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Moderator: **Joel Rogers**

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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 the call over to Mr. Kelley to make a statement regarding forward-looking information.

Drew Kelley: Good afternoon, everyone and thank you for taking the time to join our call. As most 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 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 in our filings with the SEC including our annual report on Form 10-K and quarterly report on Form 10-Q.

As discussed in today's press release, I'd like to begin today's call by highlighting a few key initiatives the company has implemented since June. As many are aware, for the past several quarters we have not achieved our objectives which correspondingly adversely impacted our operating performance, financial outlook and capital resources.

As a result on June 23rd ARC's board addressed this situation by announcing reorganization of our executive and senior operating leadership team. Simultaneous with this internal reorganization, management aligned the company's focus and effort on our core capabilities of metal injection molding and metal 3D printing. At the same time we placed greater emphasis on fiscal and operational discipline.

We believe these corrective actions will move the company forward to a more profitable and exciting future. From a macro perspective, we began the strategic review of all operating and other assets. In response to this review, we ceased operations at our unprofitable Mexico facility in July.

We determined our plans division to be non-strategic and divested the subsidiary for the $3 million or more than 5-1/4 times trailing EBITDA on September 15th and we made numerous other strategic and operating changes that align our business within the growing additive manufacturing marketplace.

Notably while these completed changes were swift and far-reaching, we continue to evaluate our business model and may consider strategic alternatives or divestitures in the future. Simultaneous to the strategic review, we began to affect operational efficiencies through the rationalizing of our cost structure to be more productive and less capital-intense.

We implemented headcount reductions and other cost-reducing measures at most of our facilities to materially reduce our fixed-cost structure. Most materially we reduced our domestic salaries and hourly full-time staff by more than 15% to more efficiently align with the current sales estimates.

Overall we estimate these savings have eliminated approximately $6 million in one-time and recurring annual costs. Again while these initiatives are complete, we will continue to evaluate further cost reduction measures on an ongoing basis. Separately we also made the decision in the 4th Quarter to exit products and projects which were deemed low-margin or unprofitable resulting in several one-time charges.

While these non-cash charges were the primary drivers of decreases in gross profit during the period, we believe the company is significantly better-positioned going forward. In particular we incurred non-cash charges of approximately $5 million related to higher inventory reserves and write-offs for inventory, tooling and associated parts.

Finally we concluded that good will was impaired at our ATC and Kecy subsidiaries recording a non-cash impairment charge of $3.3 million to eliminate the carrying value of goodwill for these subsidiaries. At a root of these changes was a desire to refocus the company on its core services but also equally important on increasing profitability.

Overall we believe ARC provides a unique and highly strategic value proposition to a growing customer base and as such our go-forward top-line strategy should be priced accordingly. Finally, we initiated a multi-pronged financial policy review primarily designed to improve cash flow generation and reduce our capital intensity through specific addressable actions.

As a result we revised our accounts payable and receivable policies as well as other guidelines designed to ensure greater efficiency in inventory at all facilities. Overall these financial policy changes along with the impact from improved operations and strategic initiatives are designed to assist in the material deleveraging of the company towards our long-term normalized rate of two times debt to annualized trailing EBITDA.

The company also announced earlier today results from our fiscal quarter ended June 30th, 2017. While we were obviously disappointed by recent results as mentioned, we believe the company and ARC has positioned itself to take the necessary corrective action and make great strides towards moving the company towards a more profitable and exciting future.

Sales from continuing operations for the quarter were $22.1 million, a decrease from the prior year period due to lower MIM and plastic sales, most notably in the firearm and defense sectors. Gross profit from continuing operations for the quarter was a negative $2.2 million compared with $4.6 million in the prior year. Facility EBITDA from continuing operations was a negative $5.9 million compared to $3.6 million in the 4th Fiscal Quarter of 2016.

Both the facility EBITDA number and the net cash from operations or net loss from continuing operation in the recently-completed quarter include the $5 million in non-cash inventory and fixed asset charges as well as the $3.3 million in non-cash good will impairment charges.

