Ampco-Pittsburgh Corporation

Third Quarter 2020 Earnings Result

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CORPORATE PARTICIPANTS

Melanie Sprowson - *Director, Investor Relations*

Brett McBrayer - *Chief Executive Officer*

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

Sam Lyon - *President, Union Electric Steel Corporation*

Mike McAuley - *Chief Financial Officer*

PRESENTATION

Operator
Good day and welcome to the Ampco-Pittsburg Corporation Third Quarter 2020 Earnings Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal conference specialist, by pressing star then zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded. I would like now to turn the conference over to Melanie Sprowson, Investor Relations. Please go ahead.

Melanie Sprowson
Thank you, Matt, and good morning to everyone joining us on today's third 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 and 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 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. 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?

Brett McBrayer
Thank you, Melanie. Good morning and welcome to our call. I'm proud of our team and the work they've accomplished over the past quarter as each of our businesses continue to execute on our strategic initiatives. Their work is even more impressive when you take into account the challenging obstacles each of our businesses have faced with the global pandemic. As I've stated previously, the health and safety of our employees are at the forefront of everything we're doing. The onset of COVID-19 has introduced a new risk into our businesses, and we're taking extraordinary steps to safeguard the wellbeing of our employees and their families, our customers and suppliers, and those in the communities where we operate.

We continue to make positive improvements toward our goal of an injury-free workplace as we achieved our lowest lost workday rate for the year in the third quarter. As we did in the second quarter this year, we initiated plant shutdowns and furloughs to meet the reduced customer demand experienced in the Forged and Cast Engineered Products segment. Our Air and Liquid Processing segment also completed outages during the quarter to perform proactive maintenance. We remain relentless in our efforts to improve our efficiency and cost structure to further grow our business.

Our team members continue to identify and attack new opportunities to accelerate our progress. I want to thank all of our employees for their outstanding work during this challenging period. We report a positive earnings per share of $0.07 per diluted share for the third quarter, despite the impact of the COVID-19 pandemic on end-market demand. As a result of our equity offering completed during the third quarter, we raised $19.3 million in gross proceeds, allowing us to improve our balance sheet and begin our capital improvements to further consolidate our manufacturing footprint. I want to again thank our shareholders for your support. Our debt to capital ratio halved from December 31, 2019 and our total debt was reduced by 54% or $38.3 million. Our strengthened balance sheet and significant liquidity and operating leverage has Ampco-Pittsburgh well positioned to respond to recovery in our end-markets.

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 segments' performance. Terry?

Terry Kenny
Thank you, Brett. As we have mentioned before, the health and safety of our employees remains a major focus. I would like to recognize the employees at the Aerofin division and at Buffalo Pumps division for having zero OSHA recordable injuries during the third quarter. Thank you for your efforts. Unfortunately, we had four OSHA recordable injuries at our Buffalo Air Handling division in the third quarter. I am pleased that all four employees returned to work immediately after receiving minor medical treatment. As always, we conducted detailed investigations of these accidents and have put in place procedures and process changes to reduce the possibility of these injuries occurring in the future.

The Air and Liquid Processing segment's third quarter sales were below the prior year. However, operating income approximated that of the prior year, as a result of a favorable product mix and successful process improvement efforts at all three divisions. On a year-to-date basis, sales for this segment are 2.6% below prior year, while income from operations are 4.3% ahead of 2019. Orders received for the third quarter were strong for custom air handling equipment and specialty centrifugal pumps. While orders for custom heat exchangers were negatively impacted by the effect of COVID-19 on commercial and industrial building utilization. The backlog is good for Buffalo Air Handling and Buffalo Pumps, with some softness experienced in the Aerofin division. We continue to concentrate our efforts on improving our efficiency in all aspects of our businesses, while providing quality products to our customers. I would like to take this opportunity to thank all of our dedicated employees for their hard work during these trying times.

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

Sam Lyon
Good morning. Our focus has remained consistent for the last two quarters. First, I would like to recognize our Slovenia, and our Valparaiso, Indiana operations for achieving zero lost time accidents year-to-date. Our overall recordable rate picked up in the third quarter but remains lower than 2019. Our number one focus will always be the wellbeing of our team members.

