AMPCO-PITTSBURGH CORPORATION

Moderator: Masha Trainor
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10:30 a.m. ET

Operator: This is Conference #77896206 . Good morning. My name is Brent, and I will be your conference operator today. At this time I would like to welcome everyone to the Ampco-Pittsburgh Corporation 2015 Earnings call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks there will be a question and answer session. If you would like to ask a question during this time, simply press star and the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you. I will now like to turn the event over to Masha Trainor, Vice President, General Counsel and Secretary.

Masha Trainor: Thanks, Brent. Good morning everyone and welcome to our earnings call for the second quarterof 2015. My name is Masha Trainor and I'm the vice president, general counsel and secretary of Ampco-Pittsburgh Corporation. With me today are John S. Stanik, our Chief Executive Officer; Dee Ann Johnson, Chief Financial Officer; Rose Hoover, President and Chief Administrative Officer and also present is our chairman Robert Paul.

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 included financial projections or other statements of corporation's plans, objective, 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 corporations' most recently filed form 10K 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, Masha. Good morning everyone. Sales for the second quarter of 2015 were 60 million dollars versus 69.9 million dollars for the second quarter of 2014. A decrease of 9.9 million dollars or 14.2 percent. The decrease is primarily attributable to our for forged and cast engineered products group.

Gross profit as a percentage of net sales was 19.6 percent for the second quarter of 2015 versus 20.8 percent for the second quarter of 2014.

Selling and administrative expenses were 9.2 million dollars for the second quarter of 2015 in comparison to 9.5 million dollars for the second quarter of 2014, a decrease of 300,000 dollars, or 3.1 percent.

Other expense fluctuated primarily as a result of changes in foreign exchange gains and losses. For the second quarter of 2015 gains on foreign exchange transactions approximated 175,000 dollars and resulted principally from the rebound in the value of the Euro against the US dollar during the quarter. Second quarter of 2014 incurred foreign exchange losses of approximately 26,000 dollars.

As of June 30, 2015 our estimated annual effective income tax rate is expected to approximate 37.6 percent compared to 33.7 percent for 2014. The increase is primarily due to lower beneficial permanent differences.

In summary, the corporation incurred a net loss for the quarter of approximately 520,000 dollars or five cents per common share versus net income of 1,121,000 or 11 cents per common share for the second quarter of 2014.

From a segment perspective sales for our forged and cast engineered products segment decreased approximately 7,900,000 or roughly 17 percent for the second quarter of 2015 compared to the second quarter of 2014. The decrease is primarily attributable to a lower volume of traditional roll shipments offset by a slight increase in other forging products. An operating loss was incurred for the quarter due to the lower volume of shipments, an under-recovery of costs resulting from lower production levels and weaker margins.

Weighted average exchange rates used to translate sales of our UK operations from the British pound sterling to the US dollar were lower for the second quarter of 2015 than a year ago, which reduced sales by approximately 1,400,000 dollars. The change in the weighted average exchange rates did not have a significant impact on operating results for the quarter.

Sales for our air and liquid processing segment for the second quarter decreased by approximately 2 million dollars or 8 percent, primarily from a decline of shipments of heat exchange coils to the industrial and fossil fuel utility markets and of air handling units as a result of lower order intake at the end of last year. Sales of pumps improved, however, principally due to a higher volume of shipment to the power generation market. Operating income for the second quarter of 2015 for this segment increased due to product mix and cost containment.

Backlog at June 30, 2015 approximated 151 million dollars in comparison to 168 million dollars at December 31, 2014, a decrease of 17 million dollars or 10 percent. Backlog for the forged and cast engineered products group decreased 22.4 million dollars as a result of lower demand from roll customers who continued to operate below capacity, causing shipments to outpace new orders. Further impacting the roll business is the strong US dollar and British pound against most major international currencies, especially the Euro. Backlog for the air and liquid processing group increased 5.2 million dollars and benefited from higher order intake for pumps and air handling units, while orders for heat exchange coils decreased principally due to reduced activity in the fossil fuel utility and instrudrial markets.

Regarding our balance sheet, cash and cash equivalents equaled 93.1 million dollars at June 30, 2015 in comparison to 97.1 million dollars at December 31, a decrease of four million dollars. Dividends to our shareholders approximated 3.8 million dollars and out of pocket costs associated with our asbestos related liabilities were just under two million dollars year to date.

Accounts receivable decreased 9.3 million dollars from year end, primarily due to lower revenue in the second quarter of 2015 versus the fourth quarter of 2014.

Inventories increased approximately 10.2 million dollars at June 30, 2015 from December 31, 2014 primarily due to higher inventory levels for the forged and cast engineered products segment including higher raw material levels to take advantage of reduce pricing and to a lesser extent delays in the delivery of rolls.

Employee benefit obligations decreased at June 30 from December 31 by approximately 7.1 million dollars, primarily as a result of the partial freezing of the US defined benefit pension plan in the first quarter as was discussed during our last call.

Moving onto cash flows, the corporation generated net cash flows from operating activities of approximately 5.4 million dollars for the current year period in comparison to 1.6 million dollars for the six months of 2014. The majority of the improvement is associated with changes in working capital. Net cash flows used in investing activities approximated 5.4 million dollars for the six months ended June 30, 2015 versus 6.2 million dollars for the six months ended June 30, 2014, and related principally to capital expenditures for our forged and cast engineered products segment. As of June 30, 2015, we have commitments for future capital expenditures of approximately 11 million dollars. 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. Our second quarter results were disappointing. We continue to suffer from depressed market conditions in our main customer base, the western steel industry. However, I'm excited about the progress our corporation made during the quarter as we move closer to revitalizing Ampco Pittsburgh and turning around our financial performance. I'll talk more about these achievements later in my presentation. But first let me add some color to the second quarter results.

