Ampco-Pittsburgh

Second Quarter 2024 Earnings Results

August 13, 2024, 10:30 AM Eastern

CORPORATE PARTICIPANTS

Kim Knox - *Corporate Secretary*

Brett McBrayer - *Chief Executive Officer*

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

Sam Lyon - *President of Union Electric Steel Corporation*

Dave Anderson - *President of Air and Liquid Systems Corporation*

PRESENTATION

Operator
Good morning, everyone, and welcome to the Ampco-Pittsburgh Corporation Second Quarter 2024 Earnings Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key followed by “0.” After today’s presentation, there will be an opportunity to ask questions. To ask a question, please press “*” and then “1” on a telephone keypad. To withdraw your questions, you may press “*” and “2.” Please also note today's event is being recorded. At this time, I'd like to turn the floor over to Kim Knox, Corporate Secretary. Please go ahead.

Kimberly Knox
Thank you, Jamie and good morning to everyone joining us on today's second 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 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 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?

Brett McBrayer
Thank you, Kim. Good morning and thank you for joining our call. As mentioned in our 10-Q filed yesterday and our press release, we had strong sequential earnings improvement in the second quarter of 2024. Income from operations was $5 million for the second quarter, compared to $1.4 million in adjusted income from operations for the second quarter of the prior year when excluding the one-time foreign energy credit.

This 3-and-a-half fold improvement reflects a full quarter of utilizing all our new equipment in our Forged and Cast Engineered Products segment and record order intake for Air and Liquid Systems. Net income for the quarter was $2 million or $0.10 per diluted share. At this time, I'll turn the call over to Sam Lyon, President of our Forged and Cast Engineered Products segment to share more details about his group's performance in the quarter. Sam?

Samuel Lyon
Thank you, Brett, and good morning. In our FCEP segment, market conditions have shown signs of stabilization. The roll market remained flat in Q2 due to consistent end customer demand. While stable due to ongoing economic uncertainties and increased imports of flat rolled steel, European steel producers continue to operate at lower utilization levels, resulting in pricing and

volume pressures. Based on customer sentiment, we anticipate an improvement in order intake in the second half of the year for deliveries in 2025.

Our backlog decreased by approximately $16.1 million from December 31, 2023, due to the timing of 2025 orders from some of our roll customers, which are expected in Q3. We are optimistic about order intake for delivery in 2025, based on volumes received from several large customers to date and indications from others.

Our primary focus remains on maintaining our position in the roll market and enhancing operational efficiencies through our recently completed capital program in the U.S. This equipment investment increases the capacity of FEP manufacturing and improves productivity and operational reliability of our forged business.

For the three months ended June 30, 2024, net sales for the FCEP segment were $75.7 million, a slight decrease from $77.6 million in the same period last year. This decrease is primarily due to lower cast roll shipments, offset by higher forged roll sales and improved pricing.

Income from operations for Q2 2024 increased to $5.4 million from $3.9 million in Q2 of 2023. Q2 of 2023 included a one-time $1.9M energy credit in Europe. This significant performance improvement resulted from improved pricing, improved quality and productivity, and lower selling and administrative expenses.

In conclusion, while 2024 presents challenges in shipment volumes and market conditions, our strategic pricing actions and operational improvements have mitigated these challenges. We remain committed to maintaining market leadership and delivering value to our stakeholders.

Brett McBrayer
Thank you, Sam. David Anderson, President of our Air and Liquid Processing segment will now share more detail regarding his group's performance. Dave?

David Anderson
Thank you, Brett. Good morning. Air & Liquid Q2 revenue increased 19% versus prior year to achieve a record high for any quarter in Air and Liquids history. The increase was primarily due to increased shipments of custom air handling units. This increase was driven by the additional manufacturing capacity achieved by opening the new Virginia facility in mid-2023. Bookings for Q2 were also at a record high as we continue to see strong demand for our products. Backlog increased in the quarter as the result of strong bookings in the pharmaceutical and U.S. Navy markets.

Operating income for Air and Liquid increased 7% in the second quarter versus prior year, primarily due to the higher revenue. The impact from the higher revenue was partially offset by unfavorable product mix as we work through some older lower margin orders in our backlog.
Compared to the prior quarter, operating income increased 60% due to higher revenue and a more favorable product mix.

New production equipment arrived at our Buffalo Pumps facility in Q2. This is the equipment that was purchased with the funding provided by the U.S. Navy. Installation of the equipment was completed in early Q3. This equipment will raise our manufacturing capacity and increase efficiencies in the quarters ahead.