In addition SG&A expenses during the quarter increased to $4.9 million from $4.1 million in the previous year. This increase was largely related to one-time items including higher non-cash option expense and severance and should revert back below the previous-year total given the one-time nature of these charges and the cost reductions.

As such if you remove or pro forma all results for both the one-time accounting charges and the aforementioned $6 million in cost reductions, we believe the company has a clear and achievable path towards profitability in the current fiscal year.

Overall given our recent results, our primary objectives are clear: improve the operational efficiency, drive cash flow and increases in profitability at all business units and deleverage the company through specific, well-defined operational, financial and strategic measures.

At the same time let me reiterate. These recent initiatives do not jeopardize the company's ability to grow. Rather we are better-positioned both internally and externally to drive customer satisfaction, bottom-line results and shareholder value. In particular we remain bullish on the company's sales pipeline. As we discussed in the press release, ARC recently received customer approvals on 166 new customer products with many parts already in full production.

Included in these launches are several holistic solutions for our customers in the medical and defense sectors. These complete solutions use a multitude of our complementary technologies including metal 3D printing, MIM and plastic injection molding to garner a larger share of the previously untapped business opportunities. Similarly our metal 3D printing business continues to grow rapidly. With the addition of four new machines, ARC now operates 15 metal printers.

We are especially excited about our recently-opened new 30,000-square-foot dedicated 3D facility which provides us with the ability to add up to 40 additional machines. The new facility does not simply improve our scale, but includes several dramatic improvements to our key capabilities in 3D printing including designated areas for defense production, controlled environments for medical implants and in-house heat treatment and machining.

As a result we expect 3D revenues to continue to grow at its recent pace as we are forecasting 3D revenues to double in the current Fiscal 2018 year. Finally I note that during today's ARC board meeting I was informed that various ARC board members and other senior management personnel intend to purchase ARC shares in the public market when permissible and in compliance with the company's share purchase window policy. I appreciate everyone's time on the call and I'll now pause for questions. Operator?

Operator: Thank you and ladies and gentlemen if you would like to ask a question on today's conference, please signal by pressing star 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 out equipment. Again that is star 1 to ask a question and we'll pause for a brief moment to assemble the queue. And we'll now take our first question from (John Tenwanting) with CJS Securities.

(John Tenwanting): Good afternoon, thanks for taking my questions.

Drew Kelley: Thanks, (John).

(John Tenwanting): Can you talk about the headwinds you saw in defense and firearms? Was this customer-specific or marketwide? Any more color there would be appreciated.

Drew Kelley: Absolutely. Generally this was a marketwide or industrywide factor that affected our business most notably in our Colorado facilities. While I hate to speculate, what I've generally understood is that there was a large political component of this headwind, specifically the recent Presidential election and many of our key customers in the industry largely suspected the outcome to be different and proactively increased inventory levels in the anticipation that there would be either a significant or wide-ranging change to firearm policy with the next administration.

The outcome in that election was not as they expected and as such may in fact be most beneficial to the industry - the firearm industry - and defense industry as a whole for the foreseeable long-term future. Nonetheless that left them with inflated inventory levels and as such we have otherwise been asked to pull-back our production as those levels revert back to more normalized results.

What we have seen in all of this however is a continued robust demand by the consumer and so unlike the impacts that we saw the firearm approximately two years ago where there was a significant lag in customer demand, the FBI checks and other key indicators of demand again illustrate that the remains are relatively robust demand.

And as such while we're not suggesting we'll return to normalized levels tomorrow or the next day, we are starting to see, implications of a rebound and certainly expect by the really full-term firearm and sporting season that there should be some improvements there as well.

I'll also add that on top of that we are in the process of launching several very large, very dramatic new firearm launches and so while we stress that we continue to focus on diversifying our revenue stream, sometimes the easiest and best sale is to our existing customer and for that in all of this we have not lost our customer relationships and in fact continue to position ourselves as one of their key suppliers going forward.

(John Tenwanting): Okay, thanks for the color and that actually leads into my next question. You had difficulty in launching large firearms customers in the past several quarters. Can you describe how that relationship has changed or gotten better or worse and if the opportunity there is the same as it was call it maybe six months ago?