We continue to be highly focused on our liquidity and have had great success here which Mike McAuley will cover in more detail shortly. We have challenged our teams and reduced our inventory to levels not seen in many years. Our weekly team meetings review our inventory positions, receivables and payables. I personally sit on biweekly calls with each sales associate to review past-due receivables, and drive actions for collection.

We've improved in this area year-to-date by over $12 million. We also deferred capital spending by over $7 million dollars without jeopardizing performance, through improved proactive maintenance and by shifting production to our most efficient and reliable equipment. These actions have resulted in strong cash flow for the business. Our operations continue to run on a reduced schedule with the ability to be flexible when demand increases. Government programs in the UK and Sweden have been aimed at keeping people employed, so that when demand returns, production can be ramped up easily with little training.

In the U. S., we adjust our work schedule to align with demand by taking out whole weeks of production, rather than reducing staff and operating at a lower daily output. Our Slovenian plant is currently running on a four-day schedule. This operating philosophy allows us to rapidly flex our production and costs with demand. Looking ahead, we anticipate an additional two weeks of shutdown in our U. S. plants in Q4 when compared to the prior quarter. Our 2020 cost reduction plans for Sweden are complete, and we're tackling our plans for 2021. Our number one focus in the U. S. plants continues to be on equipment reliability, and the team has delivered over $2 million dollars in savings and reduced maintenance spend when compared to prior year.

We have improved our proactive maintenance from about 50% in 2019 to over 75% in Q3 of 2020. This improvement is also apparent in our reduced operating costs as the outages are planned and manpower can be scheduled accordingly.

Switching to sales, I would like to highlight a few key successes. We won and will be shipping the initial provisioning for the new Steel Dynamics Sinton, Texas cold mill in Q4. We are proud to be a part of this state-of-the-art complex. We have secured orders for the first time with Big River Steel. We've also just received multiple orders into the oil and gas market, which will ship in Q1, the first orders we have seen in several quarters. Even though we are seeing signs of recovery from our customers, due to the lead-time of our products, these improvements will not be realized in our volume until the second half of 2021.

I'd like to close by thanking the entire Union Electric global team for their hard work and dedication through these difficult and uncertain times.

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

Mike McAuley
Thank you, Brett, and good morning to everyone on the call today. I'd like to focus my comments on the current quarter's results today. Commentary on year-to-date results is available in our earnings press release issued yesterday, as well as in our Form 10-Q, just filed.

As Brett indicated, the two main themes this quarter are sustained positive net income, despite the magnitude of the sales contraction we experienced related to the pandemic, and the completion of our successful equity offering, which significantly improved our balance sheet and enhanced our overall liquidity position. We thank our shareholders for their participation.

With EPS of $0.07 per share for the third quarter of 2020, Ampco-Pittsburgh continued to remain profitable on a net basis for the fourth consecutive quarter and sequentially higher than Q2 2020 EPS, despite the negative impact of the COVID-19 pandemic on our end markets.

Ampco's net sales from continuing operations for the third quarter of 2020 were $75.7 million dollars. This compares to net sales from continuing operations for the third quarter of 2019 of $90.9 million dollars. Net sales in the Forged and Cast Engineered Product segment of $54.5

million dollars for the third quarter of 2020 declined approximately 19% compared to prior year. Principally attributable to a lower volume of shipments due to customer deferral of deliveries in the flat-rolled steel and aluminum markets, primarily in response to the global pandemic, along with reduced demand for other forged engineered products due principally to depressed conditions in the oil and gas industry.

Net sales for the Air and Liquid Processing Segment for the third quarter of 2020 of $21.2 million dollars decreased marginally compared to the prior year. Gross profit as a percentage of net sales was 21.4% for the third quarter of 2020 versus 16.9% for the third 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 restructuring initiatives, which have been completed and implemented and lower raw material costs. This improvement was partly offset by the impacts of lower shipment volumes and net unabsorbed costs from the temporary idling of capacity, caused by the pandemic. For the Air and Liquid Processing segment, gross profit was comparable between the periods.

