 million, which included an impairment charge of $10.1 million, $0.9 million of restructuring related costs, and approximately $2.2 million in excess carrying costs of the Avonmore, PA Cast Roll facility divested in 2019.

Excluding the unusual items as defined in the non-GAAP financial measures reconciliation schedule included with our earnings release, non-GAAP adjusted income from continuing operations for the first quarter of 2020 was approximately $3.6 million. This reflects an improvement of approximately $2.3 million compared to the prior-year quarter on the same non-GAAP basis. The improvement is principally attributable to the implementation of manufacturing and operating efficiencies, along with the completion of selected reduction-in-force actions across the organization.

Other income expense net worsened for the first quarter of 2020 when compared to the prior-year quarter, due to higher foreign exchange losses and unrealized losses on Rabbi Trust investments, which are principally due to market disruptions caused by the COVID-19 pandemic.

The income tax benefit for the first quarter of 2020 includes a benefit of approximately $3.5 million, due to the expanded tax loss carryback provisions made possible by the CARES Act. We have already filed for that refund. Although we had this benefit on the tax line, the net effect of COVID-19 related items throughout our Q1 P&L was about neutral. The foreign exchange transaction loss; the unrealized lost on Rabbi Trust investments; certain bad debt and slow moving inventory reserves, which we increased in the quarter in the Forced and Cast Engineering Product segment; and some lower sales in that segment towards the end of March were all related in whole or in part to market impacts driven primarily by COVID-19. Collectively, these items approximately offset the tax benefit from the CARES Act.

At the bottom line, the corporation reported a GAAP net income attributable to Ampco-Pittsburgh of $4.1 million, or $0.33 cents per common share, for the first quarter of 2020. This compares to a net loss of $15.1 million, or $1.21 per share, for the first quarter of 2019, which included an impairment and restructuring related expenses totaling $0.88 cents per share, plus a net loss from discontinued operations last year of $0.18 cents per share.

Here's some detail on business segment results. In the Forged and Cast Engineered Product segment, Q1 2020 net sales of $68.8 million declined approximately 19 percent versus prior year, due to a lower volume of shipments of mill rolls, both forged and cast, and forged engineered products, offset slightly by a more favorable product mix. However, the segment's operating results improved significantly for the first quarter of 2020 compared to prior year, which included the impairment charge and the excess carrying costs of Avonmore. Additionally, the current-year quarter benefited from the proceeds from the business interruption insurance claim, manufacturing efficiency improvements from the lower cost structure, and actions taken in the prior year, as well as raw material costs and lower commissions expense, partially offset by the effect of the lower sales volume and reserves established for anticipated bad debts and slow moving inventory for certain of the segment's oil and gas customers, linked in part with expectations associated with the COVID-19 pandemic.

Net sales of $22.3 million for the Air & Liquid Processing segment in the first quarter of 2020 were slightly higher than the comparable prior-year period. Sales for the air handling business—and heat exchange businesses were higher than a year ago as a result of higher volume of shipments. Sales of pumps were slightly below the prior-year period, due to lower shipments to U.S. Navy shipbuilders.

The segment's operating results improved for the first quarter of 2020 compared to prior year, primarily due to more favorable product mix and cost reductions. Backlog at March 31, 2020, approximated $278 million, a decrease from $321 million at December 31, 2019. The decrease is principally due to lower backlog for cast rolls and a decline in foreign exchange rates used to convert the backlog of the corporation's foreign subsidiaries into the U.S. dollar. Lower exchange rates at March 31, 2020, when compared to the earlier period, reduced backlog by about $10 million. Backlog for the Air & Liquid Processing segment improved, due to strong order intake for heat exchangers and centrifugal pumps.

Next, here are a few balance sheet and cash related items for continuing operations. Accounts receivable of $75.2 million at March 31, 2020, decreased by $6.6 million compared to December 31, 2019, primarily attributable to lower sales in the latter part of first quarter 2020 compared to the latter part of fourth quarter 2019. Improved collections and an increase in the corporation's allowance for doubtful accounts provision.

Inventories of $82.4 million at March 31, 2020, were flat compared to December 31, 2019. Accounts payable of $36.2 million at March 31, 2020, increased by $2.9 million compared to [December] 31, 2019. Capital expenditures for the first quarter of 2020 were $1.9 million, primarily for the Forged & Cast Engineered Products segment. Cash and cash equivalents for continuing operations of $13.9 million at March 31, 2020, increased compared to the December 31, 2019, balance. Net cash flows provided by operating activities was a strong $12.2 million for Q1 2020. Drawings on the Ampco revolving credit facility were $31.5 million at March 31, 2020, which is down $2.8 million versus December 31, 2019. The decrease in revolver borrowings reflects improved operating results and lower investment and trade working capital.