Drew Kelley: Absolutely. I think at the end of the day the biggest mistake that we made was taking-on a new customer that was unknown to us perhaps unknown to the particulars of MIM and two many parts too quickly too fast. That led to us incurring a significant amount of cost as we attempted to ramp-up and develop those parts.

And ultimately what we both mutually decided is that it was in the interest of both parties - ourselves and our customer - to scale-back that initially to parts where we know we can produce to the next set of parts that we believe we can produce in short order and other parts that either are not well-suited for MIM or well-suited for our MIM capabilities and as such we won't move forward with those parts that we either cannot produce at a low or negative margin.

As such we continue to have I think a productive relationship with this customer, one that has the potential to be significant for ARC but we're taking a much more modest approach, one that I think both rationalizes the relationship as well as shifts the risk not completely to us but really balances the risk-reward and as such we're very excited about the continuing relationship there.

It's one that we continue and are producing currently parts for them and our expectation is that we continue to have a relationship with them, one that continues to grow so at the end of the day, I do believe that it is an important customer for ARC and for MIM as a whole. We believe that we are much better-suited now to move forward in a rational, appropriate and capital-intensive approach and as such I think all parties are very happy with the recent changes that we've made.

(John Tenwanting): Okay, great, and then any other color or commentary on your other end markets beside defense and firearms, especially since we're very close to the end of the 1st Quarter already?

Drew Kelley: Again, I think what we're seeing in the 1st Quarter is these tailwinds associated with firearms for your reference as I think you know the 1st Quarter fiscal for us includes obviously the July and August periods, many of which were traditional which many of our customers have often shut-down for an extended period of time.

What we have seen, and while we don't provide color specific to the forward period, is many of our customers in the firearms sector took extended periods of time off and because we could not shift them, in July we also shut-down or otherwise continued our cost-cutting initiatives as we approached August.

August then was a relatively good month for us and as we look at the quarter as a whole, again I think what you will see is a quarter that from a top-line perspective is not terribly dissimilar to the 4th Quarter but certainly illustrates both the improvement on the top-line and profitability as we progress through the remainder of the fiscal year.

And for that as I mentioned before, we are ultimately bullish on both the financial opportunities for the new pipeline, sales pipeline and specifically 3D where we believe that business entity should continue its recent progress and that we expect that business to double its top-line production in the Fiscal ’18 period as it did in the Fiscal ’17 period.

(John Tenwanting): What is the 3D run rating at right now? You said it would double so what number are you doubling off of?

Drew Kelley: Well, I’m glad you added that because we did make changes to the reporting structure and I think that’s what you will see now is a new situation where we only show 3D, not as we did before, and so with the publication of that information you again will see a doubling of the revenues and again our expectation that that continues. It’s still relatively de minimus as a whole but remains very fast-growing and for that we’re very excited about its growth. It currently does approximately $2 million in top-line revenue.

(John Tenwanting): Great, thanks, and then you mentioned that you opened a new facility down in Florida. I know you had other facilities there. Any impacts from the recent hurricane?

Drew Kelley: No, thanks for asking. Both facilities were shut-down in anticipation of the hurricane. Fortunately both our facility and our employees were generally spared the brunt of the hurricane and while they were shut-down for a number of days in the grand scheme of things that shutdown will be relatively immaterial so I don’t foresee any specific issue other than a loss of a few production days.

(John Tenwanting): Okay, great, and then finally just on the debt side, I assume you’ve been negotiating with your lender. It’s just update us on the status of your covenants and how you stand with your lenders.

Drew Kelley: Absolutely, so again what you’ll see in the 10-K is that we did reach amendments with both our senior and our subordinated lenders. We again believe that we have a very good productive working relationship with them. Our objective was to achieve essentially a year of cushion so that we could execute the specific plan that we have addressed as well as some additional initiatives we intend to continue to roll-out and as such that we felt it was important to run the company for cash-flow generation and profitability, not necessarily our covenants.

And I think that you will find with these amendments again not only a longstanding productive relationship but great flexibility associated with existing covenants and to be frank we continue to believe that we'll have a good working relationship with both lenders going forward.

(John Tenwanting): Okay, great, just one more final. What are the expected one-times and non-recurring costs that are going to leak into Q1 if any?

