Company Name: TimkenSteel Corporation (TMST)
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<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

All right, this is Novid Rassouli on the Metals and Mining team. So we are hosting TimkenSteel, Chris Holding here. Very pleased for them to join us. So TimkenSteel is a top producer of special bar quality, SBQ in North America. The company was spun off from the TimkenSteel in July of 2014. Their portfolio includes SBQ bars, seamless mechanical tubing and precision steel components providing highly specialized, tailored products utilized in demanding applications.

TimkenSteel has an average order size of about 25 tons, serves over 600 customers and has an annual mill capacity of about 2 million tons. Chris Holding is the CFO and EVP of TimkenSteel, responsible for the Company's financial planning, management and reporting. Mr. Holding previously served as a Senior Vice President of Tax and Treasury for the Timken Company, which he joined in 2004. Mr. Holding's previous roles at the Timken Company included the Global Business Segment Controller and Global Operations Controller. Prior to that he held Financial Manager position with Arthur Andersen and other privately held companies and we're very pleased to have him here today.

All righty, so Chris if you wouldn't mind giving us a few minute overview of kind of where the Company is right now in the cycle, the challenge it worked through regarding the market and what the focus in the outlook is for 2017.

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yes, great. Well, the cycle has been pretty interesting. We have different parts of the business, the mobile business, industrial business and energy business. The mobile business has been strong and it remains strong. The correlation is consumer confidence, and the consumer confidence has stayed very high. So that's great for us the industrial market has been low. And the reason it's been low a lot of our focus is on larger bar and the larger bar market has been really quite weak for about a year and a half. Any energy market I think is pretty well documented. I think we saw a bottom sometime earlier in 2016 as the number of oil rigs seems to go up on a daily basis. So that's all kind of good. So to summarize energy in the upswing I think industrial will probably follow the energy pretty closely and we expect the mobile/automotive to stay pretty robust.

And when you speak to investors these days I mean your stocks appreciated pretty dramatically. So it seems like there's more interest kind of what is your pitch as to why TimkenSteel is still a very compelling investment today. As you know, if you look back we spent $500 million on new investments starting in 2011. So we've got new refiner, new jumbo vertical caster, new automated tube mill. We've got a new quench-and-temper

facility that's ready to come online. So we've put a lot of money in the business. And so one thing is one, we don't need to put as much money in the business because we've already invested. Now we want to harvest the money that we spent in terms of returns. So we looked a couple of years ago and we were looking at 2014. And we said, gosh, if we had another 2014-type demand year, the quench-and-temper facility and jumbo bloom vertical caster would add about 200 basis points to EBITDA, based on those.

So that’s its kind of the leverage in the fact that the bad markets have forced us to do some things in terms of cost reduction. So we not only have the position from a technological perspective. We've got the asset capability and we’ve taken a lot of costs out and probably 25% of the costs we’ve taken out will stay out, even when the volume returns. So I think those three items are the key investment, I'll call it, strategy for where we're headed.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Great. And then energy is a very important part of your business. So can you walk us through I guess why energy is so important to TimkenSteel and what you think needs to happen in order to see kind of energy shipments pick up and even potentially return to the levels that we saw in 2014?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah. Well, energy is important to our business because I think we're the kind of the gold standard in terms of steel suppliers to the energy market. People rely on us because they absolutely positively want to have their steel on time and they have very demanding quality requirements. And then there's a capability said that frankly, only we possess from a bar, tube, downstream operations. We get some hole drilling, vertical hole drilling capabilities in Houston facility. So we've got a great long history in the energy and we remain the gold standard for that supply.