Selling and administrative expenses of $11.4 million dollars for the third quarter of 2020 declined $0.9 million dollars, compared to prior year. The decline was primarily driven by lower sales commissions' expense and the benefits from restructuring initiatives implemented. Depreciation and amortization expense of $4.5 million dollars for the third quarter of 2020 was flat compared with the third quarter of 2019. The corporation recorded income from continuing operations for the quarter of $0.2 million dollars, which compared favorably to the $1.3 million dollar loss from continuing operations in the prior year quarter. Prior year quarter included approximately $0.7 million dollars in excess carrying costs of the Avonmore, Pennsylvania cast roll facility divested in 2019, and restructuring related costs of approximately $0.6 million dollars.

Additionally, although the current year quarter benefited from lower raw material costs, and reduced SG&A expense, these impacts were approximately offset by the pandemic driven effects of the lower shipment volumes and net unfavorable absorption due to plant downtime in the Forged and Cast Engineered Product segment. Other income expense net improved for the third quarter of 2020 compared to prior year, primarily due to the timing of dividend income in the current year quarter from one of the corporation's Chinese joint ventures. At the bottom line, the corporation reported net income attributable to Ampco-Pittsburgh of $1 million dollars or $0.07 per diluted share for the third quarter of 2020, compared to a net loss of $5.1 million dollars or $0.40 per diluted share for the third quarter of 2019, which included a net loss from discontinued operations of $0.27 per diluted share.

Here are some highlights regarding business segment results. In the Forged and Cast Engineered Product segment, Q3 2020 net sales of $54.5 million dollars declined approximately 19% versus prior year, due to lower volume of shipments of mill rolls, both forged and cast as a result of customer deferral of orders in response to the pandemic, and, as I indicated, reduced demand for other forged engineered products. Pricing and product mix were relatively comparable quarter-to-quarter.

Operating results for the Forged and Cast Engineered Product segment improved significantly for the third quarter of 2020, when compared to prior year. While the segment was adversely impacted by the lower volume of shipments during the quarter, the current year quarter benefited from a lower cost structure attributable to restructuring efforts, lower raw material costs and some lower commissions expense associated with the reduced volume of forged engineered product sales.

In the Air and Liquid Processing segment, net sales of $21.2 million dollars in the third quarter of 2020 were marginally below the comparable prior year period with slightly lower sales in each of the three businesses. The Air and Liquid Processing segments operating income for the third quarter of 2020 was comparable to prior year.

Next, here are a few balance sheet and cash related items. Accounts receivable of $56.1 million dollars at September 30th, 2020, decreased by $25.7 million dollars compared to December 31st, 2019, primarily attributable to lower sales from the market contraction we have experienced and improved collections. Receivables decreased $6.8 million dollars compared to June 30th, 2020, due to lower sales in the current quarter. Inventories of $78.4 million dollars at September 30th, 2020 decreased by $3.9 million dollars compared to December 31st, 2019 but increased slightly compared to June 30th, 2020.

Accounts payable of $28.8 million dollars at September 30th, 2020 decreased by $4.4 million dollars compared to December 31st, 2019, but increased slightly compared to June 30th, 2020, consistent with a modest inventory growth. Capital expenditures for the third quarter of 2020 were $2.7 million dollars and are $6 million dollars year-to-date, primarily for the Forged and Cast Engineered Product segment. Cash and cash equivalents for continuing operations of $18.3 dollars million at September 30th, 2020 increased $11.3 million dollars compared to the December 31st, 2019 balance and increased $2.4 million dollars compared to the June 30th, 2020 balance.

Drawings on the Ampco revolving credit facility were zero at September 30th, 2020, which is down by $34.3 million dollars, compared to the balance at December 31st, 2019. The elimination of revolver borrowings reflects improved operating results, and lower investment in trade working capital through the year, as well as the initial usage of the net proceeds from the equity offering. Total debt at September 30th, 2020 of $32.6 million dollars, decreased $38.3 million dollars or 54% from December 31st, 2019, and decreased $19.7 million dollars, or approximately 38% from June 30th, 2020. During Q3, we retired a $4.1 million-dollar industrial revenue bond and paid off the remaining borrowings on the credit facility.

At September 30th, 2020, in addition to the cash balance, the corporation also has remaining availability on the revolver of approximately $56 million dollars, which is an improvement of approximately $29 million dollars compared to availability at December 31st, 2019.
I will now turn the call back over to Brett for some closing remarks. Brett?

Brett McBrayer
Thank you, Mike. I am extremely proud of our employees and how they in the face of very difficult obstacles delivered positive results for the third quarter. We will continue to take aggressive steps to further improve our profitability. I'm excited about Ampco-Pittsburgh's future. Thank you. We'll now take your questions.