Q2 saw both record bookings and record revenue as demand for our products continues to be extremely strong. We continue to take steps to increase our manufacturing capacity to meet this demand. The manufacturing facility we opened last year in Virginia was the primary driver for air handling sales being up 58% in Q2 versus prior year and the new equipment in our Buffalo facility will raise our manufacturing capabilities to meet the increasing demand from the U.S. Navy markets. In the quarters ahead, we expect to continue to increase our manufacturing capacity as we expect strong demand in the second half of 2024 and continuing in 2025.

Brett McBrayer
Thank you, David. I'll now turn the call over to Mike McAuley, our Chief Financial Officer, for more detail regarding our financial performance for the quarter. Mike?

Michael McAuley
Thank you, Brett. As indicated in our Form 10-Q filed yesterday and in our press release issued last night, Ampco's net sales for the second quarter of 2024 were $111 million, an increase of 3.5% compared to net sales for the second quarter of 2023. Air and Liquid Processing segment accounted for the sales growth over prior year. Forged and Cast Engineered Products segment sales were down slightly versus prior year as higher shipment volumes of forged rolls and higher net pricing were offset by lower shipment volumes of cast rolls and FEP products.

Income from operations for the second quarter of 2024 was $5 million, slightly higher than the top end of our previous guidance range. The main driver for the improvement versus Q2 of 2023 was higher net roll pricing. In addition, it should be noted that the prior year quarter had the benefit of a foreign energy credit of $1.9 million. So the underlying year-over-year step-up in profitability for the quarter was more sizable than the as-reported change.

The Corporation's total selling and administrative expenses were approximately 12.2% of net sales for Q2 2024, compared to 13.1% for Q2 2023, primarily due to lower commissions and professional services and the Forged and Cast Engineered Products segment. Interest expense of $3 million for the quarter increased by $0.8 million compared to prior year, primarily due to higher equipment financing debt balance for the new machinery in the U.S. Forged business, which has now been completed and converted to term notes, as well as higher average revolving credit facility borrowings to support working capital growth and higher average interest rates on our floating rate instruments due to interest rate market movements.

Other income net improved primarily due to foreign exchange transaction losses recorded in Q2 2023 versus gains recorded in Q2 2024. The income tax provision for Q2 2024 increased compared to the prior year, principally due to higher income of the Corporation's profitable entities, which have no valuation allowances recorded against their deferred tax assets. As a result, net income attributable to Ampco-Pittsburgh for the three months ended June 30, 2024, was $2 million or $0.10 per share. This compares to net income of $1 million or $0.02 per share for the quarter ended June 30, 2023, which included $0.10 per share benefit for the foreign energy credit.

Total backlog at June 30, 2024, of $360.4 million declined approximately 5% from December 31, 2023. The Forged and Cast Engineered Products segment backlog decreased from December 31, 2023, by approximately $12.5 million due primarily to the timing of 2025 mill roll orders for large customers, as Sam described, as well as lower foreign exchange rates, which reduced the translated value of backlog by another $3.5 million. However, Forged and Cast backlog increased by $7.3 million compared to its backlog recorded at March 31, as roll order intake moved up in Q2. The Air and Liquids segment backlog declined by $2.4 million from December 31st, but increased by $4.2 million from March 31st, as record order intake in Q2 was partly offset by higher sales revenue, as Dave described.

Net cash flows used in operating activities was $5.3 million for Q2 2024 in support of higher trade working capital, principally higher accounts receivable given the elevated sales and pension contributions.

Capital expenditures for the second quarter of 2024 were $2.7 million, primarily for the Forged and Cast Engineered Products segment. We expect CapEx for the remainder of the year to be approximately stable with the Q2 run rate.

At June 30, 2024, the corporation's liquidity position included cash on hand of $7.9 million and undrawn availability on a revolving credit facility of $20.5 million. However, as we reported in our press release of July 10, the corporation's liquidity position increased since June 30.

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

QUESTION AND ANSWER

Operator
Ladies and gentlemen, at this time, we will open the line for questions. To join the question queue, you may press "*" and then "1" using a touchtone telephone. To withdraw your questions, you may press "*" and "2." If you are using a speakerphone, we do ask that you please pick up your handset prior to pressing the keys to ensure the best sound quality. Again, that is "*" and then "1" to join the question queue. We'll pause momentarily to assemble the roster. And our first question today comes from David Wright from Henry Investment Trust. Please go ahead with your question.