And because of that and because we add a lot of value through again that the tubing in the downstream operations, it turns out to be if you look at sales per ton the highest sales per ton that we have is in the energy space.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

And so for shipments to return to 2014 levels, is it just a product of energy prices. What is it really going to take I mean with rig counts maybe the new normal might be, I don’t know maybe 800, 900 versus 1,900 is it reasonable to assume that shipments could even return to those levels?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah, I think it's reasonable to assume because I think what's happened is the energy E&P guys have forced – been forced to become more efficient with their dollars during

the downturn. And as a result, they get a lot more out of rigs than they once did. And so I think there's a consensus that you'll see fewer rigs. But in terms of steel usage, we'll have to see because I think that the feet drilled may not change at all. And so it's less expensive for the E&P guys to have fewer rigs but keep drilling the wells that they need to meet the supply and demand curve at the time.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Okay. With respect to order book, lead times, the recent uptick in energy prices. If you could kind of frame for us, if you're seeing – what you're seeing in the supply chain, the destocking coming to an end, any pick up in bids, just anything that you're seeing that could help frame. What's taking place right now given the SBQ market can be somewhat opaque from a data point standpoint?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah. For us, too, sometimes particularly in the energy space, obviously, the automotive space is great from an inventory perspective. And in the industrial space it's great too. I mean there's plenty of people who argue that on the distribution side, the inventory might be light, and in the OEM that the supply chain is in really good shape too. The issue for us is on the energy side in SBQ I think there's clearly excess inventory in that supply chain. The timing of when it comes out is obviously impossible to tell you but since they've been burning inventory for the last year and a half at some point it's got to occur.

And each day the market dynamics get a little bit better and have been and its shows up not only in terms of price. But you see wells coming online every day. So that's favorable to us. Yes, it will turn and if you look at what the experts say they see it turning in 2017, we'll find out but there's clearly going to be an element of lag, depending on where the inventory levels are in the energy space.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

So even when energy prices do recover or continue to recovery, I would say. There is still inventory that is there that needs to be worked off before the orders and bid activity really hits your books again in earnest?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah, there is no question, there's going to be a lag. I think the big question is how long is it going to be and it will be measured in months. But I can't tell you if it's three or something significantly higher.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Okay. And your current lead times versus what you guys would see as healthy lead times, if you could frame that for us?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Healthy lead times for us are about a year, but I don't think that's going to happen I think our lead times remain short, call it in the six to eight week kind of depending on the product level. Obviously if demand was higher, we'd have longer lead times. And so we would be all about longer lead times.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Have you seen orders at all for maybe some of the less specialized, more – I know you guys do highly specialized you know…

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

But maybe just relative to word commoditized, looking back, things that may not be as expensive and things that people know that they can work through and are going to get stuck with?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah, absolutely. We've been doing a lot of work on that topic. I mean if you look back to the SBQ industry. Historically there has been more demand than supply. Well, clearly as the energy market dried up in the last couple of years that situation has changed quite a bit. And so if you look at SBQ from top to bottom, the top being the highest in terms of our quality in downstream operations and value in alloys, and the low being low alloy, no downstream operations. We've focused on call it that top two-thirds. And we've done a lot of portfolio management but as you know in the third quarter our operating melt utilization is 44% and that's not a great long-term proposition.

So we have spent quite a bit more time prospecting and harvesting in call it that bottom quartile or third. And I think you'll see that coming out in the future that will get higher leverage, operating leverage, higher utilization. But the price will be you'll see lower sales per ton. So yeah, we are doing that because I think in the near-term it's going to make sense. The caster yield is really outstanding it gives us a great cost advantage from a yield perspective. And so we are out actively landing sales to put through the caster.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

That kind of leads me to my next question here, is that you guys had a melt utilization of 44% in the third quarter. Yet, impressively, you still posted nearly $2 million in EBITDA. If we look at a more normalized utilization of, say 60% to 70% that I think

roughly the range that you operated at kind of in like 2017 or maybe a little bit higher in 2014, excuse me a little higher in 2014?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

