Ampco-Pittsburgh Corporation

Third Quarter 2024 Earnings Results

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CORPORATE PARTICIPANTS

Kim Knox – *Corporate Secretary*

Brett McBrayer – *Chief Executive Officer*

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

Sam Lyon – *President, Forged & Cast Engineered Products*

Mike McAuley – *SVP & Chief Financial Officer*

PRESENTATION

Operator
Good day, and welcome to the Ampco-Pittsburgh Corporation Third 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 star key followed by zero.

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

I would now like to turn the conference over to Ms. Kim Knox, Corporate Secretary.

Kim Knox
Thank you and good morning to everyone joining us on today's Third 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 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 would now like to turn the call over to Brett McBrayer, Ampco-Pittsburgh's CEO.

Brett McBrayer
Thank you, Kim. Good morning and thank you, everyone, for joining our call. As stated in our press release this morning, Ampco-Pittsburgh reported operating income for the three and nine-month period of 2024 of $1.9 million and $7 million. Our third quarter performance includes the impact of our seasonal plant shutdowns. Improved margins and operating efficiencies directly related to our recent capital investments in the Forged and Cast Engineered Products segment continues to offset weaker cast roll demand. Additionally, backlog increased for the quarter with recent additions of roll orders for our 2025 order book. We continue to be encouraged by the growth prospects available in our Air & Liquid segments as we improve efficiencies to capture these future opportunities.

I will now turn the call over to David Anderson, President of our Air & Liquid segment for further comments on the quarter's results.

David Anderson
Thank you, Brett. Good morning. Air & Liquid Q3 revenue was consistent with prior year, while year-to-date revenue increased 13% versus prior year. The year-to-date increase was primarily due to increased shipments of custom air handling units. The increase was driven by the additional manufacturing capacity

achieved by opening the Virginia facility in mid-2023. Backlog increased in the quarter due to a significant order for air handlers that was received from the pharmaceutical market.

Operating income for Air & Liquid was slightly lower in the quarter versus prior year. The lower income was mainly due to a $0.2 million asbestos credit that was received in the prior year.

The production equipment that was purchased with the $1.6 million funding provided by the U.S. Navy was installed and began to operate in Q3. We are also pleased to announce that Air & Liquid has been approved by the U.S. Navy to receive additional funding to purchase more equipment. This additional funding of $4 million will be used to further modernize our production equipment in our Buffalo facility. The equipment from this second funding is expected to arrive in our facility in late 2025 and along with the recently installed equipment, will significantly upgrade our manufacturing capabilities.

We continue to see positive signs in many of the markets we serve. Recent announcements to reopen two decommissioned U.S. nuclear plants seem to show that the U.S. power generation market is increasingly embracing nuclear power as an answer for capacity issues. This is a key market for our heat exchanger product line.

We also recently received our first request to quote a heat exchanger for a small modular reactor. While the modular reactor market is still being developed, there is good potential for these reactors to also add to the future growth in the nuclear market.

The U.S. Navy continues to move forward with long-term plans to expand the size of the Navy fleet. The funding the Navy is doing to increase the U.S. industrial base is a clear indicator that they want and need more manufacturing capacity to achieve the fleet expansion goals.

The U.S. pharmaceutical market continues to expand production capabilities. Air handling orders received from this market in 2024 have already exceeded any prior full year order activity. We expect to continue to see strong demand in this market over the next several years.

Over the last three years, we have seen significant sales growth due to increasing our production capacity and investing in our sales force. These steps have also positioned Air & Liquid to be able to respond to the future market growth in the years ahead.

Brett McBrayer
Thank you, David. Sam Lyon, President of Forged and Cast Engineered Products segment will now share details regarding his group's performance.

Sam Lyon
Thank you, Brett and good morning, everyone. For the three months ending September 30, 2024, net sales for the FCEP segment were $67.2 million down from $73.6 million in the same period last year, primarily due to lower roll volumes, reduced FEP shipments and lower surcharge pass-throughs.

Segment income from operations for Q3 increased to $2.5 million compared to $1.4 million in Q3 of 2023, reflecting the benefits of improved pricing and improved efficiencies, which have more than offset the reduction in volume. At the end of the quarter, the segment backlog increased by approximately $4.5 million from December 31, 2023, driven primarily by higher order intake for mill rolls. Our backlog and indicated allocations from our largest customers are positioning us for low to mid-single-digit volume growth in 2025.