Total debt at March 31, 2020, was $68.2 million and is down $2.6 million from the December 31, 2019, balance in line with the revolver decrease.

At March 31, 2020, in addition to the cash balance, the corporation also has remaining availability on the revolver of about $31 million, an improvement of approximately $4 million compared to availability at December 31, 2019.

I will now turn the call back over to Brett for some closing remarks.

Brett McBrayer
Thank you, Mike. Our improvement actions are continuing throughout the year as we simplify and right size our business for long-term and sustaining profitability. We continue to identify new leverage points to sustain our positive trajectory. I'm excited about the actions that are currently underway. The impact of COVID-19 is difficult to predict at this time; however, we know the coming quarters will be challenging. Our leaner cost structure and the improvement actions we are continuing to implement position us to better weather the evolving effects of the pandemic going forward.

Thank you, and at this time, we'll now take questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. Please limit yourself to one question and one follow-up. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Marco Rodriguez with Stonegate Capital Markets. Please go ahead.

Marco Rodriguez
Good morning. Thank you for taking my questions. I wanted to…

Brett McBrayer
Good morning.

Marco Rodriguez
Hi. I was wondering if you could maybe talk a little bit about the cadence that you saw after the quarter, just what sort of happened with the booking of revenues in terms of the disruptions you may have seen from coronavirus. And then also if you can maybe talk a little bit about what your order book looks like today and how that kind of cadence is coming along.

Sam Lyon
Yes, this is Sam. The majority—you know, some of our bigger customers were delayed in placing their 2021 allocation, even prior to the COVID-19 situation. And so, they were—that would typically have been in our backlog, and it's not. And then when COVID-19 happened, they're reassessing their needs for the remainder of this year and then what will push into 2019, so, that's really the reason why the backlog is lighter than typical.

Marco Rodriguez
Got it, okay. And then maybe—I think you touched on this a little bit with the balance sheet and the cash flow pretty strong in the quarter, but maybe if you can just talk a little bit more about your expectations for cash flows for this fiscal year. Not necessarily looking for guidance but just kind of getting—trying to get a better sense as far as what your liquidity situation looks like, what you might be expecting from maybe a base-case type scenario and if you can discuss your expectations on working capital and CapEx expectations for the coming fiscal year.

Michael McAuley
Okay, Mario, it's Mike. Yes, a good question. You know, if we—as we entered into—as we end Q1, we are at a pretty solid liquidity position. Availability on the revolver is up; we ended Q1 with a strong sales month in March, increasing collateral on the accounts receivable on the line. We have done things to respond to the impact in the second quarter. We've curtailed some operations temporarily, and we have—we shut some plants temporarily to manage through in the early part of Q2. That has basically—you know, we've been able to— successfully managing our cash flow and in the first part of Q2, we've been harvesting cash and we've been using it to pay down the credit line. So, we've been actually very effectively managing cash in the early part of the quarter, so I feel pretty solid right now.

And then, as we looked forward into the future, what's—you can just basically follow the—you know, our largest customers and what's happening in the—on the steel side. You can imagine some demand is getting pushed out. We're trying to manage that with our customers, but I do believe what we're going to see is less working capital demand, and I think we're going to—as I indicated, we're going to be liquidating some working capital. We are managing our cost structure against that as well, so, I think we have—as we get into the second half of the year, visibility becomes even more difficult, like most companies. And so, we don't give earnings guidance, especially in—most companies are pulling earnings guidance, that used to give it, because there's so much uncertainty. Our view is that we will see an impact here in the second and third quarter, but we are managing our cash and our working capital should come down.

And with your question on CapEx, we have definitely reduced our spending on CapEx and our expectations for the year, given the pandemic, are to significantly reduce our capital expenditures and focus those dollars on maintenance requirements, basically, sustaining type—investments in the machinery.

Marco Rodriguez
Got it. I'll jump back in queue. Thanks.

Operator
Our next question comes from Justin Bergner with Q Research. Please go ahead.

Justin Bergner
Good morning.

Brett McBrayer
Good morning, Justin.

Michael McAuley
Good morning.

Justin Bergner
How are you, Brett? How are you, Mike?

Brett McBrayer
Good.

Justin Bergner
First question just is on the benefit under the CARES Act. So given what I've heard from other companies, so that $3.5 million includes both the benefit from the reversal-to-valuation allowance and sort of the mark-up of NOLs booked at 21 percent to the 35 percent that you can look back against. Correct me if I'm wrong there. And then what are the—cash refund you're expecting from the CARES Act this year and potentially early next year versus that $3.5 million?