I kind of was in a time warp there for a minute.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Do you think the business is going to look different now, if you guys get back to those utilization levels considering what has taken place?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah, I think there's a couple of positive things, obviously, we've taken the costs out and some of those costs will remain out. We are going to have better utilization of better assets. So you think about some areas in the past where we became constrained. We'll have plenty of quench-and-temper capability and then we'll get full yield off the caster. So those are things that will really help us going forward. So to the extent if energy doesn't recover as far as 2014 levels, I think we're going to have operating advantages that can help improve our results.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Great. So moving on to – it's been talked about in the previous presentation, the potential infrastructure boom in the U.S. given the rhetoric of the President-elect. If you could just walk us through if you have any thoughts on that the floor is yours. But I guess how would an increase to infrastructure spending flow to TimkenSteel as far as demand and products given. You guys really don't do anything structural which is a lot of times what people think about when they think about infrastructure?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

You are right. It's going to be the equipment that makes the infrastructure happen that's where our product goes. Primarily our products go into power transmission because that's the stress, the heat, environment that requires SBQ. So it won't be roads and bridges but to the extent that there's equipment required whether it's trains, bulldozers things like that. That's where you'll start to see the impact of greater infrastructure spend to our sales.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Do you guys have a sense of inventory levels for that type of equipment in the U.S. right now?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

I think that's all in pretty good shape from an inventory perspective.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Okay. And then moving onto automotive, I think Mark mentioned it as well, we've had really, really robust growth. I think a lot of what has helped you guys remain kind of breakeven here after the cost cut is the mobile side of business covering a lot of the fixed costs. So is it a concern for you when you hear these headlines that growth is slowing or what do you guys seeing from your customers, help us understand that?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

So if you look at the automotive business, by and large those sales are tied to consumer confidence and the consumer confidence remains high. So I think if they're at some point in time, you see a little downside to that for whatever reason consumer confidence goes away. I don't think you're going to be looking at 20% changes in the automotive space it's going to be something considerably smaller. So we are very bullish and optimistic again based on consumer confidence. But to the extent that the automotive comes back a little bit. It doesn't concern us greatly because we're probably more concerned about energy coming back sooner than worried about losing call it 5% off of the automotive business.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

And how sticky is the automotive business. So for instance like in SBQ part in an automobile, how many suppliers are on that? What the qualification that it takes. I'm just trying to understand the barriers of entry into a market like that. It just seems like it would be much more sticky than potentially other parts of it?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yes, so I mean if you look at the SBQ market and majority of it is in automotive space. So there's plenty of people in the U.S., great competitors in the U.S. who do this. What helps make some of our products sticky is we have the seamless mechanical tubing. So that helps and we have the downstream parts-making capability in Southern Ohio and that really helps make our business more sticky than just selling carbon bar.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

And on the auto side, we have seen additional supply come on from competitors, especially in, I think the three-inch and down market has that impact you guys at all. And what do you see on the supply side as far as supply growth in next 12 to 24 months?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah. I don't see much supply growth in the next 12 or 24 because most of it has come online. And again there's plenty of good competitors out there domestically but we found

our share hasn't been impacted at all. In fact, we look at our shares increasing if anything and a lot of that is because we're way ahead from the application engineering, being out in front of new transmissions, new drivelines and that's due to our engineering capabilities. So we are from a share perspective as good or better than we've ever been.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Sticking with end markets, the majority of your end markets have, for the better part of four to eight quarters have been in a down trend or nearing a trough. In your guys' view, what end markets look most poised to rebound in 2017?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Well, clearly its energy. I just can't tell you exactly when in 2017 but with rig counts coming back some oil price stabilization and increase, we would see energy coming back in 2017 it's just difficult to understand the timing and the magnitude. And with respect – I think kind of our question is for us in particular will the industrial leader follow the energy and that's something that my guess is it will be a little bit of a follower.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