Question and Answer

Operator
We will now begin the question and answer session. To ask a question you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. Please limit your enquiries to one question and one follow-up to ensure everyone may have an opportunity to ask a question. At this time, we will pause momentarily to assemble our roster.
Our first question comes from Justin Bergner with G. research. Please go ahead.

Justin Bergner
Hey, good morning, Brett. Good morning, Mike.

Brett McBrayer
Good morning.

Mike McAuley
Good morning, Justin.

Justin Bergner
Two questions. Sort of what are your expectations for CapEx in 2020, and on a more normalized basis?

Mike McAuley
Hi, Justin, it's Mike. Yeah, we are running a bit lower than usual. We would normally spend in a typical year or if we look back to our business plan for 2020, something in the range of $12 million dollars, most of which would be sustaining CapEx. But as Sam indicated, and maybe he's got some thoughts, but as Sam indicated, we've been really focused on cash flow. And we've been finding ways to operate equipment and kind of channel production to the most efficient equipment, and thereby kind of reducing our needs. We've been very creative, up to now, especially through the period in which prior to the conclusion of the equity offering. But as we move forward, we have more flexibility now.

Justin Bergner
Great, that's helpful. And--I'm sorry, where's--I don't know--

Brett McBrayer
--I was going to add, Justin, that obviously we talked about this in our equity raise, a very key step for us that we're focused on in the process of is the continued consolidation of our manufacturing footprint, here in the U. S. And with that, we've initiated some activities to move us further down the path. We're looking exactly how that spin will play out right now. But that's something we are keenly focused on and excited about. --

Justin Bergner
Okay, great. That actually answered my second question, your additional comment there. Thanks for taking my question.

Operator
Our next question comes from David Wright, with Henry Investment Trust. Please go ahead.

David Wright
Yeah, sorry. Good morning. I have to commend the corporation, the way you've turned the balance sheet around and the debt to equity ratio improvement, and the increase in availability. It really helps the foundation for the next step, so good job there.

Mike McAuley
Yeah, thanks.

Brett McBrayer
Thank you, David.

David Wright
Do you have any comments on how the proposed combination of Cleveland-Cliffs and ArcelorMittal's North American steel operations, what impact, if any, that has on your roll business?

Sam Lyon
Yeah, David, this is Sam. We don't think it'll have any impact. And we have very good relationships with the purchasing group at ArcelorMittal as well as AK Steel, which as you know, Cleveland-Cliffs bought AK Steel prior. We don't really see--we haven't seen anything, nor do we really expect to see any impact, positive or negative.

David Wright
Okay. And staying on that vein, the backlog's down on order deferrals and lack of booking of new orders, because of the pandemic. Some steel lines have been shut down; some new capacities being built. Is it possible for you to characterize how much of the backlog shortfall is from sort of just COVID timing things, versus potentially permanently lost business?

Sam Lyon
Well I'd say the majority of it is timing, and I hate to use the word uncertainty, but uncertainty. I mean, as a matter of fact, we're going to get the orders from two of our largest--well our two largest customers in the United States for Q2 and Q3 of next year, this week, which normally we would have had the entire next year understood. But they're holding orders until the very last minute. What is happening though is that the automotive businesses in the U. S. are running at over 90% of pre-COVID, in Europe they're running at that same or higher. There's been extremely strong rebound and barring a second total shutdown in Europe or the U. S., we're hearing favorable things to the order book versus what we have in our plan for next year. We're seeing more upside and downside, depending on what happens with the virus.

David Wright
Okay. And that kind of rolls into my next question, which is, obviously, the roll business is long lead time, we've had quite an increase in HRC prices since the beginning of the quarter, weekly capacity utilization for steel production goes up a little bit each week. Is there any correlation, you mentioned, you've got next year's orders coming in next week? Is there any correlation between kind of short-term what's happening in this market coming back from where it was, and its impact on you getting more orders and have you seen more business this quarter, as a result of that, more bookings?

