Company: **Advanced Forming Technology**

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Moderator: **Drew Kelley**

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Operator: Good afternoon and welcome to the ARC Group Worldwide conference call. Today's conference is being recorded. With me on the call is Alan Quasha, ARC's Chairman and Drew Kelley, ARC's interim CEO and CFO. Before we begin the formal discussion, I would like to turn he call over to Mr. Kelley to make a statement regarding forward-looking information. Please go ahead, sir.

Drew Kelley: Good afternoon, everyone and thank you for taking the time to join our call. As most of you are aware, this call will contain forward-looking statements as defined by federal securities laws. Forward-looking statements are indicated by words such as expect, anticipate, plan, believe, and similar words concerning future events. All future events are inherently uncertain and actual outcomes may different materially.

We do not guarantee future performance and past performance is not necessarily indicative of future results. Further we undertake no obligation to update our forward-looking statements. We encourage you to review the risks that we face and other information about our company in our filings with the SEC including our annual report on Form 10-K and quarterly reports on Form 10-Q.

The company earlier today announced results for our fiscal quarter ended October 1st, 2017. In summary, revenue from continuing operations was $19.9 million compared to $25.7 million in the prior year period. Overall while the year-over-year comparisons were difficult given exceptionally strong firearm and defense sales in the prior year period, the current results now reflect continued reduced demand by these customers.

To underscore, excluding the revenue results associated with our Colorado-based MIM and plastic operations, which primarily service those events in firearms sector, the combined revenue from all other ARC facilities declined less than $525,000 from the prior year results.

At the same time there were positive revenue results achieved by the company during the quarter, most notably with our metal 3D printing operations. Revenue from 3DMT during the quarter was almost three times greater than the prior year period and we expect to approach or exceed record quarterly revenue in the current December quarter end.

We continue to make great progress with our recently-opened and new 30,000-square-foot dedicated 3D facility which provides us with the ability to add-up to 40 machines including designated areas for defense, controlled environments for medical implants and in-house heat treatment and other machining capabilities.

As a result of this progress in our rapid growth in metal 3D printing, the company's board is currently considering additional investments to further accelerate this pace of growth. Returning to overall consolidated results for the quarter, low production volumes impacted the company's operational efficiencies.

As gross profits from continuing operations was $1.4 million compared to $4.7 million in the prior year period, EBITDA from continuing operations for the fiscal 1st quarter 2018 was $.4 million compared to the prior year period of $1.4 million. Net loss from continuing operations for the fiscal quarter 2018 was $3.3 million compared to a net loss from the continuing operations of $.7 million in the prior year period.

And finally overall fiscal 1st Quarter 2018 net loss was $3.6 million compared to net income of $3.6 million for the fiscal 1st Quarter of 2017 although we note the prior year period included $4.3 million in benefit associated with the sale of the company's non-core subsidiaries.

Given these results and the fact the outlook for the firearm and defense markets remains challenging, we are continuing to take a proactive approach on our fixed cost structure, implementing incremental head count and other cost reduction initiatives. These recently-completed changes are expected to eliminate an additional $3.3 million in annual expenses and are incremental to the prior plan we announced at the end of our 4th Quarter.

That plan eliminated an estimated $6 million in annual costs. Importantly we believe these combined expense reduction programs - are already generating results and note selling, general and administrative expense for the fiscal 1st Quarter in 2018 declined to $3.5 million, down from $4.9 million in the prior year period and from similar levels in the prior sequential period.

Overall, while we expect the decline in sales to be temporary, our focus on operational efficiency and cost reduction will both be ongoing and permanent, thus once we combined our cost-reduction initiatives and they start taking full effect, we believe to achieve similar profitability in margins despite lower top-line results.

Thereafter with the eventual return of normalized revenue levels, overall profitability could exceed historic levels. At the same time management remains dedicated on focusing the company's resources on its core strategic operations while driving cash flow and right-sizing the balance sheet.

As previously announced during the recently-completed quarter, the company sold substantially all the assets of its non-core flange business for $3 million. On the balance sheet front we remain focused, having reduced past dues from almost 30% to total accounts receivable to less than

15% quarterly and at the same time we've driven inventory to more efficient levels from almost $20 million at the end of fiscal 3rd Quarter '17 to less than $15 million on October 1st.

Overall despite these challenging revenue landscapes, we have the opportunity to eliminate costs, to drive cash and to ultimately reduce the company's debt on the balance sheet. I appreciate everyone's time on the call. We'll now open the call for questions.

Operator: If you would like to ask a question at this time, you may do so by pressing the star key followed by the digit 1 on your telephone keypad. If you are using a speakerphone, please make sure the mute function is turned-off to allow the signal to reach our equipment.

Once again if you would like to ask a question, please press star 1. We'll pause for a moment to allow everyone the opportunity to signal. We will take our first question from John Tanwanteng with CJS Securities. Please go ahead.

John Tanwanteng: Hey, good afternoon. Thank you for taking my questions.

Drew Kelley: Good afternoon, John.

