Ampco-Pittsburgh Corporation

First Quarter 2024 Investor Call

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CORPORATE PARTICIPANTS

Kim Knox – *Corporate Secretary*

Brett McBrayer – *Chief Executive Officer*

Mike McAuley – *Senior Vice President, Chief Financial Officer and Treasurer*

Sam Lyon – *President, Union Electric Steel Corporation*

David Anderson – *President, Air & Liquid Systems Corporation*

PRESENTATION

Operator
Welcome to the Ampco-Pittsburgh Corporation First Quarter 2024 Earnings Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero.

After today's presentation, there will be an opportunity to ask questions. To ask a question, please press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

I'd now like to turn the conference over to Kim Knox, Corporate Secretary.

Kim Knox
Thank you, Nick and good morning to everyone joining us on today's First Quarter 2024 Conference Call. Joining me today are 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 Dave Anderson, 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 the corporation's control.

The corporation's actual results may differ significantly from those projected or suggested in any forward-looking statements due to various risk factors, including those discussed in the corporation's most recently filed Form 10-K and in 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. To access the earnings release or the webcast replay, please consult the Investors section of our website at ampcopgh.com.

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

Brett McBrayer
Thank you, Kim. Good morning and thank you for joining our call. As reported in our press release, net sales finished the first quarter of 2024 at $110.2 million, up over 5% compared to the first quarter of 2023. Income from operations for the quarter was $0.1 million versus $2 million, when compared to the first quarter of 2023. Significantly impacting our quarter's performance was plant downtime due to a fire in one of our foreign cast roll facilities and the associated repair expense as well as an unfavorable product mix in our Air & Liquid processing segment. These headwinds are behind us as we have moved into the second quarter.

For further comments on our performance, I will now turn the call over to Sam Lyon, President of our Forged and Cast Engineered Products segment.

Sam Lyon
Thank you, Brett and good morning. In our Forged and Cast Engineered Products segment, the market conditions have been muted. In 2024, the roll market will be lower overall with significant reduction in

Europe. This reduction occurred as the anticipated recovery was slower than forecasted, resulting in a slight overstocking.

We are starting to see improvements in activity and outlook in both North America and Europe. We are optimistic about the second half of the year, anticipating improved order intake for delivery in 2025. We have seen some positive movements with most of our customers experiencing a flat or improving order book across North America in Q2.

Our European customers have said that destocking of their customers is largely complete, resulting in their supply and demand matching up. Despite these challenges, higher pricing is expected to mitigate much of the impact of the decline in shipment volumes for 2024.

High inventory levels similarly challenged our FEP market at bar distributors. We appear to have come off a bottom and shipments and backlogged through April have exceeded 50% of 2023 total shipments. Our primary focus remains on maintaining a strong position in the rural market and enhancing operational efficiencies and reliability with the completion of our capital program.

As we look forward to 2025, I am pleased to report strong indications from several of our top customers regarding increased needs for forged and cast rolls. This is due to more robust demand in both North America and Europe. In addition, one of our competitors has exited the large cast backup roll market of which we expect to be a beneficiary.

We're at the beginning of negotiations for 2025 and as stated, are encouraged. Our allocation from one of our largest customers is up over 25% compared to 2024. Many of our other large customers expect to buy more rolls in 2025, over double-digit percentages. The steel market is improving, and the aluminum flat-rolled market remains strong.

Turning to our financials. In the first quarter of 2024, net sales increased slightly to $77.2 million from $76.8 million in the same period last year. The income from operations for the first quarter of 2024 was $1.6 million, a decrease from $2.2 million in the first quarter of 2023. The main reason for the decline resulted from the unplanned downtime and repair costs in our Sweden plant, partially offset by improved productivity in the U.S. and strong performance at our Slovenia forged plant and our China joint venture.

While we are facing lower volume in 2024, our pricing actions over the last few years have offset this headwind. End customer demand is improving and our potential for future orders look stronger for 2025. Our new equipment continues to perform as expected and we anticipate reliable production from this investment for many years.

Brett McBrayer
Thank you, Sam. Dave Anderson, President of Air & Liquid Systems, will now cover his segment’s results.

David Anderson
Thank you, Brett. Good morning. Air & Liquid Q1 revenue increased 18% versus prior year, primarily due to increased shipments of custom air handling units. The increase was driven by the higher backlog due to the success of the increased sales force, along with the additional capacity achieved by opening the new manufacturing facility in mid-2023.

Backlog declined in the quarter due to capacity being sold out for 2024 in our air handling business unit. The backlog for heat exchangers and pumps both increased in the quarter. In April, we began to see more booking activity for air handling units, as April bookings for air handlers exceeded total Q1 air handler bookings.