David Wright
Good morning, everyone.

Brett McBrayer
Good morning, David.

David Wright
Hey, Brett, listen, congratulations to you and the team for a clean and solid quarter.

Brett McBrayer
Thank you.

David Wright
You mentioned -- yes. And you mentioned strong sequential improvement in Q2, and it's really clear. We're halfway through the third quarter. How do you feel about this quarter and continuing the good results of the second quarter?

Brett McBrayer
Well as you remember, David, the third quarter for the Forged and Cast Engineered Products segment is a shutdown period for our European affiliates. We had a smaller shutdown period at the beginning of the quarter for our U.S. operations, so it tends to be a little weaker overall, but the underlying fundamentals of the business, the efficiency improvements we expect to continue as we move throughout the course of the year.

David Wright
That will offset some of that shutdown slowdown?

Brett McBrayer
It will.

David Wright
Yeah. And things are going well in Air and Liquid. So this is really great results, and it's nice to see a clean quarter with like no extraordinaries. And have you had any extraordinaries so far this quarter?

Brett McBrayer
No. None as of today.

David Wright
That's great. I want to ask Sam, that's a really good result in your segment, $5-plus million of operating income, kind of a 7% margin. And you haven't had a quarter like that in quite a while. Was there anything extraordinary there? Or is it just more reflective of where you've gotten the business to with the new equipment and the new layouts and such?

Samuel Lyon
It's a combination, David, of the efficiency from the new equipment, and then also, we had a relatively strong order book in Q2, ran the operations at a higher utilization level. And so our results in the U.S. were strong as a result of that. Also, the pricing levels are better than they had been in the past.

David Wright
Would you ultimately see being able to get to something better than a 7% operating margin? Or is that a level that's pretty good and that you're happy with?

Samuel Lyon
As volumes would increase, then the operating margin will increase in my side of the business, the fixed costs are relatively stable and a pretty high percentage of our total cost. So we get a lot of drop through from incremental volume. So I would expect --

David Wright
That’s great --

Samuel Lyon
-- And infrastructure bill as things with steel demand goes up over the next quarters and years, we anticipate and we should see it improve.

David Wright
Okay. Great. Dave, you got your margin back this quarter, and so that's great to see. I wonder though, how much longer is it going to take to get these older, lower margin orders to fully roll off?

David Anderson
David, we expect the majority of that to happen in the second half of this year, and then they should be behind us.

David Wright
Do you have more -- volume wise, do you have more of that type of business in the second half quantity-wise or volume-wise than you did in the first half?

David Anderson
No, it's similar. It would be similar to the first half.

David Wright
And you --

David Anderson
-- And it will be with us a little while longer, and then that goes away.

David Wright
Okay. You had super order intake in the second quarter. How has it been so far in the third quarter?

David Anderson
Good. We're still seeing really strong markets, Pharmaceutical, U.S. Navy, as I pointed out in Q2, and those continue to look good in Q3 at this point. So we're -- there's a lot of good demand out there for us.

David Wright
Okay. Great. Well, that's super. Two quick ones for Mike. On the availability, you alluded to it in your remarks, $20.5 million at June 30 and $27.2 million on July 9, when you put out your guidance, that's about $6.6 million of change. Was that an actual pay down, or was it change in the availability formula or a combination? That just seems quite a lot in a short period.

Michael McAuley
Yeah, it's just movements in working capital, David. Receipts have been better, catching up on some past dues. And that availability number is going to fluctuate over time. But we are, at the moment, as our press release on July 10 indicated, we are stronger liquidity wise than we were at June 30, just from the flows of ins and outs of net working capital, and we continue to be that way approximately right now.

David Wright
So have -- is the availability very much different today from the July 9 number?

Michael McAuley
Not very much, no.

David Wright
Okay. And then lastly is, you know, the SG&A has gone up quite a lot over the last few years. And I just wonder, are there any opportunities to check that and maybe slow or reverse the growth in it?

Samuel Lyon
This is Sam. The one thing that we have done is gone out to our agent network, and we have reduced the fees there. So it's not -- it's not huge, but in the neighborhood of $300,000 or $400,000 a year. And then we're always looking at what we can do there. And in the past, as our sales shift

away from frac blocks to more distribution kind of bar, we don't have sales commission on that either. So that would bring that number down relative to the sales number.