Michael McAuley
That's a good question**.** Basically, the CARES Act has enabled the carryback of an additional two years, so that it goes up to a five year carryback allowance, which means that if you had net operating losses that you were carrying forward, you could now pause and take a step back and look back five years. And when we do so, we take our 2018 results and go back to 2013 when we were profitable. We have done certain—you know, normally it's a two-year carryback opportunity in normal times. And we've used that effectively over time, but as we look where the opportunity lies for us, if we take our 2018 losses and apply them—reach back five years, we can harvest some NOLs of about $3.5 million, if we can reach those back to our 2013 period when we had profit. And so, we've already filed for that refund so that's $3.5 million. We think we may get that. We're estimating here, but it may take, say, 90 days or so for them filing the refund, and we already have filed that refund, so best case, maybe trying to rough this out, when that money might come in, probably—we're guessing around July maybe if things go well with the government and the IRS and, you know, maybe a 90-day estimate might not be unreasonable. So that's one piece of it.

The other piece of it is that the CARES Act also allows for some other benefits that are — to accelerate some other benefits like alternative minimum tax refunds that you're eligible for, but you have to wait—the CARES Act allows those to be refundable now. That's pretty small, for us--a couple hundred thousand. So we're expecting that to add, and that's part of our refund request as well, so we're thinking about $3.7 million or so should come in in the summer on the refund, and that's how that plays out.

Justin Bergner
Okay. And…

Michael McAuley
And so—and we're basically—we get to record the benefit in the current-period tax provision because we book it—a current receivable for it.

Justin Bergner
Okay, that's helpful. So I guess, yes, so the tax benefit sort of—the cash benefit matches that $3.5 million to a head.

Michael McAuley
Yes.

Justin Bergner
The other question I—well, two more questions, I guess. Next, would be you've talked in prior calls about pursuit of sort of new business and new end markets. I realize it's a tough time to be pursuing new business, but any updates there?

Sam Lyon
Yes, on the Forged & Cast Engineered Product side, we're—we were heavily reliant on oil and gas and, as you all know, that's pretty well dead at this point with—I mean, the rig count from a year ago is down 56 percent at this time. It's from 994 to 408. And we're actually starting to see that increase as we were predicting on the prior calls. We're starting to see activity increase in January, February, a lot of increase coming in and now that is not, but at the same time, we've really been going after large distribution markets and infrastructure and industrial gearing-type of markets. And we have enough opportunities in there to really—and a trial's being run to offset what we were expecting in oil and gas, so it's yet to be seen if the trials are successful, but we do have a lot of activity occurring with 10-or-12 different customers.

Justin Bergner
Okay. Great. Thank you for that color. And then lastly, the other question related to just the restructuring. You talked about a $2.9 million benefit, I think, from restructuring Europe. How much of that has—you said, I guess, $1.2 million of savings have been realized year-on-year. Is that all Sweden related, or is that mainly Sweden related? How does that break out across facilities?

Sam Lyon
Well, the $1.3 million is just cost savings related on raw materials and process efficiencies, so that has nothing to do with restructuring. The restructuring, we probably have already seen $500,000 of it, and that's an estimate. So—and, really, the reason why it's not done at this point is it's difficult in Sweden—more difficult in Sweden to—the severance period and how long you have to give warnings and dealing with the unions, but all of that's complete, and most of the people start coming out in May and June timeframe. It will be pretty well completed, and the majority of that remaining in Sweden.

Justin Bergner
Okay. Thanks for taking my questions.

Brett McBrayer
Thanks.

Michael McAuley
Thank you.

Operator
Again, if you'd like to ask a question, please press star, then one. Our next question comes from David Wright with Henry Investment Trust. Please go ahead.

David Wright
Good morning. Brett, congratulations to you and your team. You're continuing to make the progress that you said you were going to make, and it's a good report this morning, so thanks for the good job.

Brett McBrayer
Thank you, David.

David Wright
A question for Terry. Just remind me on the pumps that you make for the U.S. Navy, which ships do you make the pumps for?

Terry Kenny
Buffalo Pumps has some services on virtually all of the combatants in the U.S. Navy. The combatant specifications are significantly more severe than the cargo ships and the tankers and the supply ships, and that's where our focus is. So we're on virtually all of the combatants. The various [inaudible] construction today.

David Wright
Surface ships only, correct?

Terry Kenny
That is correct.

David Wright
Okay. Thank you. Two for Sam. Just for clarification, you've alluded to something you guys talked about on the last call, which was roll customers not having placed their full-year orders. Do you think that those orders are going to be placed or that there just won't be any this year because of all of the disruptions?

