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TimkenSteel Corporation

Fourth Quarter 2016 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

Novid Rassouli, *Cowen & Company*

Martin Englert, *Jefferies*

Phil Gibbs, *KeyBanc Capital Markets*

Justin Bergner, *Gabelli and Company*

PRESENTATION

Operator:

Good morning. My name is Lindsey and I will be your conference operator today. At this time, I would like to welcome everyone to the TimkenSteel Fourth Quarter 2016 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Thank you.

Ms Tina Beskid, you may begin your conference.

Tina Beskid:

Great, thank you. Good morning and thanks for joining TimkenSteel's Fourth Quarter 2016 Investor Call to discuss our financial results. I am joined by Tim Timken, our Chairman, CEO and President, as well as Chris Holding, Executive Vice President and Chief Financial Officer.

During today's conference call, we may make forward-looking statements as defined by the SEC. These statements relate to our expectations regarding future financial results, plans and business operations, among other matters. Our actual results may differ materially from those projected or implied due to a variety of factors which we describe in greater detail in today's press release, supporting information as provided in connection with today's call, and in our reports filed with the SEC, all of which are available on the www.timkensteel.com website.

Where non-GAAP financial information is referenced, we have included reconciliations between such non-GAAP financial information and its GAAP equivalent in the press release and/or supporting information as appropriate.

Now I would like to turn the call over to Tim.

Ward J. "Tim" Timken, Jr.:

Good morning and thank you for joining us. This is a big year for TimkenSteel. A hundred years ago we opened our first steel mill in Canton, Ohio, with the goal of making the cleanest steel in the world. A hundred years of new product development, of continuous improvement in operations and of an accumulated knowledge have made us who we are today, a company that still makes the cleanest special bar quality steel around.

As proud as we are of the heritage, our focus is on strengthening the foundation for the next 100, and that's what 2016 was all about. Every action we took over the last year made us a stronger company. We improved safety in our operations. In fact, we had the lowest number of OSHA recordable incidents in our history. We are relentless when it comes to safety improvements because we know every data point is a human being and the job's never done. I want to thank our team and operations for all that they have done to keep safety as our first priority.

In terms of sales, we extended penetration in key markets and positioned ourselves well with industry leaders. We also won new business with new customers for new applications and in new markets. We aggressively managed cost without sacrificing the fundamental elements of our business model, we learned to operate the business more efficiently at very low levels of utilization, and we repositioned the capital structure of the business to provide breathing room in uncertain markets.

With all of those actions, we fundamentally improved the operating performance of the Company. In fact, year-over-year we was a $26 million improvement in Adjusted EBITDA. We also managed to generate more than $75 million in operating cash flow and strengthened the balance sheet in the process. Perhaps the most significant accomplishment of the past year is the implementation of a broader strategy that I believe will produce real results across the economic cycle.

Our five-year capital investment program presented us with an opportunity to leverage new assets to compete in areas that we hadn't considered attractive in the past. The challenges we faced in our traditional markets over the last two years spurred us to move faster in rethinking our assumptions about where and how to compete, given these new capabilities. We brought together sales, supply chain, technology and manufacturing to not only tighten our hold onto profitable niche markets that demand our clean steel, but also to compete in a broader array of new business. Let's take a quick look at those areas.

First, our traditional business. As the only focused special bar quality steelmaker in North America, innovation is a real competitive advantage for us. We have a depth of knowledge in both the development and production of clean steels that no one else in the industry has. One example is our launch of the Ultra Premium Steels. This new product line redefines the industry standard for clean steel. It's a game changer for the reliable performance of highly loaded applications, including gears and bearings.

When you look at some of the new business we've been pursuing, you begin to see how we're using this depth of knowledge to not only innovate new products but also innovate around how we produce products. With a high-performing set of new assets and supply chain resources, we've been able to broaden our portfolio. For example, we've been making billets to feed our own operations for 100 years and we're good at it. Now we can do that so efficiently that we've picked up business supplying billets to other tube makers. In fact, we won a large order in the fourth quarter that will boost our production throughout 2017.

By broadening our portfolio, we're building a more stable base of volume across the cycle. Our capital investments and capabilities also brought a bump in capacity which will allow us to serve both this expanded base and our traditional business as markets recover.

As I look ahead to what's going on in our markets in 2017, our strategy has us well positioned. In 2017, we anticipate the mobile on-highway markets will be healthy and we continue to bring new platforms and applications based upon our strong technical relationships with customers.