Operating income for Air & Liquid declined in the first quarter versus prior year, primarily due to unfavorable product mix in the heat exchanger product line, along with higher SG&A costs due to the expansion of the sales force and higher commission expense due to the increased revenue. The product mix was a short-term issue related to the timing of shipments of higher margin orders.

Higher shipments for centrifugal pumps and air handlers resulted in higher operating income for both of those product lines and partially offset the unfavorable product mix in the quarter. Demand for the products we design, and build continues to be strong. We have substantially increased our manufacturing capacity in the last two years, yet we continue to sell out that capacity.

Multiple projects are in motion to further increase capacity. Those projects include the new equipment arriving this quarter at our facility in Buffalo. This is the equipment purchased with the funding grant we received from the U.S. Navy in 2023.

We also continue our work at Oak Ridge National Laboratory regarding developing additive manufactured parts for the U.S. Navy. Additive manufacturing will provide an alternative to the traditional foundries that continue to suffer with long lead times and quality issues.

We expect to continue to expand our workforce at the new manufacturing location we opened last year in Lynchburg, Virginia. This location primarily manufactures air handling units and was the main driver in expanding our capacity, which allowed air handling sales to grow by 36% in Q1 versus last year.

Demand remains strong for all of our product lines. We continue to pursue opportunities to increase our capacity to meet this demand.

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

Mike McAuley
Thank you, Brett. As indicated in our Form 10-Q filed yesterday and in our press release issued this morning, Ampco's total net sales for the first quarter of 2024 were $110.2 million, an increase of approximately 5% compared to net sales for the first quarter of 2023. The Air & Liquid Processing segment accounted for the growth, increasing their sales by 18% for Q1 over prior year. Forged and Cast Engineered Products segment sales were approximately flat versus prior year, as higher shipment volumes of forged rolls and higher base roll pricing were approximately offset by lower shipment volumes of cast rolls and lower surcharge pass-throughs.

The Corporation reported a modest positive income from operations for the first quarter of 2024, which was heavily impacted by two temporary issues, as Brett indicated. First, damage from a fire in the foundry at one of our European cast roll facilities, which reduced operating income by approximately $0.9 million due to both repair costs and production downtime, which caused lack of cost absorption. Second, an unfavorable sales mix effect in the Air & Liquid Processing segment related to the timing of higher margin orders, as Dave indicated. In addition, the Air & Liquid segment had higher SG&A expenses than in the prior year quarter given the expansion of the segment's sales and distribution network and higher commission expenses given its higher volume of shipments. The Corporation's total selling and administrative expenses were approximately 11.8% of net sales for Q1 2024 compared to 11.6% for Q1 2023.

Interest expense of $2.8 million for the quarter increased by $0.7 million compared to prior year, primarily due to higher average revolving credit facility borrowings, a higher equipment financing debt balance and higher interest rates. “Other income-net” declined primarily due to foreign exchange transaction losses recorded in Q1 2024 versus gains recorded in Q1 2023.

The income tax provision for Q1 2024 increased slightly year-over-year given higher income of the Corporation's profitable entities, which have no valuation allowances recorded against their deferred tax assets. As a result, net loss attributable to Ampco-Pittsburgh for the 3 months ended March 31, 2024, was $2.7 million or $0.14 per share. This compares to net income of $0.7 million, or $0.03 per share, for the quarter ended March 31, 2023.

Total backlog on March 31, 2024, of $348.8 million, declined approximately 8% from December 31, 2023. The Forged and Cast Engineered Products segment backlog decreased from December 31, 2023, by approximately $19 million due to timing of 2025 orders and most of the segment's major forged roll customers are expected in the second and third quarters of 2024.

In addition, lower foreign exchange rates reduced the translated value of foreign backlog by about $4 million. The Air & Liquid segment backlog declined by $6.6 million. This is primarily due to the strong sales quarter of air handlers in Q1 coupled with lower order activity in that product line due to being at capacity for the balance of 2024, as Dave had indicated.

Net cash flow provided by operating activities was a positive $4.5 million for Q1 2024. Investment in net trade working capital was stable with prior quarter. Capital expenditures for the first quarter of 2024 were $2.8 million, primarily in the Forged and Cast Engineered Products segment. On March 31, 2024, the Corporation's liquidity position included cash on hand of $10.8 million and undrawn availability on our revolving credit facility of $23.2 million.

Operator, at this time, we would now like to open the line for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchphone. If you're 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. At this time, we will pause momentarily to assemble our roster.

The first question comes from Justin Bergner with Gabelli Funds.

Justin Bergner
I think I missed, Mike, the comments about the cost of the fire. I think you threw out some cost numbers, but I didn't catch it. Could you reiterate it?