Sam Lyon
I wish I knew the answer to that. You know, listening to the earnings calls of our customers, like ArcelorMittal, for example, in the U.S. is heavily reliant on automotive, so that's obviously been slow to restart, and we're seeing deferrals. Nucor and Steel Dynamics are more in the construction space, and that has not slowed down at this point in time. They're not as big a customer for us, but they're still out there so—and we're starting to see Italy open back up. There was a period of time where we weren't shipping any rolls. Our Slovenia operation ships quite a bit into Italy, and that has started again. So it will certainly be lighter and I think there'll be deferrals from '20 to '21, but that'll be yet to be seen over the next two or three weeks as our customers assess their inventory and what they need for the remainder of the year and early next year.

David Wright
When you say over the next few weeks, is there sort of an order period, that if you don't make orders by X, that there aren't going to be any?

Sam Lyon
No. I mean, for most of our—for a lot of our products, we're in the three or fourth month to be able to deliver if we got an order today. The large rolls is further out, but we're booked pretty solid on the large rolls through almost October or November. So there's still time. They're just—you know, everybody's just assessing, as you can imagine, what their order book is and what their needs would be, and they're also trying to manage their cash just like we are. And a roll is a capital item for many of these customers, but they're going through that analysis currently.

David Wright
Okay. And then second question for you, Sam. We've had a lot of shutdowns and some announced as permanent, and then there'll be restarts. Can you characterize between North America and Europe? Has the impact on your roll business been different in one geography versus the other, or is the experience pretty identical?

Sam Lyon
It's pretty identical, other than it's phased. I mean, Europe was first, probably two, three weeks ahead, and then the U.S. is lagging. But, again, the one bright spot in the U.S. is construction, and that kind of—in a general economic downturn, construction lags, because all those projects are already started. And then, believe it or not, tin used for cans and things like that, people are using a lot more of that, so volume there is stable to up. But, again, the big sectors, such as automotive and white goods, are—have taken a pause.

David Wright
Okay. And then one for Mike. The Rabbi Trust, do they relate to asbestos reserves or something else?

Michael McAuley
No, David, they—the Rabbi Trust is in place to cover the non-qualified SERP plan that's in place, so it's a non-qualified retirement plan, and we have a trust in place for—and it's relatively small, about $4 million or so. It's down because of—it's heavily—you know, because of the asset mix, it's a lot—there's a fair bit of it in equities and with the equity market taking a hit, in March especially, the value of that—we have to mark-to-market that asset, because it is a corporate asset subject to the credit risk of the corporation, so if it becomes a corporate asset, even though it's a trust that's dedicated for the use of an old SERP plan, so we—you know, under the accounting guidance we have to mark those assets to market rather than defer them into AOCI.

David Wright
Okay. Great. All right. Thank you very much.

Michael McAuley
Yes.

Operator
Our next question is a follow-up from Marco Rodriguez with Stonegate Capital Markets. Please go ahead.

Marco Rodriguez
Hi. Yes. I just wanted to follow up in regard to the European restructuring. I think you mentioned on a prior answer to a prior question you recognized about a half a million in savings from the restructuring European adjustments. I believe in the past you had forecast for about a $4 million annualized run rate in fiscal '20. And if I heard you correctly, you should realize that come Q2, Q3 of this year?

Sam Lyon
Q2. The $3 [million] to $4 million was restructuring plus a million dollars in kind of quality avoidance cost savings issues, and we've actually been able to do more on the quality side. And then also, the restructuring piece, close to $3 million on its own, but, yes, the majority of that, two-thirds or so, or three-quarters of that will start to be realized in Q2.

Marco Rodriguez
Got it. And if you could also remind us, the phase 1 reduction plan that you were looking to take out $2 million in expenses, that has been completed? And then if also you could talk a little bit about—last quarter you talked about reducing corporate expenses in the ballpark of 10 to 15 percent. Are we hitting that target yet, or is there some more room to grow there?

Sam Lyon
The $2 million on the raw material process improvement quality, yeah, we achieved–that was supposed to be $2 million annualized, and we achieved $1.3 million in the first quarter. So, we're seeing a much bigger impact. Now, that will be tamped down in Q2 ad Q3, because the volumes are significantly down in the Sweden plant. But once it ramps back up, we will see more like a $3 [million] or $4 million kind of annualized savings from those improvements. And I'll let you guys in.

Michael McAuley
Yes, Marco, it's Mike. On the corporate savings, the corporate–well, as we ended the year, we said that we expected 2020s corporate expenses–corporate SG&A to be down about 10 to 15 percent, and we are definitely right in line with that right now.

Marco Rodriguez
Got it. Thanks a lot, guys. Appreciate it.

Michael McAuley
Okay. Thanks.

CONCLUSION

Operator
This concludes our question-and-answer session, and the conference has also now concluded. Thank you for attending today's presentation. You may now disconnect.