John Tanwanteng: Drew, you're cutting a lot of costs but where is it coming from and you know, how does that impact your ability to grow going forwards?

Drew Kelley: Well, the cost focus is not specific to any one property but in fact we're looking at this as a global approach. We've for all practical purposes evaluated all facilities on all levels and we believe that ultimately it's not only in the best interest of the company from a cost reduction standpoint but has little to no impact on our ability to grow.

In particular we're simply refocusing by eliminating the new part development, the opportunities that are no longer at the targeted margins or don't have the potential for the outsized revenue impact that we're looking for, this is simply how we still we believe can maintain a topline growth approach while being very bottom-line focused.

And again these are costs that are going from just about every aspect of the P&L both on cogs and SG&A and obviously within the various different line items of those categories.

John Tanwanteng: Got it and how should we expect those to roll-in? Are they (all in) in this quarter or there's, you know, what you're looking for?

Drew Kelley: Good question. Both programs both the initial $6 million plan and this plan at $3.3 million are for all practical purposes complete and implemented. The ongoing effect obviously would take some time to get to full benefit but as we mentioned and as I specifically outlined, I think you're already starting to see that on the SG&A line in this quarter.

Again it probably is the January through February and March quarter where you see the complete effect of both programs but we believe that both the original program and this incremental will have material cost savings until that period as well.

John Tanwanteng: Okay, great, that's helpful and can you give us an update on the larger product ramps that are in your pipeline and how those are progressing? I know you've had some trouble in the last quarter but, you know, just any color on those would be appreciated.

Drew Kelley: You know, at the end of the day there is a significant opportunity for us in the sales pipeline and again we've refocused on a lower number of parts but again refocusing the efforts on those that have outsized revenue potential and of course again at margins that we deem appropriate.

These are large programs that in many cases are platforms including several parts and in some cases more than one or two dozen and in many times you don't launch simply one part with all of them so for that reason they are time-intensive.

Both the overall MIM process along with some of these parts in particular are challenging but again I think we feel we have a good focus on the right types of parts to develop and we are certainly in many cases at the latter stages of implementing these programs and in these platforms and for that again we're generally very bullish on the opportunity.

We think that there is a significant amount of opportunity both in the markets which we serve and more importantly in some of the markets which we continue to aspire to grow in, most notably medical, dental and aerospace so for that we do believe that we're very close on many of them, not quite there on all of them but again it will be our primary focus in many cases on the development side as we go forward in the next coming weeks and months.

John Tanwanteng: Great, and then just on your firearms customers, is it still an inventory issue that we're talking about here or is there something more secular or customer-specific that is impacting your results in that sector?

Drew Kelley: Generally we are seeing industry-wide trends and by that I mean, the reduced demand. There are pockets that were small indications of some rebound but quite frankly I think the persistent level here having gone through now about a quarter and a half of observing it first-hand indicates that at the end of the day I believe those inventory levels that we referenced on prior calls both going into presidential campaigns and others are really still elevated.

And the demand has not been there relative to some of the things that we've seen in the past both in terms of just general industry demand and in many cases the response to headline risks so at this point again we are not waiting for the market to return but as I mentioned these are proactive cuts and cost-reduction initiatives and that we're very confident that at the end of the day we can not only achieve profitability now at these reduced levels albeit in the near future.

But once the business returns and again let me underscore we have not lost customers - material customers - or customers that we want to retain so for that reason we do feel that once the revenues return to more normalized levels, the flow-through to the bottom line should be outsized both again in absolute dollar and on a margin perspective.

John Tanwanteng: Got it and just to clarify, the new large programs that you've been referencing for the last year and that you're trying to wrap and get out the door, are those exposed to the demand that you're seeing out there? Was that more of a, you know, defense and government and law enforcement contract, that thing that doesn't necessarily get impacted by you know, what's flying off the shelves at Walmart?

Drew Kelley: To a certain extent, yes. These are diversified opportunities, not just simply in the firearms and defense market but many of them do have a military application as well as a sporting application so it's our hope and our belief that for those reasons we'll see a successful launch in the not-too-distant future.

John Tanwanteng: Okay, great, one last question. You referenced I think it was 3D metal printing being at record levels in the December quarter or even exceeding that. What was the prior record and this is for my knowledge?

Drew Kelley: Just south of a million dollars per quarter so again we're very excited about where that business is headed and for that reason we are considering opportunities for additional investment in the business. Specifically, in the 3rd Quarter of Fiscal '17 we had revenue of approximately $913,000.

John Tanwanteng: Great, thank you very much.

Drew Kelley: Thank you.

Operator: Once again if you would like to ask a question at this time, please press star 1 on your telephone keypad. Again that's star 1 for questions. We'll pause for just a moment. Again if you would like to ask a question at this time, please press star 1. And it does appear we have no further questions. Mr. Kelley I'll turn the conference back over to you sir for any closing comments.

Drew Kelley: All right, well I appreciate everyone's time and we look forward to speaking with everyone in the future. Thank you again. Bye.

Operator: This will conclude today's conference call. We thank you for your participation and you may disconnect at this time.