Drew Kelley: Most of those changes that we discussed all were incurred in the 4th Quarter and largely an impact of the results. I'm happy to walk you through those again but for all practical purposes, outside of a relatively de minimus amount of write-offs related to certain parts that we've seeked and found greater clarification to as well as our traditional non-cash items including stock.

There shouldn't be too many other one-time items other than as you know and probably saw we did sell the GFF, the flange business. This was determined by the board to non-strategic and as a result we sold that business. It was announced in the K and in a separate release but we sold that business on the 15th and as a (proc) to that there will be certain charges related to that transaction albeit relatively de minimus in the current 1st Quarter period.

(John Tenwanting): Got it, thank you very much.

Drew Kelley: Appreciate it (John), thank you.

Operator: As a reminder it is star 1 to ask a question on today's conference and we'll now take our next question from Ralph Weil with R Weil Investment Management.

Ralph Weil: Hi Drew. A few questions - in terms of prototyping versus end-part manufacturing in 3D, what is the breakdown as a % of the prototyping versus the end-product manufacturing if you can say and which one of them is more profitable for you?

Drew Kelley: Thanks, Ralph. I think I'll answer it a bit different in that we at ARC and at 3D in particular have gone through several phases with the development of that business. At the end of the day we do believe that like MIM 3D and metal 3D printing is a viable production-oriented technology and after the initial phases of R&D and some levels of production.

We are increasingly shifting that business to match our long-term business objectives which is again full production. Currently and as we've announced before most of our machines on a day-to day basis are in fact fully dedicated to what we determined to be full production.

Now again that may be several dozen, several hundred or even in some cases several thousand parts that we produce by month but increasingly we believe that that is our opportunity to drive cash flow and material cash flow both on the top line as well as high-margin dollar opportunities so I refrain from giving any particular now amounts as to the bifurcation of the various different subsegments of our metal 3D printing.

But I can say again that while we will continue to do some production, excuse me, some prototyping for both our standalone 3D customers as well as our standalone MIM customers, we increasingly are moving to a full production model and within the next couple of quarters and continuing into the next few fiscal years, we anticipate that to be wholesale or large-scale generator of our cash flow in the 3D entity.

Ralph Weil: Are there new areas that you might be going into for 3D printing beside the defense and the firearms and medical and also …

Ralph Weil: And also does the 3D printing lead to more or less or is it correlated with the MIM metal injection molding business?

Drew Kelley: Right, let me address the first part. Again what we are very excited about is the new facility that will be a dedicated facility and while we continue to share the best practices of our Florida MIM facility where it previously resided, it isn't simply an expansion but really an expansion of both our scope and scale.

And we will have the ability to have dedicated rooms, spaces and areas as well as printers for both separate industries as well as dedicating to certain seed docs and we believe that will not only be incredibly efficient in terms of the day-to-day production but these are markets where we had opportunity, material opportunity and we simply have not had the capacity or the space quite frankly to dedicate to such an endeavor.

So I do believe that while the firearm defense sector will continue to also be prevalent in 3D, we are increasingly excited about the medical and dental area as well as the aerospace and then power generation and other opportunities, again these are material good-margin opportunities and as such we think there's a number of different spaces that we can both exploit and create a powerful brand and a powerful niche with them.

So that really is why we're very excited about the new facility and again I don't want to suggest that the MIM solution and the 3D solution are standalone. They are very much symbiotic and they offer our customers a unique holistic solution. What we are increasingly seeing is large multinational OEMs approaching us and looking not simply for a dedicated MIM production facility but one that can provide MIM with plastic over molding with metal 3D printing, etc.

And for that we see our ability to not only grow our wallet share with our existing customers but for us to again exploit or otherwise develop new markets and new sizable markets in both the 3D and the greater additive space.

Ralph Weil: Okay, thank you.

Operator: And once again as a reminder it is star 1 to ask a question on today's conference.

Drew Kelley: Okay, if there are no further questions, I do appreciate everyone's time and thank you very much. We look forward to speaking with you on our next call.

Operator: And ladies and gentlemen, that concludes today's conference call. We thank you for your participation.