AMPCO-PITTSBURGH CORPORATION

Moderator: Dee Ann Johnson
May 6, 2015
10:30 a.m. ET

Operator: This is Conference #: 18758186

Male: Yes, put your phones on vibrate, (if you) – the phones on vibrate.

Operator: Good afternoon and welcome to the first quarter Ampco-Pittsburgh Corporation shareholder conference call. My name is (Jeris), and I'll be facilitating the audio portion of today's interactive broadcast. All lines have been placed on mute to prevent any background noise.

For those of you on the stream, please take note of the options available in your event console. At this time I would like to turn the call over to Rose Hoover. You may begin your conference.

Rose Hoover: Thank you. Good morning, everyone and welcome to our earnings call for the first quarter 2015. My name is Rose Hoover. And I am the executive vice president of Ampco-Pittsburgh Corporation. With me today are John Stanik, Chief Executive Officer; and Dee Ann Johnson, Chief Financial Officer of Ampco-Pittsburgh Corporation; and Bob Carothers, President of the Forged and Cast Engineered Product segment.

Before we begin, I need to read the following Safe Harbor Statement regarding forward-looking information. Statements or comments made on this conference call may be forward-looking statements 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 statements due to a variety of factors including those discussed in the corporation's most recently filed Form 10-K, and subsequent filings with the Securities and Exchange Commission. We do not undertake any obligation to update or otherwise release publicly any revision to our forward-looking statements.

I will now turn the call over to our Chief Financial Officer, Dee Ann Johnson.

Dee Ann Johnson: Thank you, Rose. Good morning, everyone. Sales for the first quarter of 2015 were $65.1 million versus $62.9 million for the first quarter of 2014, an increase of $2.2 million or 3.5 percent. The increase is primarily attributable to our Forged and Cast Engineered Products group.

Gross profit as a percentage of net sales was comparable between the quarters at 20 percent for the first quarter of 2015, versus 20.4 percent for the first quarter of 2014. Selling and administrative expenses were $9.4 million for the first quarter of 2015 in comparison to $9 million for the first quarter of 2014, an increase of $400,000 or 4.4 percent.

Selling and administrative expenses for 2015 include a pretax curtailment charge of approximately $1 million associated with the partial freezing of the U.S. defined benefit pension plan offset by a pretax credit of approximately $750,000 related to the collection of accounts receivable previously written off.

Other expenses fluctuated primarily as a result of changes in foreign exchange gains and losses. For the first quarter of 2015, losses on foreign exchange transactions approximated $380,000 and resulted principally from the decrease in the value of the euro against the U.S. dollar. The first quarter of 2014, benefited from foreign exchange gains of approximately $207,000.

Our statutory income tax rate approximates 35 percent. Our effective income tax rate of 32.8 percent for 2015 compares to 42 percent for 2014, which included the effect of reducing a state income tax rate at which certain net deferred income tax assets will be realized. In summary, the Corporation had net income of $72,000 or $0.01 per common share for the first quarter of 2015 in comparison to net income of $78,000 or $0.01 per common share for the first quarter of 2014.

From a segment perspective, sales for our Forged and Cast Engineered Products segment increased $3.2 million, or roughly 8 percent for the first quarter of 2015 compared to the first quarter of 2014. The increase is primarily attributable to a higher volume of shipment of our other forging products offset by a decrease in traditional roll shipments. Operating income improved from a year ago primarily due to the collection of accounts receivable previously mentioned.

Weighted average exchange rates used to translate the sales of our U.K. subsidiary from the British Pound Sterling to the U.S. dollar for the first quarter of 2015 were lower than a year ago, which reduced sales by approximately $1,300,000. The change in the weighted average exchange rates did not have a significant impact on operating income for the current quarter.

Sales for our Air and Liquid Processing segment for the first quarter decreased by approximately $1 million or 4.4 percent primarily from a decline in shipments to the fossil fueled utility and industrial markets. Operating income for the first quarter of 2015 for this segment was comparable to the first quarter of 2014.

Backlog at March 31, 2015 approximated $159 million in comparison to $168 million at December 31, 2014, a decrease of $9 million or 5.3 percent. The majority of the decrease, or roughly $8 million, is attributable to the Forged and Cast Engineered Products group from shipments outpacing new orders as a result of lower demand from our roll customers who continue to operate below capacity. Backlog for the Air and Liquid Processing group dropped slightly. While the segment benefited from additional orders for U.S. Navy shipbuilders, delays in purchasing decisions on several active projects caused backlog for air handling units to decrease.

