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Moderator: **Blaze Gries**

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Blaze Gries: Ladies and gentlemen, good day and welcome to the ARCW Group Worldwide Quarter 1 2019 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. (Alan Quasha), Chief Executive Officer. Please go ahead, sir.

(Alan Quasha): All right, good afternoon, everyone. Welcome, and thank you for joining us today on this call. As most of you are aware, this call will contain forward-looking statements as defined by the 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 differ 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 and our filings with the SEC, including our annual report on form 10K, and quarterly report on form 10Q, and our current reports on form 8K, all of which can be found on our website.

Please note that, during the call, all financial measures presented will be non-gap unless otherwise indicated. Turning to results of Quarter 1 of Fiscal 2019, I'm happy to turn it over to (Aaron Willman), the CFO of ARCW, to share positive results. (Aaron)?

(Aaron Willman): Thank you, (Alan). All right, I'm first going to begin by talking about Fiscal Quarter 1 versus Quarter 1 of Fiscal 2018, and then I will talk about Quarter 1 versus Quarter 4 of Fiscal '18.

So in Fiscal Quarter 1, we found revenues at $20.6 million, comparable to $19.1 million of Fiscal Quarter 2018.

This was roughly an increase of 7.7% over the prior year, which is largely driven by higher sales and volumes in the aerospace, medical, and environments defense markets. Also during first Quarter 1, we saw a gross profit increase to 3.1%, as comparable to $1.2 million in our Fiscal Quarter 1 of 2018. This is a 160.9% increase.

It is worth note that, during this period, we also discovered an error that resulted in a $1 million adjustment to our first Quarter result. EBITDA in Quarter 1 was $2.4 million, as compared to $.2 million in the Fiscal Quarter 2018. Like gross profit, EBITDA was also adjusted by the SCA correction of an error, but also due to our cost reduction initiatives and diversification into aerospace and medical products.

For Quarter 1 versus Quarter 4 of 2018, revenues were $20.6 million compared to $22.5 million in last Quarter. This is a decline of 8.4%, which is largely due to the seasonality of our sales with our customers. Stamping ((inaudible)) is most notable with the automotive base. A good portion of our automotive customers do take a shutdown of one to two weeks during the July season.

Gross profit was $3.1 million for Fiscal Quarter 1, compared to $2.7 for Fiscal Quarter 4 2018. Again, a big portion of this here was the diversification into aerospace and medical, and also the cost initiative improvements. EBITDA was $2.4 million for Fiscal Quarter 1, compared to $2.2 for Fiscal Quarter 4 for 2018.

Again, the benefits here were from the cost initiatives and the diversification into more aerospace and medical parts. This is the quick summary, and I will now turn it back over to (Alan Quasha) for his commentary.

(Alan Quasha): Okay. Thanks, (Aaron). So what I'd like to stress is that the trends in both the revenues and our margins and our costs are moving in the right direction. So, the results for the first Quarter of this year are substantially better than the Fiscal last year's Quarter 1. Year over year sales increased by $1.5 million, gross profits by $1.9 million, EBITDA by $2.2 million.

In this Fiscal 2018, ARCW began two main new initiatives, which were our cost reduction plan and a new sales and marketing plan. While the $9.8 million cost reduction plan was completed in Fiscal Year 2018, we see the positive results of the plan and how it affected our first Quarter results.

It continues to work hard, and this Quarter produced a significant profit increase, percentage-wise, which was an even greater increase - sorry, greater than our increase and percentage increase in sales. The second main driver of this quarter is our continued shift into aerospace and medical. These industries provide better visibility and margins, and will continue to open up a much larger total available market.

This year, we are projecting a 58% increase and 6.6% increase in aerospace and medical, respectively. This increase will be roughly $2 million being manufactured out of both of our Colorado and Florida facilities. The stamping division has also followed this diversification directive. It is too early to disclose any significant results.

However, they have started doing business with their first oil and gas customer, and have some significant programs in the works. Overall, our prime directive here remains to diversify across all core divisions.

The last issue I'd like to quickly touch on briefly, before turning this over for questions, is the sale of our 3DMT division. This was a tough division that the board made early on in Quarter 1 this year. The sales process has begun and has - is progressing as planned. Management presentations began last week and will continue over this week and next.

It is important to note that ARCW plans to use the proceeds to pay down a significant portion of our long-term debt. We expect a transaction to close in the Fiscal 3rd Quarter. So, that ends my presentation, and I want to thank you all, and I'm happy to turn this over for any questions our shareholders may have.

Blaze Gries: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing *1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press *1 to ask a question now.

We'll pause for just a moment to allow everyone an opportunity to signal for questions. Again, if you'd like to ask a question, star 1. Our first question comes from (Jerry Weintraub) with Weintraub Capital.

(Jerry Weintraub): Hi, (Alan). Congrats on the continued progress across the board for the company. Can you talk a little bit about the seasonality of the stamping business? It had a really strong June quarter, a less strong September quarter.