The green shoots in the energy market that we discussed last quarter are growing. Rig count is coming back, more completion activity is underway; there's still inventory in the system but it's headed in the right direction. We've used the down market to grow our participation in energy sector and to explore new supply chains and channels. This offers us opportunities in 2017.

The industrial markets are also seeing some green shoots with mining activity starting to pick up again. Rail and agriculture remain weak though. In industrial distribution, inventories are coming down. Fourth quarter shipments were good and this year is off to a good start. The raw material markets are beginning to normalize as well. We've seen some inflation here in the last three or four months and don't anticipate a dramatic fall-off in 2017.

So the good news is markets are looking better year-over-year. We're seeing a seasonal pick-up in our first quarter that is beyond what we'd normally see at this time of year. In fact, we announced a base price increase just yesterday. All of this is encouraging.

We're positioned well to capitalize on this recovery. All of the actions we've taken internally to improve our operating performance and broaden our portfolio will further strengthen our financial performance. As I said, our focus is on delivering shareholder value this year and for the next 100.

Now Chris will take you into more details on the numbers and then we will have an opportunity to take some questions. Chris?

Chris Holding:

Thank you, Tim. Good morning. The fourth quarter results were in line with our expectations and the actions taken throughout 2016 that Tim just reviewed, coupled with improving market sentiment, have set us up for an improved 2017.

We continue to see strength in the mobile side of our business. North American light vehicle production achieved a record year build rate of 17.8 million units, representing the seventh consecutive year of growth. Mobile shipments were down 5% in the fourth quarter due to scheduled seasonal production shutdowns. For the first quarter 2017, we expect mobile shipments to be about 15% higher than the fourth quarter 2016 due to seasonality and increased market penetration.

Industrial shipments decreased 4% from the third quarter 2016, primarily due to seasonal inventory adjustments. Compared to the fourth quarter 2015, shipments were up over 15%, in line with the US Purchasing Managers Index. Inventory levels are balanced, particularly through the distribution channel.

We are beginning to see some green shoots and have positioned ourselves to capture new business. Moving into 2017, we expect a sequential increase in industrial shipments of about 45%.

Fourth quarter 2016 shipments to the energy end market increased more than 30% sequentially as US rig count continues to increase since hitting a low in May. We remain encouraged by improvements in market supply and demand dynamics in the energy sector and expect first quarter 2017 energy shipments to double over fourth quarter 2016 levels.

During the quarter we won new business, supplying billets to other tube makers servicing the oil country tubular goods end market. We shipped 24,000 tons in the fourth quarter or about 12% of total shipments. We anticipate this business becoming a significant portion of our shipments which will increase our manufacturing cost leverage in 2017. We have grouped these sales together with our scrap business results in the Other category and our supplemental financial information so that our reporting is consistent with the way Management views the business. For the first quarter 2017 we expect to supply about 50,000 tons of billets to other tube manufacturers.

Overall, shipments of 193,000 tons in the fourth quarter 2016 were 9% higher sequentially and 10% higher year-over-year, primarily due to the new billet supply business.

Net sales for the quarter were $215 million with base sales of $189 million and surcharges of $26 million. Base sales per ton were $64 a ton lower than third quarter due to end market product mix change and pricing pressure. Going forward we expect product mix changes driven by rising billet shipments to reduce our sales per ton but to increase our asset utilization and profit.

During the quarter, we changed to the mark-to-market method of accounting for pension and other post-employment benefit plans. This method recognizes actuarial gains or losses in the year incurred rather than amortizing them over future years. The accounting change eliminates the timing impact of past actuarial gains and losses from current operating results and has no effect on benefits, pension funding or cash flow. We believe the change also allows for better comparison to other companies in our industry.

The next impact of the mark-to-market adjustments was a net loss of $53 million in the fourth quarter and was a $50 million loss for the year, primarily due to lower discount rates. We believe excluding this adjustment from our financial results provides a better measure of operating performance and is more useful to our investors. Excluding this adjustment, we generated $2 million of Adjusted EBITDA in the quarter which was the midpoint of the adjusted guidance range.

Melt utilization was 50%, 6 percentage points higher than the third quarter 2016. As noted, we generated positive Adjusted EBITDA in the fourth quarter despite the relatively low utilization rate.

For the year, Adjusted EBITDA was $24 million compared to the prior year Adjusted EBITDA loss of $2 million. The improvement in earnings was primarily due to cost reduction actions and better scrap markets, offsetting a 10% decrease in shipments and melt utilization that was 3 percentage points lower than in 2015.