David Anderson
And I think, David, for the Air and Liquid side, the investments we made in the last couple of years to strengthen our sales group, we've largely done. So the only thing that really would increase is the commissions we pay if there's higher revenue to the independent rep network that we have. But our sales group is pretty strong now where we sit.

David Wright
Okay. Well, Mike, did you have a comment on the SG&A?

Michael McAuley
No. Only that -- I was going to reiterate probably what Dave indicated that we've intentionally invested in growth in Air and Liquid and that we knew that cost money, that cost SG&A dollars but it's basically in place now, and it's basically there to leverage to grow the sales, grow the top line and bring more bottom line drop through going forward. So again, we know it's up higher. But it's part of what it takes to get the higher sales. Plus, we brought a new facility online, and there's more lease cost in the new facility, but we're loading that up as well.

David Wright
Well listen, everyone, a great report. Nice and clean and well done. And thanks for taking all my questions.

David Anderson
Thank you, David.

Brett McBrayer
Thanks, David.

Operator
Once again, if you would like to ask a question, please press “*” and then “1.” To withdraw your questions, you may press “*” and “2.” Our next question comes from John Bair from Ascend Wealth Advisors. Please go ahead with your question.

John Bair
Thank you and good morning, gentlemen.

Brett McBrayer
Good morning.

John Bair
Some of my question was answered there with regards to margins. And it sounds like by the end of this year, the lower margin backlog is going to be pretty well rolled off. Is that -- is that the way to look at it?

Brett McBrayer
Yes, that's correct.

John Bair

And is more of the lower margin stuff being moved out first so that sequentially, the fourth quarter margins might be better than the current third quarter? Is that a way to look at it as well?

Brett McBrayer
No, it really depends on the timing of when the orders would be going out. It will be spread through the third and fourth quarter along with more recent orders. So it doesn't necessarily go out in sequence to when they were booked.

John Bair
Okay. So it's a kind of a balanced mix. Okay. Okay, that's good. Then I'd like you -- can you outline what your game plan is on your debt reduction going forward?

Michael McAuley
Yeah. When you look at the 10-K and you look at the debt footnote, we have a few industrial revenue bonds that have a maturity. Those were lower rate instruments and so we prefer to keep them in rather than refinance them, but we will have them maturing over the next couple of years. They come out, there's about $9 million there. The next opportunity is just revolving credit facility balance to support the working capital and as our profitability grows over time, we'll be able to finance more working capital and CapEx internally, and that should help bring the debt balance down.

John Bair
Okay. And then does the new equipment that you've installed enable you to enter any new markets?

Samuel Lyon
On my side, Sam, FCP, it allows us to expand in the non-roll market, but not necessarily enter any market.

David Anderson
-- For the new equipment that we've put in Buffalo Pumps, really that's supporting the Navy. The Navy is continuing to show more and more activity in their ship growth plan. So our focus is really supporting that.

John Bair
Okay. And that was going to be my next question is on the Navy business. Is that something that you foresee? It sounds like something you foresee has got a longer runway to it.

David Anderson
Yes. Most definitely, they have a long-term plan to increase the size of the Navy fleet.

John Bair
And is that focused on the subs or carriers or cruisers or what area?

David Anderson
All of the above.

John Bair
Okay.

David Anderson
In essence, they're chasing China and China is building ships very fast.

John Bair
Right. Okay. And any -- let's see, any -- or now, are those contracts -- are those orders, are those longer term? Or they're -- in other words, do you get backlogs with them that go out two, three years, or is it a shorter time frame?

David Anderson
If you look at the business in two pieces, the backlog related to new ship builds tends to be longer like you just described. It can be two or three years out. Then there's also the aftermarket, which is replacements and parts, that's shorter, that moves quicker.

John Bair
Okay. Very good. All right, that's pretty much all I have. Thanks very much for taking my questions.

Brett McBrayer
Thanks.

CONCLUSION

Operator
And ladies and gentlemen, at this time, and showing no additional questions, I'd like to turn the floor back over to Brett McBrayer for closing remarks.

Brett McBrayer
Thank you. I'm proud of the work that our team members across the globe have achieved. Despite significant headwinds we are still experiencing in Europe, our underlying operations continued to improve. As our new capital assets ramp up to their full capabilities, we expect further improvements in our productivity and are very excited about the demand and growth in the Air Liquid Systems segment. Thank you, everyone, for joining our call this morning.

Operator
Ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.