You commented in the earlier comments that there's seasonally a slowdown, because of your - it's some of the automotive companies taking time off during the quarter. Can you help frame what expectations you have, going forward?

(Alan Quasha:) Yeah. Yeah, absolutely. That was a good catch, and since we have on the phone someone who actually was running the stamping division, (Aaron), I'll let (Aaron) answer that question. But (Aaron), you want to talk a little bit about the shutdowns that occurred in the 2nd Quarter for automotive?

(Aaron Willman): Absolutely. So, a lot of our end user customers are still going to be your Hondas, your Fords, GMs, and that basically drives our - or I should say, their annual initiative is to have a - what they're going to refer to as our maintenance shutdown in the July period.

Typically what we're going to see is a spike in sales in June, as a lot of our customers want to ensure they have adequate supply, which will then go into a taper-off and cancellation of all orders for the first, basically, week to sometimes two weeks, depending on the customer.

So the impact we can usually find between $500 and about a million dollars, just depending upon the year. So it's a pretty significant sales drop in our July period, that it's a hard period for them to come back from fixed costs and things of that nature. So, it's an annual issue that stamping's - that the program is enjoying every single year.

(Jerry Weintraub): And so we'd expect, in the current quarter, this December quarter, that - to bounce back on - from a seasonal perspective?

(Aaron Willman): Correct, correct.

(Jerry Weintraub): Okay, thank you. It was my understanding that you've been awarded some new, longer-term contracts from some of the automotive customers. Can you give us any color on how that can impact the rest of the Fiscal Year?

(Aaron Willman): Sure. The first, I think most notable one, was really a brand new customer for us, with BridgeCo. That was a $1.2 million contract, with production starting in the January time frame. With all automotive contracts, I should say, the majority of automotive contracts that we have, it's usually five years' production cycle, so it's not just one year sales but, you know, five years at the $1.2 million mark.

The further increase that we have is that, originally, that program was scheduled to be a shared production with both ARCW, and then also a facility in Japan. Since then, they've notified us they will not ((inaudible)) production, and all production will start in the Michigan facility, effective January. There's a few other programs of this nature, but I think that is the most notable one to talk about.

(Jerry Weintraub): And that will be January of 2019, or did that change?

(Aaron Willman): That's correct.

(Jerry Weintraub): Okay.

(Aaron Willman): That will be January of 2019.

(Jerry Weintraub): And congratulations on that.

(Aaron Willman): Thank you.

(Jerry Weintraub): And then, (Alan), you spoke a little bit about the diversification efforts. Can you give us any more color on success or wins that we've had in that process at this stage?

(Alan Quasha): Yeah. So the - okay, the negative of aerospace is that credibly long lead time that it takes to get a part approved and into production. The positive is that you have visibility, once it gets into production, for many, many years, and margins are pretty decent. So, you know, we've been making progress. We're still at the very early stages of that. But progress looks good, and already we're starting to see the impact of moving some things into production.

So all that's good, and it's definitely a major move for Colorado, which has been highly dependent upon firearms. And then on the medical side, which has been our Florida facility, that continues to go very well, and Florida has been a very, very healthy business and very good both profit and cash generator. So, all of that - both of those show nice order increases, and the future looks pretty healthy for both.

(Jerry Weintraub): All right, thank you. I'll step out and let others, if there are any others in the queue, to ask their questions.

(Alan Quasha): Yeah.

Blaze Gries: Ladies and gentlemen, again, if you would like to ask a question, please press *1 now.

(Alan Quasha): Well, it doesn't look like there are any other questions. Am I right on that?

Blaze Gries: Oh, we do have one other question. Our next question comes from (Ian Corydon) with Hayden Investor Relations.

(Ian Corydon): Yeah, (Alan), could you just talk about the asset investment that you have in the 3DMT business?

(Alan Quasha): The which investment?

(Ian Corydon): The 3D business that you're selling.

(Alan Quasha): And what's the question? You asked us how much what?

(Ian Corydon): What kind of asset value is there?

(Alan Quasha): I'm sorry, I'm just - for some reason, the line isn't good. Can you say that again, and maybe speak a little more slowly?

(Ian Corydon): How much have you invested in that business?

(Alan Quasha): Oh, invested. I think it's around - it's hard to say, because there's both equipment and losses. And do you want to just - do you want to add - if I add both of those, then it's probably around $8 million.

(Ian Corydon): Okay, thank you.

Blaze Gries: At this time, we have no other questioners in the queue, so I'll turn it back to our speakers for closing comments.

(Alan Quasha): Yes. No, thank you, everybody, and I have nothing else to say. So, thank you for joining the call, and we'll end the call now. Thank you.

Blaze Gries: Thank you. Ladies and gentlemen, that concludes this afternoon's presentation. You may disconnect your phone lines, and thank you for joining us today.