Looking to the first quarter 2017, we expect melt utilization to increase 20 percentage points to about 70%, primarily from the new billet supply business.

Adjusted SG&A was $23 million which was flat to the third quarter but about 7% lower than fourth quarter 2015, and 13% lower for the full year. The SG&A improvement reflects TimkenSteel employees resolute focus on cost reduction throughout 2016 for which I thank them.

In the fourth quarter we reported net loss of $67 million or negative $1.52 per share. The income tax rate was about 16% for the quarter and 26% for the year. The tax rate was impacted by a valuation allowance

that was established in the quarter to offset deferred tax assets. As a result, our rate was lower than the US federal statutory rate of 35%.

Capital expenditures for the year totaled $43 million which was $35 million lower than 2015 as we continue to focus on leveraging our past investments and improving free cash flow. We estimate full year 2017 capital spending will be about $40 million.

We generated $32 million of free cash flow for the year as a result of our improved cost structure and capital spending discipline.

We reduced our net debt balance by about $47 million, primarily from free cash flow. At the end of the year we had about $145 million of liquidity between the revolver and cash. Our net debt to capital ratio was a healthy 15.1%.

Turning to the outlook for the first quarter, shipments are expected to be approximately 70,000 to 80,000 tons higher than the fourth quarter 2016, based upon improving sentiment across most market, coupled with approximately 50,000 of new billet business. Additionally, we anticipate the recent rise in scrap prices to have a positive timing impact on raw material spread. As a result, we expect the EBITDA range to be between $25 million and $35 million.

In conclusion, we are in a better position from both a profit and capital structure perspective than one year ago. Our improved cost structure and liquidity place us in a good position to take advantage of improving market sentiment in 2017.

This ends our prepared statements and we will now take your questions.

Operator:

At this time, ladies and gentlemen, if you would like to ask a question, please press star, followed by the number one your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from Novid Rassouli with Cowen & Company. Your line is now open.

Novid Rassouli:

Good morning, Chris, Tim and Tina.

Ward J. "Tim" Timken, Jr.:

Good morning.

Tina Beskid:

Good morning.

Novid Rassouli:

On the new billet orders, is this from multiple clients or is this a single client and are you trying to further increase billet shipments above this 50,000 per quarter level.

Ward J. "Tim" Timken, Jr.:

Novid, this is Tim. In this particular case what you're seeing is the business with one customer, although in the future there's nothing that precludes us from serving other tubers as well with billets.

As far as the total portion of the order book, obviously we look at the portfolio on an ongoing basis. We'll kind of ebb and flow as needed. This is obviously a pretty significant piece of volume that we've committed to so we'll have to make sure we're just balancing out the portfolio.

Novid Rassouli:

Okay, and then as far as the tons that are being sold, is there a set contract where this volume is spoken for for a year and if energy comes back I know part of the reason why you wanted Faircrest to kind of have the ability to be flexible in case energy came back to switch over to those higher margin products. If you could just speak to that.

Ward J. "Tim" Timken, Jr.:

We usually don't get into the details of individual contracts. I will say this is something we committed to on a 12-month basis. Remember, when we built the caster we did pick up some incremental capacity, pretty significant chunk of incremental capacity, so we believe we have the flexibility not only to serve this billet business but also be able to serve our more traditional business as markets recover.

Novid Rassouli:

When you previous kind of outlined the EBITDA margin range of what the jumbo bloom caster could do for you guys, there was an 85% melt utilization with a target of 18 to 18.5% EBITDA margins. I'm just wondering, given this new strategy if you guys have an idea of what that target margin could be adjusted to at this point.

Chris Holding:

Novid, this is Chris. When I look at that schedule, remember we were coming off 2014 margins and market so the dynamics are a little bit different. I think the key items in that bridge was what are we going to get out of the caster and the other investments that we've made, and I think this is a great example of leverage from the caster that aligns with that bridge that we put out, I guess a year and a half ago.

Novid Rassouli:

Great. Thanks, guys.

Ward J. "Tim" Timken, Jr.:

Thanks, Novid.

Operator:

Our next question comes from Martin Englert with Jefferies. Your line is now open.

Martin Englert:

Hi. Good morning everyone.

Ward J. "Tim" Timken, Jr.:

Good morning.

Martin Englert:

In the release you had called out within the guidance benefits of favorable raw material spread. Any way you could help us frame that up and possibly quantify range of impact that may be baked into the EBITDA guide in 1Q there?