Summarizing, our air and liquid processing segment revenue was down approximately eight percent year over year and the forged and cast engineered product division, formerly called UES was down 17 percent. the revenue shortfall was the reason for the poor results. Especially UES's decrease. It's that simple. For air and liquid processing the revenue reduction was primarily due to the Aerofin division and the Buffalo Air division. Aerofin has lost sales this year from its coal fired power plant market segment as little investment is being made in that industry and also from its industrial market.

Buffalo Air revenue results were somewhat misleading, as there was what I refer to month to month variation in shipments that some delayed into the third quarter. I am happy to report that Buffalo Air had a slightly profitable quarter in Q2 and has booked business that will fill our shop through the end of 2015. The Buffalo Air group has worked very hard at reducing their cost and improving performance. Overall, the air and liquid processing segment improved operating income for the quarter year over year by more than 10 percent, despite an eight percent reduction in sales. The lack of UES shipments provided the most negative impact on the quarter. With revenue down 17 percent year over year, our cost reduction efforts and efficiency improvements just couldn't offset the shortfall, and the loss of manufacturing utilization resulted in poor absorption of fixed costs. You may remember that during our first quarter call, I mentioned that I was concerned about Q2 revenue. Due to lower than historical new order bookings in Q3 and Q4 of 2014 and some delays from customers requesting deliveries of rolls, shipments were low in the quarter. When our backlog drops as it has over the last few years, our manufacturing utilization eventually drops also, and it becomes difficult to absorb fixed costs. This leads to increases in unit costs and lower operating income directly. Therefore, it's a double hit.

I'm not going to spend much time talking about market conditions recently. Steel industry executives have discussed this topic very thoroughly. I will say orders in Q2 were very hard to come by in North America and Europe. This has eased somewhat in North America during the last two months of Q2 but it’s far too early to say that things are improving in North America, and Europe has not improved.

Regarding things we can control and moving on, allow me to talk about some of the exciting things we accomplished during Q2 that will improve future performance. Efforts to capture what I refer to as one-time cost reductions are now nearly complete. Two examples include the defined benefit pension plan that Dee Ann mentioned for most employees was frozen June 30, 2015 and replaced with a 401K contributory program. A reduction in force of approximately three percent of our global base was completed as we centralized our back office departments. The grand total of these and other one-time reductions is nearly 10 million dollars captured from Q1 through today. However, much of this impact will not hit P and L until next year.

We implemented a new product development process and restructured its organization in order to work on new offerings that the market wants and to do that as quickly as possible increased funding is being planned. After completing a GAAP analysis, a few key senior new hires have been added to the company to focus on important areas of development. We are intent on building a stronger company not only committed to reducing costs. Sales representation changes are being evaluated and solo will be implemented to improve our commercial efforts in new markets.

The strategic planning process is progressing nicely. Commercial projections will be finalized in August. Our early results predict double-digit compound annual growth rates for revenue for the net three years organically. In other words, without acquisitions. We are progressing on establishing a new bank credit deal. An M and A process ahs been instituted and a target funnel created wit several opportunities moving through that process. We plan to utilize our cash to invest in market diversification possibilities and industry consolidation opportunities.

Speaking about acquisitions, we completed our first one on July 29. The company whose assets we acquired is named Alloys Unlimited and Processing, Incorporated. And the newly acquired business is now part of the forged and cast engineered product group. It was a small acquisition, but a significant one to us. We added a new business capability, a distribution center possessing fast response to customer needs for engineered forged products outside our normal markets.

Globally there is a 4 billion dollar product market out there, and we hope to capture it. steel rolls are only a small part of that market. Fast response generally means higher margins as we meet customers' urgent demands. Thus we see this as a revenue growth potential and a margin improvement opportunity. I'm not satisfied with our second quarter performance, but I am satisfied with what we accomplished during the quarter. In fact, with every passing day I get more excited about the future prospects of Ampco Pittsburgh.

Looking ahead unfortunately in the short term, our prospects aren't promising. The remainder of 2015 will be difficult. Q3 revenue will again be low. In fact, I fear our bottom line in Q3 could even be somewhat worse than the bottom line of the second quarter. New order bookings during April and May were low. June and July were somewhat better, but they will have little to no impact on Q3. That concludes my comments. We'll now take your questions.

Dee Ann Johnson: Before we take the first question, I'd like to clarify our response to a question that was posed during the first quarter conference call regarding the curtailment of our US defined benefit pension plan. Moving forward, assuming no changes in actuarial assumptions, we expect a net savings in future pension expense of roughly 1.5 million dollars to 2 million dollars.

John Stanik: Ok Brent, we'll now take questions.

Operator: At this time I would like to remind everyone in order to ask a question press star and the number one on your telephone keypad. We request that you limit your question to one question with one follow-up. We will pause for just a moment to compile a Q and A roster. Again, if you would like to ask a question press star and the number one on your telephone keypad. There are no questions at this time. I will turn the call back over the presenters.

John Stanik: This is John Stanik again. I just want to make one short closing remark. It's very frustrating to watch a company work so hard at improving, creating and accepting change, and not see those efforts result in a quicker improvement to company performance. But a delay is inevitable, especially when facing difficult market conditions. And we have to understand this is where we are right now. I believe all our efforts are helping to establish a positive culture at Ampco Pittsburgh which will make more improvements in the future and most importantly develop and implement a strategic plan that leads us to prosperity. That's why I feel so much more excited and optimistic today than I was on my first day seven months ago. Thank you.

Operator: ladies and gentlemen this concludes today's conference call. You may now disconnect.

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