Now regarding our balance sheet: cash and cash equivalents approximated $94 million at March 31st in comparison to $97.1 million at December 31st, a decrease of $3.1 million.

Accounts receivable decreased $7.5 million compared to year-end primarily due to stronger collections and lower sales in the first quarter versus fourth quarter of the prior year.

Inventories increased $8 million at March 31st from December 31st due to higher inventory levels for the Forged and Cast Engineered Products segment as production volumes in the current quarter outpaced fourth quarter production levels, plus higher raw material balances in 2015.

Employee benefit obligations decreased at March 31st from December 31st by approximately $7.6 million primarily as a result of the partial freezing of the U.S. defined benefit pension plan. The plan change resulted in a remeasurement of the plan liability reducing the liability by approximately $9.3 million and resulting in the previously mentioned curtailment charge. Additionally, as a result of the remeasurement, the discount rate was changed from 4.1 percent to four percent, increasing the liability by approximately $2.8 million.

Moving on to cash flows; the Corporation generated net cash flows from operating activities of $2 million in comparison to a net use of $700,000 for the first three months of 2014. The majority of the improvement is associated with changes in working capital including lower accounts receivable.

Net cash flows used in investing activities approximated $2.5 million and $2.9 million for 2015 and 2014 respectively; and primarily represent capital expenditures for our Forged and Cast Engineered Products segment. As of March 31st, we have commitments for future capital expenditures of approximately six to $6.5 million, the majority of which is expected to be spent in 2015.

I will now turn it over to John.

John Stanik: Thank you, Dee Ann. Good morning, everyone. I'd like to begin by reviewing for emphasis some of the points that Dee Ann presented. Financial results for the first quarter earnings per share matched last year's first quarter. But note that embedded in the numbers is a $1.2 million curtailment charge from the partial freeze of the United States – of the U.S. defined benefit pension plan, and $750,000.00 credit for payments received from products shipped.

I consider the curtailment charge an investment for the future. Freezing the defined benefit plan will provide ongoing cost savings beginning in the second quarter. The savings will, over the course of the year significantly exceed the $1.2 million charge. And it will continue for future years.

The $750,000.00 credit represents recovery of a write-off that was made in the previous year for product that had shipped and had delinquent payments for well over one year. Fortunately, the payments were received in March of 2015. Understanding these two adjustments allows one to see that the true operating performance of the Company in Q1 2015 showed a minor improvement over the first quarter of 2014.

Most of the revenue obtained in the first quarter is attributed to backlog in 2014, and very early in 2015. You will note that Dee Ann reported a decrease in backlog at the conclusion of the first quarter. The majority of the reduction is attributed to the Forged and Cast Engineered Products segment.

The primary markets served, which is the steel industry, is encountering difficult headwinds. In the United States, the industry in Q1 operated at 70 percent of capacity or less with Europe even less still. The strong dollar is responsible for a large part of this low level of operation as steel imports to the U.S. rose significantly. Considering the global steel industry manufacturing overcapacity, this outcome is not surprising.

Currently, it is not known whether this steel industry has hit bottom or not. Regarding our Air and Liquid Processing segment, market conditions are not as depressed. Quarter-over-quarter revenue declined to a small degree. And as Dee Ann mentioned, this was primarily due to less sales to coal fired power plants.

The backlog decreased only slightly in the Air and Liquid Processing segment. And this was due to a number of orders which were expected but slipped into April. Those orders are now received. Going back to the Forged and Cast Engineered Products segment, the aforementioned market conditions make it difficult for appreciable success for our March instituted price increase.

Steel companies are fighting import pressure by lowering their prices for steel prices, and reducing costs everywhere they can. And they appear to be in a very difficult position. My opinion is that it's too early to judge whether the price increase will be successful or not.

We have increased prices successfully in some accounts. But more importantly, we've signaled to our key customers that additional requests for price decreases will be met with strong resistance and, or flat refusal. For this reason, I'm convinced that this was a proper move for our Forged and Cast Engineered Products segment despite what may seem like difficult timing.

Let me now turn my attention to some of the more significant accomplishments made by our company in Q1.

One, we have developed and are executing a plan for capturing significant cost savings. However, only one of the impact – one of the items impacted the first quarter.

A second, will impact the second quarter favorably; and that's the defined benefit pension plan being frozen. Many of the others won't begin to take effect until the third or fourth quarter of this year with the remainder not until 2016. The total of these cost reductions will be several million dollars per year. The existing defined pension benefit plan for most employees will be frozen on June 30, 2015. The curtailment charge mentioned earlier is a direct result of the freeze. Lower pension costs resulting from the freeze will begin to be recognized in the second quarter of 2015 as will a favorable effect on the balance sheet since the freeze eliminates some of the uncertainty of pension plan costs in the future.