Chris Holding:

Martin, this is Chris. If you look on our supplemental schedules on our website we've got a couple of bridges there and you can see the year-over-year bridge and the third quarter to fourth quarter. Year-over-year raw material spread was favorable by $11 million and because of some timing impacts in comparing the third quarter of '16 to the fourth quarter of '16, it was actually a $2 million unfavorable item.

Going forward we're not calling out our spread. I think it's going to be favorable but we don't call out exactly what those figures are.

Martin Englert:

Okay. So it was an incremental based on that slide deck $2 million headwind quarter-over-quarter in 4Q '16, right?

Chris Holding:

Correct.

Martin Englert:

Okay. One way to think about it might be with the surcharge mechanism and kind of the delta there to kind of get a ballpark?

Chris Holding:

Yes, absolutely.

Martin Englert:

Okay. All right. Looking through the supplemental material there and then kind of also going back to the guide and what you called out, looking at some of the base sales trends over the past year here and assuming maybe a constant mix, what do you think the headwinds were when we look through kind of I guess business unit by business unit with the industrial, mobile and energy if you were to hold mix constant on those base prices that you kind of caution there?

Chris Holding:

Martin, you have to help me a little bit what you're trying to get at. I mean I think we can call out the markets. Are you trying to get at what the pricing dynamics have been?

Martin Englert:

Sure. It seemed like you called out base price weakness year-over-year, correct?

Ward J. "Tim" Timken, Jr.:

Yes, I think if you walk across the individual markets the bulk of our mobile on-highway is either annual or multiyear contract. Obviously the multiyear we weren't talking about this year on the annual contracts. We saw some marginal price pressure coming down, but again, nothing really all that dramatic.

On the energy side, prices were down a bit but at the same time we were holding our penetration there and actually growing in certain instances.

Then really probably we saw the most pressure in the general industrial market. There's a lot of capacity looking for a home in 2016 and so, you know, we felt the pressure there. Then in distribution you're talking probably down 5% to 6%.

On the whole, given the environment that we were in, I'd say we actually managed it well. We've obviously seen things begin to kind of tighten up here already in 2017 and you saw that we put a $30 per ton price increase out on bar and tube yesterday. So, you know, a pretty dynamic environment but even in that environment I'd say we held in there pretty well.

Martin Englert:

Okay. Lastly there, the pretty healthy pick-up expected in industrial volumes quarter-on-quarter. Can you speak to I guess some of what's pulling the demand there?

Ward J. "Tim" Timken, Jr.:

We're seeing the inventory and distribution at acceptable levels and so we're seeing the service center business coming back in the first quarter. We're seeing some decent mining activity in the mines but we haven't really seen that translate through yet. I would say just from a general industrial point of view, other than Ag and Rail, we're actually just beginning to see those green shoots turn into something more than shoots.

Martin Englert:

Were there any big I guess contract gains or market share gains that were contributing to that (inaudible)?

Ward J. "Tim" Timken, Jr.:

We think going through the contract period last year we actually ended up picking up share at a number of our large industrial accounts. But again, we don't want to be specific about which ones.

Martin Englert:

Excellent. Congratulations on the guide there.

Ward J. "Tim" Timken, Jr.:

Thanks, Martin.

Operator:

Again, ladies and gentlemen, if you would like to ask a question that is star, one on your telephone keypad. Our next question comes from the line of Phil Gibbs with KeyBanc Capital Markets. Your line is now open.

Phil Gibbs:

Thanks. Good morning.

Ward J. "Tim" Timken, Jr.:

Hey, Phil.

Phil Gibbs:

Hey, Tim. Can you provide some perspective in terms of how you're thinking about the oil and gas dynamics as the year plays out? I think you mentioned some inventory in the channel right now but getting into better balance. How should we expect those energy shipments to step up over the course of the year?

Ward J. "Tim" Timken, Jr.:

Let me talk about what we're seeing in the market, Phil, and then you can translate that yourself. Right now we're seeing rig count up fairly dramatically, and you've seen that. We're seeing a lot of healthy activity on the completion side, so they're finishing off some of these wells that they drilled last year but never popped, so we're seeing good activity there. The inventories on that side of things seem to be better balanced than on the drilling side, but as these rigs go into the market they are consuming that inventory as they're punching new holes, so we see a positive dynamic in general right now, and the momentum seems to be carrying that.