And as far as I guess ag, heavy machinery, your other end markets, any green shoots there as far as what we might see or is this still a 2018 and beyond type of recovery?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah. As you might imagine, we can't predict when that's going to be based on commodity prices and to the extent that agriculture commodity prices come back, we will be correlated to that to the extent it doesn't, it’s going to still remain a long haul.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Great. Moving on to imports, imports don't seem to be discussed as much as they used to for SBQ I think probably just given the lack of demand. That's taken over the focus for most investors do you have an idea of the percentage of the market that like SBQ imports their market share. And if you think that imports in your guys' market, given I think it's about depending on whose numbers you use, about six million ton market in the U.S. Is it large enough, or do people care enough, are there enough eyeballs on it to eventually have trade cases given that it seems like we've had trade cases filed for almost every product possible at this point?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah, so when you think about the SBQ market and like you said depending on who you listen to for this year called under six million tons of demand for 2016 and most of that is automotive and there's plenty of domestic suppliers. So you don't really see a lot of

imports in the automotive space but where you do see imports is seamless mechanical tubing, which is clearly one of our strengths and the larger bar. So from large bars perspective, call it six inches, eight inches and above there's quite a bit of imports over time in the spaces. The issue for a large bar more than the tubing is that the markets have just dried up in the last two years. So there's not well, if you go back to from 2014 to 2016 you say the SBQ market in U.S. demand is probably down around 30%.

Well, you think that automotive is strong and you think that call it smaller diameter it means that the larger bar demand has got to be down, call it 50% at least or maybe even more in some circumstances. So what that means is there's no import so you can't make a trade case when there's no imports because there's no demand. I mean if you seen our energy numbers, they are have been all this year very, very small. And so because of that there's not enough data on imports to successfully have a trade case

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

When things were healthy and we were seeing imports was the import percentage is similar to kind of what the average is in the U.S. like a 20% to 25% is it of that level.

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

It depends. So if you look at seamless mechanical tubing, we see, we call it 30%-ish of that market in the U.S. And I'd say probably 60% of that is imported. In the large bar, I can't give you the exact figures but I'd say in the large bar space a majority of the large bars imported. So there's plenty of imports in certain areas but not in the real small diameter product.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

And there aren't many guys domestically that can make the large bar basically do you guys – I think Nucor.

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah, kind of depending, I think we have some domestic competitors who, I think get up to maybe eight-inch. But for us we've got plenty of capacity between six inches and 16. So we can go up to 16 and no one else can domestically gets past eight inches.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

On the raw material side, we've seen everything kind of on a tear recently with iron ore, coal and scrap prices are even catching a bit now. Can you walk us through how stronger scrap market in 2017 might impacting the steel business and I guess maybe some of the intricacies of how you guys surcharge I think, investors may not be familiar with that. And so some of the quarter-to-quarter moves can catch people off-guard at times.

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Yeah, yeah, absolutely. So we surcharge scraping alloys to our customers. So as long as the market is flat, we try to buy better than the indexes. To the extent that there is movement in the indexes if it's down – downward trend means you're buying here and you're surcharging here which is a bad guy in timing in 2015.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

And what is that lag between when you buy and when you surcharge?

<<Christopher J. Holding, Executive Vice President and Chief Financial Officer>>

Call it three months, obviously it could be as short as 60, it could be longer than that. But so in 2015, we were $55 million worse. Primarily because of timing year-over-year in terms of spread now we've got most of that back in 2016 but we called for the fourth quarter that our scrap spread will be a little bit unfavorable in the quarter. But as we sit here today and you look at the dynamics in the scrap market, you can see it's gone up in November and into December. So that would be a favorable item going into the first quarter of next year.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

I was going to check and see if there are any questions in the audience and all, anybody.

Q&A

<Q – Novid Rassouli>: Okay. If we can go back to the cost side of the business so what percentage of your costs are variable versus fixed. And the cost savings initiatives if you could just give us I think you guys overshot kind of what your goal was and if those cost savings – I think you mentioned that about 25% I think earlier today that would sustain even when volumes rebound. So if you could just walk us through kind of the cost structure?