Number three; I've decided to centralize various overhead functions of the corporation into one group rather than having three separate ones. I believe this will improve efficiency. And strategically, a core nucleus of functional capability will be established that will serve our existing businesses and any future ones that are required.

Four, we have decided to relocate corporate headquarters from downtown Pittsburgh to our Carnegie, Pennsylvania office building, which we own thereby eliminating rent payments.

Five, we have made progress in addressing our Chinese – our one Chinese joint venture. However, it will take approximately three to six additional months to complete additional preparatory work before I have anything concrete to report.

And number six, much progress was made regarding our 2015 strategic plan particularly for Forged and Cast Engineered Products. I'm extremely excited about what we have developed thus far. While there are still a few months needed to complete the planning process, significant growth opportunity is already evident.

On the negative side, we did not achieve any progress negotiating a new labor agreement with our Carnegie plant union. The union committee is willing to continue discussions in May as are we. And we are optimistic that we will have a successful conclusion.

As we look ahead to the second quarter, I fear revenue will be less than the revenue we obtained in the second quarter of 2014. As I mentioned earlier, our Forged and Cast Engineered Products segment is dealing in a depressed industry.

The U.S. dollar continues to be strong. And industry experts still debate whether the steel industry has yet hit bottom. This evidenced by our backlog decreasing in Q1.

Our Air and Liquid Processing segment expect sales comparable to the second quarter of last year. And with orders and revenue down for Forged and Cast Engineered Products, I don't expect any favorable impact from our price increase program.

As I mentioned earlier, there won't be much help from cost reduction efforts until later. Naturally, we will impose more short-term measures to offset some of the impact of the low revenue level. We will now take your questions.

Operator: To ask a question via the telephone, press star one. If you want to withdraw your question, please press the pound key. Please limit your question to one question and a follow-up.

Our first question comes from Justin Bergner. Please state your affiliation.

Justin Bergner: Hi, good morning. It's Justin Bergner from Gabelli and Company. Good morning John.

John Stanik: Good morning.

Justin Bergner: How are you?

John Stanik: I'm doing OK. How about you?

Justin Bergner: Good, thanks. My first question relates to the revenue in your Forged and Cast Engineered Products segment that was nontraditinal. Could you maybe characterize that for us and maybe quantify it? Is it opportunistic? Or, is this something you expect to continue?

John Stanik: This is something we expect to continue. I have alluded in the past to one of the key strategic points of the new company. It will be to diversify the product line and utilize our extensive assets in different markets and in different ways.

This is not a new concept, I should mention. It's something that the segment has been working on for a year or two. It's beginning to bear fruit. And Bob, help me with the numbers.

But I think that our traditional role business was down by several million dollars compared to the first quarter of 2014. Was it ten?

Robert Carothers: – In that range, John.

John Stanik: Yes, it was about ten; and the other forged products that we're bringing in were up by…

Robert Carothers: – Seven, eight…

John Stanik: Seven or eight million, so that was a very big quarter. And that's one of the reasons I'm so excited about the early strategic planning. We're getting market pull into various different areas of business that are new to us. And I think that given a little bit of time, this is going to present major growth in the future.

Justin Bergner: Great, and a follow-up on that, you mentioned the traditional roll business was ten million; and other forged products were up seven to eight million. What's sort of the missing piece to get to the overall growth in the forged and cast rolls segment that you spoke about earlier?

John Stanik: I'm sorry. I don't understand the question, the missing ingredient. I think – I think that there are a number of missing ingredients to get to where we want to end up strategically. There are some capital programs that need to be completed. There is some marketing that needs to be done.

And then, we need to execute a number of orders that are of a trial nature with new customers and successfully complete those. I think that some of the industry that we're moving into is a bit inhibited by economic conditions, which is another missing piece.

So, without getting into too much detail of what the markets are, which I don't want to do at this point, I think those are – those are the missing ingredients.

But I would say that w have plans already; even those strategic plans are not finished. We have plans in place to address each and every one of those.

Justin Bergner: OK. I think what I was asking, (no). You answered a question I was about to ask. So, that's helpful. But the question I was trying to ask is if I heard you correctly, the traditional roll business was down ten million. Other forged products were up seven to eight million; the forged and cast rolls segment as a whole was up eight percent.