We're watching the oil inventories pretty carefully. They're relatively high but we're seeing good activity across a lot of the shale plays at this point. The offshore stuff I think is going to be a little bit slower to come back but people are taking advantage of some of the new finds and all the cost reduction they did in 2016 to start punching wells again.

So, we feel pretty good about it, but again there is some inventory that will have to be worked through but on the whole we think '17 could be a pretty decent year for oil and gas.

Phil Gibbs:

Okay, that makes sense. How much of your business classically, or let's just say when the potential is fully realized or has been realized in the past is onshore versus offshore in terms of your mix?

Ward J. "Tim" Timken, Jr.:

We generally don't break that out. As a whole in a normal market out total—share of our total order book is about 25%, but we don't break it out by onshore versus offshore. Quite frankly, Phil, as long as they're punching holes, I'm happy.

Phil Gibbs:

Right. I appreciate that. This new contract that you have on the billet side, I just wanted to be sure. Is this just a one-year arrangement or is this a multiyear arrangement, or how should we be thinking about that?

Ward J. "Tim" Timken, Jr.:

I said earlier in this case it's a one-year agreement.

Phil Gibbs:

Okay. Appreciate it. Thanks so much.

Ward J. "Tim" Timken, Jr.:

Yes.

Operator:

Your next question comes from the line of Justin Bergner with Gabelli and Company. Your line is now open.

Justin Bergner:

Good morning, Tim. Good morning, Chris.

Ward J. "Tim" Timken, Jr.:

Hey, Justin.

Chris Holding:

Hi, Justin.

Justin Bergner:

Congratulations on the billet order. First question just relates to sort of a clarification question. I think it said here that the Adjusted EBITDA on a trailing 12-month basis was on the order of $24 million.

Chris Holding:

Yes, that's correct.

Justin Bergner:

But if I look back in the September quarter, the Adjusted EBITDA for the first nine months was I guess negative $1 million and then you had a slight positive this quarter. Is there a new definition of Adjusted EBITDA to get to the 12-month total of $24 million?

Chris Holding:

Yes, there is, Justin. If you go to the earnings release tables, we define Adjusted EBITDA on Page 4 of the schedules. Then on Page 7 you can see the mark-to-market impacts and specifically I think the reconciling item you're looking for is the elimination of the amortized actuarial losses, and that was $31 million so I think that's the bridge item you're searching for.

Justin Bergner:

Okay, so previously in the first three quarters you were expensing that amortization, now you're not, and that was always non-cash when you were expensing it?

Chris Holding:

Yes, exactly right. It was always non-cash and in fact pre-change our entire pension expense was amortization and this amortization was really just prior discount rate changes that it accumulated over time.

Justin Bergner:

Okay, great. While we're on that topic, I mean I assume with the discount rate going up the mark-to-market will sort of swing positive for you in the coming quarters. Is that the case, and if so, how does the pension deficit look at the end of '16? I assume we'll see more detail in the 10-K but if you could just provide …

Chris Holding:

Yes, sure. Keep in mind, right, the mark-to-market doesn't affect the funding or the plan nor the liability of the plan, so it just is a more transparent method I think of accounting rather than amortizing issues over time. So our plans remain very well funded. Our discount rate actually decreased in 2016; it went from about 4.7 to right around 4.3 and so our actual pension liability increased as a result, but our funding on our qualified plan still remains high. It's in and around 95%.

Justin Bergner:

Okay, thank you. I'll switch to some more business oriented questions. On the billet order, should we think about that 50,000 per ton number in the first quarter as something we can annualize for the full year?

Ward J. "Tim" Timken, Jr.:

I think it's probably indicative.

Justin Bergner:

Okay. Then you mentioned that the—outside of the billet order, perhaps the pick-up in the first quarter is better than normal seasonality. What would normal seasonality just look like, if you could remind us, going from the fourth quarter to the first quarter for your business?

Ward J. "Tim" Timken, Jr.:

Typically we'd see about a 10% swing just as people restock shelves. Everybody runs their working capital down in December and then we see it coming back in January, and so we're seeing a more pronounced return in the first quarter than we normally do. I think that's just the result of markets being down for so long people are coming in a little bit more aggressively right now because they feel better about the year.

Justin Bergner:

Okay. Then finally on the price increase, that $30 per ton, is that above and beyond any sort of I guess raw material recovery?

Ward J. "Tim" Timken, Jr.:

That's base price, yes, so surcharge would be on top of that.