<A – Christopher J. Holding>: Yeah, so the fixed, variable is always interesting because it's not linear. It's kind of step function. But by and large I'd say that from a gross profit perspective 30% of our cost act more fixed and 70% act more variable. And again I'm only talking about our conversion costs because obviously the raw material is fully variable. So yeah, I'd say 70%, 30% and we would agree with the fact that probably a quarter of our cost reduction stays and sticks and that's between cost reduction SG&A purchasing savings. But call it three quarters will come back because a lot of that was variable type costs.

<Q – Novid Rassouli>: And we've always thought about your breakeven met utilization is about 50%. Is it fair to say that since some of these cost savings are more permanent

that might be slightly lower than 50% or is it the leverage you need from the shipments. And then it’s still at 50% given this kind of the scale you just mentioned?

<A – Christopher J. Holding>: I think what you have to say is it’s kind of 50% plus or minus because mix has a big impact and spread has a huge impact. So if you think about spread dynamics it's very important. The other thing is we now have cost reduction and we've got more product going through the caster. So we're seeing the yield improvement so we talked about 50% melt utilization but that was before some cost reduction, before the caster and those are important.

<Q – Novid Rassouli>: Got it. And then moving on to the balance sheet, if you could just speak to the health of the balance sheet I know you guys have done the convertible offering. Where do you guys stand there is there do you think there's anything else that needs to be done at this point and how are you thinking about leverage levels. And moving forward I know it's tough with the trailing 12 month EBITDA at this point but just ideas that where you'd want it?

<A – Christopher J. Holding>: Yes. So like everybody else. It's amazing the difference a year makes from a liquidity standpoint. Obviously, we went out and did the convertible. And so we have, call it $150 million of liquidity and with improving markets we feel absolutely fine where we are with $150 million of liquidity going forward. We wouldn't see in the near-term changing our capital structure because I think we have what we need. I mean I think you hit the nail on the head. Now it's time for us to leverage our assets and hopefully leverage some improving markets to start to make EBITDA. And then look at maybe a little different type of capital structure a couple of years out.

<Q – Novid Rassouli>: And as far as, we touched on it before the cost savings initiatives has that pretty much run its course so at this point kind of where we sit is pretty sustainable?

<A – Christopher J. Holding>: Yeah, it's very much sustainable. I mean we're constantly working on continuous improvement, that's a big part of our culture. And so we'll see continued CI. That being said, I think the pace has slowed up quite a bit because the low-hanging fruit and some of the not-so-low-hanging fruit has already been taken into consideration.

<Q – Novid Rassouli>: Great. And my last question for you, Chris is moving through 2017 it seems like there's a lot going on, a lot of moving parts between the infrastructure and the new president, and energy, and rig count. What do you think are the most one to three potential milestones are focuses that investors should really be keeping the pulse of to get a sense of how TimkenSteel is doing throughout the year?

<A – Christopher J. Holding>: Yes. So we talked about the automotive and that's in pretty good shape. I mean to the extent you have concerns about automotive. I would refer you to consumer confidence the correlation there is strong. I think there's an argument that the industrial markets will follow the energy. The energy gets to be a little

bit difficult to predict because of inventory. But by and large energy like everything else is based on supply and demand. And I think probably a leading indicator how that will impact us from supply and demand, we'll go to feet drilled. I don't know that rig count will be as good an indicator as it has been in the past for us. I think feet drilled will be better. So if you start to see feet drilled improving in 2017 and there after I think that's going to be an indicator that you ought to see improved earnings from TimkenSteel.

<<Novid Rassouli, Analyst, Cowen and Company, LLC>>

Great. Any last questions out there before lunch? All righty, on behalf of my colleagues at Cowen, I want to thank Chris for the great discussion on TimkenSteel. And next up will be the Lunch Keynote by Patrick Schorn, President-Operations at Schlumberger in the Estrela Penthouse on the 42nd Floor. Thank you so much.