Our recent investments in capital equipment are already contributing to improved operational efficiencies and positioning us well to take advantage of any market recovery. Market conditions remained stable during the third quarter. The roll market in North America and Europe over the last quarter was essentially flat due to end-customer demand. The following two quarters will be lighter in volume for our forged rolls somewhat offset by improved demand in our cast roll facilities.

While we continue to experience market stability, European and North American steel producers still operate below pre-pandemic levels due to economic uncertainties and increased imports of low-priced products from China. Our customers in the U.S. have issued petitions for trade action against these imports, and we expect the situation to improve soon.

In summary, although we face ongoing headwinds related to competitive pressures in Europe and muted end customer demand, our pricing strategy, operational improvements through our recently completed capital upgrades and increased market share in key areas are mitigating these impacts. As stated, we are seeing improved demand for 2025. We are confident that our continued focus on operational efficiency and customer satisfaction will position us well for future growth and value creation.

Brett McBrayer
Thanks, Sam. I will now turn the call over to Mike McAuley, our Chief Financial Officer, for more detail regarding our financial performance for the quarter.

Mike McAuley
Thank you, Brett. As indicated in our Form 10-Q and in our press release issued this morning, Ampco's consolidated net sales for the third quarter of 2024 were $96.2 million, a decline of 5.9% compared to net sales for the third quarter of 2023, due primarily to lower shipment volumes and lower surcharge pass-through revenues in the Forged and Cast Engineered Products segment. Air & Liquid Processing segment sales were about flat with prior year for the quarter.

Income from operations for the third quarter of 2024 was $1.9 million, slightly higher than the prior year quarter, which included a $0.2 million insurance recovery. The underlying improvement was principally higher pricing net of surcharges and improved manufacturing cost absorption in the Forged and Cast Engineered Products segment. The sequential decline in Q3 2024 operating income versus Q2 2024 was due mainly to lower sales volume and the seasonal plant shutdowns taken in Q3 2024 in the Forged and Cast Engineered Products segment.

I would also remind listeners that results for the 9 months ended September 30, 2023, included a $1.9 million foreign energy credit, so the underlying improvement for the 9 months ended September 30, 2024 is actually greater than as-reported results.

The Corporation's total selling and administrative expenses increased for Q3 2024 compared to Q3 2023, primarily due to higher employee-related expense, an increase in exchange rates used to translate the SG&A of our foreign subsidiaries, and higher professional fees.

Interest expense of approximately $3 million for the quarter increased by $0.5 million compared to the prior year quarter, primarily due to higher equipment financing debt balance for the new machinery and the U.S. forged business, which was completed and converted to term notes earlier this year, 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” declined primarily due to foreign exchange transaction losses recorded in Q3 2024 versus gains recorded in Q3 2023. The income tax provision for both the three and nine months ended September 30, 2024 increased compared to the prior year periods primarily due to the establishment of a valuation allowance on the net deferred tax assets of our U.K. operations at December 31, 2024, given its cumulative three-year loss history due to continued cast roll market weakness and the Corporation's shift of certain cast roll production to its more energy-efficient plant in Sweden. As a result, the income tax provision in 2024 does not include any benefit for the operating losses of the U.K. facility. By comparison, the tax provision for the three and nine months ended September 30, 2023, included income tax benefits of $0.6 million and $1.2 million, respectively, for the operating losses of the U.K. The income tax provisions are otherwise comparable with slight differences for income mix by jurisdictions not under valuation allowances.

As a result, net loss for Q3 2024 equaled $(2) million, or $(0.10) per diluted share compared to net income of $0.8 million, or $0.04 per diluted share for Q3 2023. Net income and earnings per share for the three months ended September 30, 2023, included an after-tax benefit of $0.2 million or $0.01 for the asbestos-related credit.

Please note that the net income and basic earnings per share for the nine months ended September 30, 2023, included after-tax benefits of $2.1 million or $0.11 per share associated with the asbestos-related insurance credit and the foreign energy credit.

Total backlog at September 30, 2024, of $383.6 million increased approximately $4.6 million from December 31, 2023, primarily in the Forged and Cast Engineered Products segment due to an increase in backlog for mill roll orders and, to a lesser extent, a higher foreign exchange translation effect.

