

Company: **Advanced Forming Technology**

Conference Title: **Arc Group Q2 2017 Earnings Call**

Moderator: **Joel Rogers**

Date: **Thursday, 9th February 2017**

Conference Time: **16:00 CT**

Operator: Good afternoon and welcome to Arc Group Worldwide Conference Call. With me on the call is Arc CFO, Drew Kelley. 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 for joining our call. As most are well 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 at the SEC, putting our annual report on form 10K and quarterly report on form 10Q.

As you're aware, a major snow storm occurred in the North East this morning. Among those whose flight travel was impacted today was our CEO. So while Jason was planning on joining the call, he's still in the air and you're stuck with me if you will. As such I'll cover this afternoon's call and field questions as they occur.

Turning to financials, moments ago we announced results for our second fiscal quarter. Of note, revenue was 28.2 million, an 18.3% increase compared to the prior year, our fifth sequential

quarter of organic top-line growth. While there's several factors underlying this continued sales growth, at its foundation is a continued momentum of our customer-centered focus. We believe recent results have validated the internal cultural shift underway and are encouraged by the sales pipeline established from these initiatives.

Recent strength in the firearms and defense market has also added to our sales growth, but we are beginning to see a slow-down in certain niches of the firearm market. However, we have so far been able to offset these areas of slow-down with growth in new firearm and new defense programs. Turning back to the PNL[?], gross profits for the period was \$4.8 million, an increase of 16.3% while facility EBITDA for continuing operations was \$3.5 million, an increase of 9.6%, both in comparison to prior year periods.

While we are encouraged by the absolute dollar growth in both metrics, the margin impacts from new product launches will continue throughout the foreseeable future. In particular, we are currently in the process of launching a significant number of new programs across various industries and we expect there to be continued margin impact as we get these new programs launched, scaled up, and running efficiently. Once we have these programs launched and scaled up, we of course expect our margins to improve. Our main focus will always be in driving margin dollars with key customers, not just margin percentage. We are also experiencing similar issues as we bolster our speed to market efforts. However we expect shorter lead[?] times will be a key competitive advantages – advantage for us as we grow new business opportunities and we do these investments as high return initiatives. Once we have these installed we believe we will be differentiated from our competitors.

Related to our new speed to market efforts, we recently realigned our operating teams, creating new products – or, new product development groups solely dedicated to launching new products as quickly as possible. From design, prototyping, engineering, tooling, first article approval, to full production launch, all this we can do in-house. We've added some new resources to these

teams and we've worked hard to cut out the extraneous time in each leg of the product launch cycle. This operating change along with our continued expansion of our sales team has realigned our sales process to make sure we free up our sales team to create new opportunities with customers and give them excellent service.

In summary, we are encouraged by the momentum of our sales growth and it is clear to us that our strategy of reducing lead[?] time while providing a holistic solution is a key to meeting our customer's needs. We appreciate everyone's time on the call, and will now open for questions.

Operator: Ladies and gentlemen, the question and answer session will be conducted electronically. If you would like to ask a question today, you may do so by pressing star one on your telephone keypad. If you are using your speakerphone, please release your mute function to allow your signal to reach our equipment. Again everyone, that is star one. And we'll pause for just a moment. And again, that is star one.

Drew Kelley: Well, fair enough. I know several people that were usually asking questions were also impacted by the weather so again, my appreciation for everyone's time here and if there are further questions as follow up please feel free to reach out to me or Jason directly. Thank you everyone.

Operator: Ladies and gentlemen, that does conclude today's presentation. We do thank everyone for your participation.