Sam Lyon
Not more bookings, but more favorable comments from the purchasing community that they will need, we're seeing some short-term fast order items that we would not normally have seen. And I'd say the biggest difference when you look at the beginning of next year, the very--the larger rolls, the back-up rolls, and more capital-intensive rolls, those orders are down, while the work rolls are up. That can only go on for so long, though, because you have to have a back-up roll to actually run the mill. There's been a deferral or a push out of the higher capital-intensive items, but we're seeing a rebound in the actual working roll items.

David Wright
Okay. Let me squeeze one more in here. One of the objectives of the capital raise was to try to get one or two new pieces of equipment. And some of those, I guess, have long lead times. But is there any update on what you might be doing with that, having completed the capital raise?

Sam Lyon
We're doing a kind of a capital study, looking at what we would buy and where we would actually place it. But we are working with machine builders and looking at lead times. And, we haven't placed order yet, but we're going down that path.

David Wright
Okay. Thanks very much.

Sam Lyon
Thanks, David.

Operator
Our next question comes from Brian Powers, with Crawford United. Please go ahead.

Brian Powers
Thanks. Hi, Brett, hi, Mike. Back to capital expenditures. The current research on the company indicates that CapEx spending will run at about $15 million dollars per year over the next five years. Just wanted to get some color on whether that is correct, and how that money will be spent if it's in your current businesses, and they've got a quick follow-up.

Mike McAuley
Yeah, Brian, thank you. I think, you're looking back at historical CapEx, and I think part of that is, we strip off focus that we have on some use of the equity raise proceeds to make some very specific machine tool acquisitions. And just look at like kind of a sustaining level of CapEx, yeah, you're right about $12 million, $15 million--it bounced around, but maybe average $15 million. We did kind of have in our business plan something like $12 million for this year, before we knew about COVID. So, we're in that ballpark. You're right about that, but as Brett indicated, we did have an ambition to not only handle our sustaining CapEx needs, but also to focus on additional investments to kind of modernize them and add new multipurpose machine tools, which would be an extra layer going forward looking on top of that. And then, depending on the course of that, that would then alleviate some of the sustaining CapEx requirements beneath it.

Brian Powers
Okay, that's helpful. Because I was looking at the equity research that looks like going up to $15 million dollars going forward as opposed to looking backwards, if that's somewhere between say $60 million to $75 million over the next five years, any color on where that will be spent and whether it will limit the company's ability to make acquisitions?

Brett McBrayer
This is Brett. The majority of the capital is going to be focused towards the Forged and Cast Engineered Products group, although, we have some clearly defined opportunities in the Air and Liquid Systems group that we're going to go after. Again, the majority will be in the Forged and Cast Engineered Products, just back to the sustained capital piece and just something I want to reiterate, that really kind of changes the--creates a new normal for Ampco-Pittsburgh is that through the work, the team has done on significant improvements from efficiency and productivity standpoint, we have now parked machines that we heavily relied on in the past to manufacturer our goods and products.

And, we were able to focus on the higher efficiency machines, and we're running those better than we have before in the past, and that's really changed our needs from a capital perspective. And, we're reinventing what baseline looks like, as we speak. And the team continues to push and make positive progress on to continue to change that equation for us. The goal is to run only what you need to run to be successful. And then, we have the opportunity for backup machines now that are sitting idle, that we can pull back into service, as necessary. But a tremendous amount of focus is on the modernization, the consolidation, take that next big leap from a cost structure perspective, to allow us to grow at a much more rapid pace.

Brian Powers
That's helpful. I guess then the last piece of it is, if--with that level of cash going to ongoing capital expenditures, if there's room in the plans for any future acquisitions?

Brett McBrayer
The opportunities right now we see within our current asset base are so great, that we're heavily focused on pursuing those at this point in time, in the future potentially we will look at opportunities, but there is so much opportunity that still exist in this business. And we believe, we have not even close to maximizing what we can do with our current asset base.

Brian Powers
Great. Thank you very much for taking my questions.

Operator
As a reminder, if you have a question please press star then one to be joined into the queue. Our next question comes from Marco Rodriguez, with Stonegate Capital Markets. Please go ahead.

Marco Rodriguez
Good morning, everyone. Thank you for taking my questions. Brett, I was wondering if maybe you could talk a little bit more with what you can on the plan for--again, circling back around the capital raise and the expectations of the manufacturing footprint, and making it a little more effective and then equipment purchases? Can you perhaps just put down a finer tooth (PH) on when some of these timing issues will come to fruition, or where you're expecting these things to kind of come through? And were there any other, if you could refresh our memories, any other specific projects or initiatives that you expect to accelerate some restructuring aspects and then, from the capital raise itself?