Brett McBrayer
Yes, it's $900,000 in the quarter, Justin.

Justin Bergner
Is that the actual cost of repairing, exclusive of the lost production? Is any of that recoverable from insurance?

Mike McAuley
Yes. About $500,000 is repair costs and that's right about the deductible level of our property insurance

policy. So, we won't see any more than the $500,000 in repair costs. Then $400,000 is the impact for the plant downtime, which meant that we had manufacturing overhead we couldn't absorb into inventory because of lack of production. Collectively, those two pieces are $900,000 in the operating income impact for the quarter.

Justin Bergner
I assume that the operating impact is zero or negligible in the second quarter. Is that fair?

Brett McBrayer
Correct. Yes. It’s behind us.

Justin Bergner
Bigger picture question. So, you mentioned— I guess, Sam mentioned that a competitor on the cast backup roll market in Europe has exited. Could you provide a little bit more detail on that? How large a share of the market they roughly are? How do you think that will impact the degree of volume growth and pricing power prospectively? Is this a minor deal or a major deal?

Sam Lyon
Justin, I would say it's not major, but it's probably 100 to maybe 150 basis points of revenue, potentially. So, it's a smaller portion of the market, but generally, we make about 100 rolls, and we could see upside of 20 of these larger rolls or so, but that will be yet to be seen. Actually, the competitor, it was a U.S. company that decided to exit.

Justin Bergner
So, when you say 100 to 150 basis points of revenue, that's in the context of Forged and Cast Engineered Products or the whole Ampco-Pittsburgh?

Sam Lyon
FCEP, Forged and Cast Engineered Products. Again, I don't want to say — that's assuming we pick up our share of it. It's not guaranteed, but we should get our share though.

Justin Bergner
Then just the components of the flattish revenue in Forged and Cast Engineered Products, I guess cast rolls down, forged up and then pass-through up, is that the—?

Sam Lyon
Forged and cast are both down. Cast is down more, but the pricing increase is mitigating the volume decrease.

Justin Bergner
And I mean, your comments were positive sequentially about orders in forged and cast rolls and I think North America and Europe. I mean, do you expect us to see volumes up in the second half of ’24 or is that hopefully more likely to be a ’25 event?

Sam Lyon
It’s more likely 2025 when we'll see the increase. As Mike was talking, we're negotiating now with one of our largest customers. We have the allocation. We're negotiating with everybody else, but many of our customers have indicated that the roll buys will be larger next year. So, that's what we're seeing in the market.

Justin Bergner

But would you expect the second half to sort of look better than the first half outside of seasonal factors on the volume front for—?

Sam Lyon
No, it'll probably be similar. We're seeing increase on the FEP side of the business, so, the non-roll side. The roll side is more, I'd say, flattish, taking into account, of course, the downtime in Europe and seasonal factors that you just mentioned.

Operator
Again, if you have a question, please press star then one.

The next question comes from John Bair with Ascend Wealth Advisors.

John Bair
Question on the exit of the competitor in Europe. Are you able to pick up any of their facilities or are you looking at doing anything along those lines?

Sam Lyon
No, and it's not an exit. One of our competitors exited a portion, a particular portion of the market. So, they didn't go away. Again, it was a U.S. company, but no, there will not be any asset pickup or anything like that. It'll just be a transfer of production product.

John Bair
And then as far as it sounds like the majority of your capital expenditures for upgrading plants and so forth is pretty much behind you. So, how does that look going forward relative to the past couple of years?

Sam Lyon
Well, number one, the equipment reliability is the biggest factor and it's greatly improved. So, we had assets that were decades old, and this has modernized that. Then, we're also seeing higher productivity, better performance out of the equipment. So, it is operating as expected, I would say, which we had high expectations, but it's running well.

John Bair
What about on the domestic order side? Are you seeing a pickup there?

Sam Lyon
For 2025, everybody's indicating higher roll buys. These things lag a little bit. Just quoting earnings calls from our major customers, Steel Dynamics, Nucor, U.S. Steel, Cleveland-Cliffs, they're all either citing slightly improved demand in Q2 or flat demand. So, everyone is expecting to stay where they're at or go up and then that ends up translating into higher need for our products.

CONCLUSION

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Brett McBrayer for any closing remarks.

Brett McBrayer
Thank you, Nick. As we progress through the remainder of the year, we'll continue to explore options to improve profitability in our cast roll division. The continuing investments in steel and aluminum in North America, as well as the continuing trends in nearshoring present a favorable outlook for our forge roll

division. As David Anderson mentioned, expanding our output in the Air & Liquid segment is a priority.

In the near term, we believe we have good momentum heading into the second quarter. I want to thank our employees for their great work and our shareholders for your continued support.

Thank you for joining our call this morning.

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