John Stanik: Yes.

Justin Bergner: So…

John Stanik: Yes, actually let me correct the numbers, Justin. Bob checked his records. The traditional roll of the business was down six. And the new product number was up nine.

Justin Bergner: OK, great, and then that pretty much captures that plus eight percent.

John Stanik: Yes, I thought that's where you were going, yes.

Justin Bergner: OK, great. And then, was the other products coming off of essentially a zero base or a near zero base from last year? Or was there some other products?

John Stanik: It was zero – a near zero two years ago; and last year it was only about one or two million dollars, just a hand, you know, a small amount.

Justin Bergner: OK. In terms of the cost actions, you know, outside of the pension freeze and the corporate relocation, are there other drivers on the cost reduction side that will be felt later this fiscal year?

John Stanik: Yes. And it's the standard things that one would expect in a – in a company who's in a situation we're in, in a restructuring situation. Obviously the pension freeze is one. And we're moving. We're cutting expenses that the normal sundry of things that you would expect. When we add them up, it gets to be a very substantial number. So, nothing that I don't think you would – you wouldn't expect.

Justin Bergner: Great, and of that sort of few million per year of cost reduction, can you quantify how much the pension freeze provides in terms of (cost reduction)?

John Stanik: Well, it's (least) from a net standpoint, it's (least) this year because when you figure in the curtailment charge. But I think moving forward it's going to be in the three to $4 million per year range, if memory serves. Is that right, Dee?

Dee Ann Johnson: Our pension cost in that (inaudible).

John Stanik: We're talking about a pension expense.

Dee Ann Johnson: Yes, our pension expense for the remaining quarters, in comparison to the first quarter are going to be about $2 million less just because we had to take that curtailment charge of $1.2 million. So, on an annualized basis, you're – (if) – with all things remaining equal, comparable, you're looking at pension expense of a roughly 3.5 – 3.6 million, 3.5 and four million –

John Stanik: Yes.

Dee Ann Johnson: – In that range…

Operator: Again, if you would like to ask a question, press star then the number one on your telephone keypad. And we do have another question from Justin Bergner.

Justin Bergner: Hi again.

John Stanik: Hi.

Justin Bergner: Just to finish up the thought on pension, the pension expense of 3.5 million. I just don't have the numbers in front of me. How much will that end up being down on account of the pension freeze year-on-year?

Dee Ann Johnson: For '15 – versus '14?

John Stanik: No, just do '14, what was the expense? He's asking –

Dee Ann Johnson: Yes, '15…

John Stanik: – (What) (inaudible) for '14.

Dee Ann Johnson: It will be less than a half a million dollars just because we have the curtailment charge of $1.2 million.

John Stanik: (I know that's) (inaudible).

Justin Bergner: OK. That's clear.

John Stanik: (Thank you), (inaudible), all right. You're OK with that answer, Justin?

Dee Ann Johnson: (Inaudible) – Justin, did I understand the question correctly? You're looking and wondering what 2015 pension expense is going to look like in comparison to 2014?

Justin Bergner: Well, to think about the reduction, should I think about that half million plus 1.2; so, about 1.7 million?

Dee Ann Johnson: That's right. During the current year, we're going to have to take that curtailment charge of roughly $1.2 million. So, without that, pension expense would be down roughly $1.7 million.

Justin Bergner: That down $1.7 million is reflective of the full year benefit or just a partial year benefit?

Dee Ann Johnson: A full year, if we did not have that curtailment charge.

John Stanik: It's three fourths. There was no (effect) in the first quarter, three fourths of a year.

Justin Bergner: OK, very well, thank you.

John Stanik: OK.

Operator: And at this time there are no further questions.

John Stanik: All right, thank you. I have a closing comment. I'm pleased with the progress that we've made in my first four months as CEO. Obviously numerous cost reduction programs are well underway.

The early look at our strategic plan is exciting. And I do believe that it will provide for a significant growth beginning immediately and occurring over a relatively short period of time.

The price increase in March 2015, in my opinion, it was the right thing to do and at the right time. (It seems) that Ampco-Pittsburgh Corporation are moving quickly. Unfortunately turning a company's results, it takes some time before benefits begin to show. And unfortunately we're dealing with a major part of the markets that we serve being under duress themselves.

The workforce here is excited and very motivated to make positive changes. I feel very welcomed here and very fortunate. And I look forward very much to what we accomplished between today and our next call. I hope everyone has a good day. Thank you for listening.

Operator: This concludes today's conference call. You may now disconnect.

END