Brett McBrayer
Could you repeat the last part of that question again?

Marco Rodriguez
Yeah. Other initiatives, if you can you remind us from the capital raise aside from, obviously, the new equipment and the shrinking of the manufacturing footprint, what other sort of initiatives, are you expecting to implement here in the next 12 months or 18 months, to try to accelerate your restructuring efforts, and improve profitability?

Brett McBrayer
Sure. The question and part of the reason why we've not pulled the trigger on the final orders for multipurpose machines to facilitate the consolidations, the lead times are not acceptable right now. And, Sam talked about, we're looking at some different iterations of capital investment to allow us to accelerate faster. These negotiations with machine manufacturers are a critical part of determining the timing. We've targeted a three-year time period to achieve the consolidation, but again, it's going to be dependent on the--what these machine builders are going to be able to do support that timeline.

In terms of other initiatives, obviously, beyond the continuous work we're doing, Marco, on improving the current assets we have in place, and figuring out different and new ways to run the business. One of the examples Sam talked about is our inventory levels shrinking to a level we've not had before in the past. We're able to now accelerate flowtime through our businesses, able to capture upside--or shorter sell, that we wouldn't be able to capture before, just because of the time it takes for our products to move through our process.

And taking out equipment and steps in the operations has allowed us to develop a product that's just as good, if not, better, and but actually goes through the plant much quicker. The other piece of that is around the FEP side of the business. We mentioned before that we want to grow that side, the open-die forging opportunities. We've engaged with some new customers and are excited about orders that are coming in now, and we have some more opportunities in that open-die forging segment that are going to be important for us moving forward. And then, in the Air Liquid Systems business, we continue to see some opportunities in that market as we are restructuring our costs in that segment, to be able to grow and be able to win projects that otherwise we might not have been able to win, just because of our current--our past cost position. Those are some of the, I guess, ones that are upfront right now.

Marco Rodriguez
Understood. And can you help us understand the lead time issues right now, just in terms of what is normal? And then, you mentioned that they are pretty extended right now. Can you kind of give us an idea as far as what those look like?

Sam Lyon
Yeah, this is Sam. I mean, these custom machines, there's a lot of engineering upfront. And that's really the actual constraint and then the machine-building on top of that. I mean, they're out two, two-and-a-half years for delivery of a custom machine.

Marco Rodriguez
And that's the extended lead time or that's the normal lead time?

Sam Lyon
That's the extended lead time. And when we were initially looking at this, we were thinking more 18 to 24 months, probably, almost a year longer than what we had originally looked at.

Marco Rodriguez
Got it. And then in terms of your forge backlog, obviously understand the headwinds of COVID and its impact on your particular customers and their inventory levels. But I was wondering if you could perhaps give us a sense here, again, what the inventory of rolls might look like at your customers, and I understand there are some timing issues, you mentioned on the call that you're expecting some orders coming here from your two largest customers. But if you could also give us a sense, what your expectation of backlog might look like, at the end of this fiscal, if you think that, you see growth versus at least Q3 and then maybe Q1 of this fiscal year? Any sort of color around that would be helpful.

Sam Lyon
Well, these obviously are forward-looking comments, because I don't know. But I would expect it to be higher. They don't like to buy rolls if they're trying to conserve money, because it's an expensive item. While they were shut down for two months, (INAUDIBLE) the automotive kind of people, where they're shut down, they're not consuming any rolls. And then they come back at a lower utilization rate.

But if you've listened to Steel Dynamics, or Nucor, they're running in excess of 85%. Even though the U. S. is down to 70%, (INAUDIBLE) these guys are running at a much higher utilization, and they're seeing higher demand than what they expected. And that's true of the European-- our larger European customers as well, is that they're saying, if things continue, then we should be ready for more, as opposed to less orders.

Marco Rodriguez
Got it. Thanks much, guys. Appreciate your time.

Sam Lyon
Thank you.

Mike McAuley
Thanks, Marco.

CONCLUSION

Operator
This concludes our question and answer session, which will also conclude today's conference call. Thank you for attending today's presentation. You may disconnect.