Net cash flows provided by operating activities was $10.6 million for the nine months ended September 30, 2024, which compares to a use of $10.3 million for the nine months ended September 30, 2023. The primary change item is lower changes in working capital investment between the periods, which more than offset higher pension contributions in the current year period.

Capital expenditures for the third quarter of 2024 were $2.9 million or $2.4 million net of government grant funding. We expect full year 2024 capex net of grant funding in the range of $9 million to $10 million. At September 30, 2024, the Corporation's liquidity position included cash on hand of $11.8 million and undrawn availability on our revolving credit facility of $20.5 million.

Operator, at this time, we would now like to open the line for 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 keypad. 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 will come from Greg Vinet, Investor.

Greg Vinet
I'm sorry. I didn't ask a question.

Operator
The next question will come from David Wright with Henry Investment Trust.

David Wright

Brett, it's continued slow progress. It's a big ship to turn around. Kind of a big picture question for you: when the company did the rights offering four years ago, you would have had a plan in mind and some certain things that you hoped to happen by certain times. You can only control so much for sure, but four years into it now, when you look forward, do you have a better visibility on where you want to get to and when you're going to be able to get there?

Brett McBrayer
David, I believe so. We have some targeted actions from a restructuring standpoint that we are focused on for the Corporation. Those continue to progress although not at the pace that I think myself, the team, or our shareholders had hoped they would, but they are still clearly in our focus.

There are actions that we are taking, being very mindful of our current debt position and trying to make sure that our focus as we move forward is to continue to lower our debt position and don't want to impede on those efforts. But yes, I believe the answer to your question is yes. Our focus is within the next 12 to 24 months, we will be able to execute some of these final solutions that we think are going to be pretty significant for Ampco moving forward.

David Wright
When you talk about restructuring and you talk about debt, are you working on things that would result in a reduction in the debt, taken a slug out of it?

Brett McBrayer
Yes. That's clearly in our focus and on our radar, Dave.

David Wright
Yes. Well, that's super. That's super because obviously, the interest expense is sort of— it's hard to kind of overcome that. So that's great.

A question for Sam. Forged and Engineered Products, you had hoped that it would maybe be a larger business than it has been lately. Is that really because of fracking? Is that the major market that would increase revenues in that segment?

Sam Lyon
David, it's just really two things. The fracking business is, I'll say, half or a big portion and then the other is just general industrial distribution markets and both are down significantly. So, we're seeing stable orders. We think next year the distribution markets will increase. We did just receive our first small frac block order within the last two weeks for delivery in Q1, which is good. It's lower volumes, but we haven't had an order for over 18 months probably. But those are the two big ones. It's really just the distribution market and then the fracking.

David Wright
Well, I commend you. It's really great to see consistent operating profit come from your unit. I know it's been a long slog to get there, so that's great. Well done.

Two for Dave. Can you quantify what would a heat exchanger on an SMR be? Is that a $5,000 item, a $25,000 item?

David Anderson
It will vary and we're learning that as we go, but no, it would be significantly more than that selling a heat exchanger into the nuclear market, you're talking at least a six-figure unit typically.

David Wright
Even on an SMR?

David Anderson
We don't know for sure because it's so new, but they are not inexpensive. Anytime you're doing something in the nuclear market, there's a lot more involved in it.

David Wright
Do you know SMRs if and— well, when they happen, they're going to be building more of them a year than they build nuclear reactors in a year? Do you have any production capacity constraints for that product?

David Anderson
Not too much. It's mostly welding in things, which we can add more welders. We have the space to do that. So, we can ramp up fairly easily to address that. That's a problem that I would love to have, honestly. I think it's a good market potential for us.

David Wright
Yes. Well, thanks for sharing that opportunity with the call. Then the other question, this kind of below-market contract that you've been working off over the course of the year, you've kind of previously said that the last effects of that will be gone by the fourth quarter of this year. Is that still your thinking?

David Anderson
Yes. I mean there may be a few minimal ones that carry forward, but the bulk of this issue is going through to the end of this year and then there won't be much left after that.

David Wright
Can you quantify what the impact of that has been on your operating results?

David Anderson
I would say it's in the estimate of $0.5 million to $1 million.

Operator
Our next question will come from Justin Bergner with Gabelli Funds.

Justin Bergner
Could you just review, again, the cash flow sort of dynamic year-to-date? How much have you gotten from working capital? Is that mostly exhausted or are there more inflows from reducing working capital yet to come?

Mike McAuley
In terms of the cash flow statement in the 10-Q, if we peel apart the cash flow from operating activities, we did see a release of working capital in the quarter and year-to-date. So, that has been part of the story for net cash flow from operating activities. One thing we did not mention or talk about in the prepared remarks is that we have made pension contributions in the current year, which have taken a little away from that, but we're still positive about $10.6 million cash flow from operating activities for the year-to-date period.

Justin Bergner
Second question was regarding the comment about low to mid-single-digit volume growth for Forged and Cast Engineered Products next year. Just is that sort of what you think the market is going to do? Is that

what you think you're going to do outgrowing the market? Any further color you can provide on that view?

Sam Lyon
Yes, Justin. We're seeing a recovery in the cash side of the business, so U.K. and Sweden. Two dynamics. One, just the market was very depressed last year or in 2024. Secondly, I think I mentioned on the last call that WHEMCO had gotten out of the large cast roll, static cast roll business. So, we're seeing increased orders due to that. With two of our largest customers, actually our two largest customers, we've increased share by several points in the latest negotiations.

Justin Bergner
Those would be U.S. or international customers?

Sam Lyon
U.S.

Justin Bergner
Are you still poised to get upside? Is it meaningful from sort of the new aluminum rolling mills in the U.S.?

Sam Lyon
We continue to do well there. Of our total revenues, somewhere in the 15 percentage points or so come from aluminum and that's continuing to grow. The new Steel Dynamics mill will be online— coming online year, Aluminum Dynamics, as well as others. So, we continue to do well there.

Justin Bergner
Then lastly, any update to the efficiency gains from the equipment that's been installed in your Forged and Cast Engineered Products segment?

Sam Lyon
Yes, that's been one of the drivers as to why we're performing better this year. It does operate more efficiently, but more importantly, it operates when you want it to. Our equipment was very old and reliability was becoming an issue. So, we're seeing— I'd say, compared to what we thought we would get out of the equipment, we're doing much better than what we had anticipated. We still need to staff one shift on two of the pieces of equipment just due to some attrition that we had. So, there's some potential for future gains that we can get on top of where we're already at.

Operator
We actually have one question that came in. That will come from John Bair with Ascend Wealth Advisors.

John Bair
With the change of the administration after this election, I'm wondering how you see a potential improvement for your orders regarding the energy space in general. Hopefully, there will be a change in the permitting process for LNG facilities in the Gulf Coast. I'm wondering if you have any applicable presence there that you might see some benefit if that comes to pass. You did reference something about, I didn't quite catch it, about the frac equipment or whatever. So just wondering if you can kind of broadly address that and what your thoughts or hopes are in that regard?

Sam Lyon
I think, John, in the short term, I don't think we'll see much of an effect because it takes a long time to build any additional liquefied natural gas facilities and things like that. I think where we would see a benefit is on any tariffs preventing blocks flowing in from other countries, even including one of our main competitors is in Mexico. And so there could be a potential benefit from that.

I think we'll see a bigger benefit on the roll side of the business than on the energy side of the business in the near term, just due to the fact that imports have increased, don't quote me exactly, but greater than 5 percentage points in the U.S. and Europe compared to history from dumping. Current trade cases are going on in the U.S. to prevent that, which will increase domestic steel production and then we would be a direct beneficiary of utilization rates increasing domestically.

John Bair
Then do you sense that this trend towards onshoring will benefit you in any meaningful way?

Sam Lyon
It already has. Our market share with our largest U.S. customers has definitely increased in the last 18 months due to that. We think that that will continue to occur. The wild card, it would be nice if Europe would do something, but so far, they haven't. But domestically here in the U.S., yes, we will see— I think that that will help us— help protect our share.

CONCLUSION

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

Brett McBrayer
Thank you, Chuck. As we continue to take required actions to drive improvements in segment performance and capture future growth opportunities, we are focused on lowering our debt position and further restructuring actions to improve shareholder returns. I want to recognize the tremendous work of our employees across the globe. I also want to thank our shareholders and the Board of Directors for your continued support.

Thank you for joining our call.

Operator
This concludes today's conference call. Thank you for your participation. You may now disconnect.