Justin Bergner:

Okay. Then finally, the industrial price you mentioned still is experiencing pressure but I guess the base price per ton increased sequentially in the fourth quarter versus the third quarter. Is that just sort of a function of positive mix and if we were to sort of look apples-to-apples mix we would still see the industrial base price per ton having come down a bit sequentially, or has it started to inflect positively?

Chris Holding:

Yes. Phil, this is Chris. I think what you find over time is we look at the impacts of mix and price. Price is really secondary to mix and so what you were referencing is the fact that the mix was a little bit better in the quarter.

Justin Bergner:

Okay. That makes sense. I'm going to try one more here. I'm not sure if you guys will answer this. If I look at sort of the incremental EBITDA per ton associated with new production and shipments, is there sort of a rule of thumb that I should think about for sort of the billets? You know, maybe half sort of incremental EBITDA per ton relative to your legacy shipments? Or anything that you can sort of offer there as to how to think about the incremental profitability of that business.

Chris Holding:

Yes. Keep in mind one of the reasons that we went to the new business was, one, we were looking for some base business that made sense for us and that we were able to utilize our assets. We've got as efficient or the most efficient assets in the industry and we wanted to be able to leverage those assets. So in terms of how you model it, I think you probably have enough data in all your models to take your shot at fixed cost leverage, and we've called out the tons. So I think you can get pretty close based on the data that you have.

Justin Bergner:

Okay, that's fair. Thanks again and congrats on the pick-up in the billets business.

Ward J. "Tim" Timken, Jr.:

Thanks.

Operator:

Once again, that is star, one on your telephone keypad if you would like to ask a question. Our next question comes from the line of Novid Rassouli with Cowen & Company. Your line is now open.

Novid Rassouli:

Thanks for taking the follow-up, guys. So we've seen a series of SBQ base price increases from multiple producers, and I believe we haven't really seen them in probably about more than two years. I just

wanted to see if you guys could speak to the impetus for the increase and if you think that the market could support additional hikes in the coming weeks and months.

Ward J. "Tim" Timken, Jr.:

I think what's driving it, I mean you're beginning to see activity levels pick up, right? People are feeling fuller. They're feeling better about the year. It has been a long time since anybody put one in and so I think the market dynamics are helping drive it, and obviously I wouldn't look forward on anything else.

Novid Rassouli:

(Inaudible).

Ward J. "Tim" Timken, Jr.:

The other thing—go ahead.

Novid Rassouli:

Sorry, Tim. Go ahead. No, no, please go ahead.

Ward J. "Tim" Timken, Jr.:

No, go ahead, please. You got it.

Novid Rassouli:

Okay. On trade cases, we heard on another competitor conference call that we could see trade cases for SBQ, that they're not too difficult. What do you think is the likelihood of that and can you speak to potential timing if we were to see a trade case on that front?

Ward J. "Tim" Timken, Jr.:

We've said in the past that we look at these on an ongoing basis. We monitor import data and we'll act when we think we have a very high probability of winning a case. Part of the challenge to date, you know, with markets being so low the import data has reduced and so we continue to monitor it. To the extent that we see a significant pick up in activity, at that point you would likely see a case come forward.

Novid Rassouli:

Okay. My last question, you guys put a new segment, the OCTG segment in the end markets in your presentation this time and I'm assuming this is just basically your billets being sold to kind of seamless producers. I just wanted to see if you think that tracking—before you've been very disconnected from OCTG given your product mix, and so I just wanted to see if you think that that's somewhere we should be focusing our time moving forward, and what you think we should be looking for to figure out kind of the health of future billet sales for you guys? Thanks.

Ward J. "Tim" Timken, Jr.:

I'm not sure the end market metrics change all that much from what we traditionally talk about: rig count, feet drilled those kind of things. I would point out that while this current business is OCTG, we're looking at this as a broader approach to supplying billet to tube makers that could go to other markets as well. It's just today it's just so heavily weighted into OCTG that that's why we decided to kind of break it out.

Chris Holding:

Novid, this is Chris. Just to add a little bit of color, we wanted people like you to be able to model the business and so we thought breaking that business out kind of helps you with your modeling efforts.

Novid Rassouli:

Perfect. Thanks for taking the questions, guys.

Operator:

There are no further questions in queue at this time. I'll turn the call over to Mr. Tim Timken, Chairman, CEO and President, for closing comments.

Ward J. "Tim" Timken, Jr.:

Well, thank you very much for joining us today. As I wrap up I want to say a couple of thank you's. First of all I'd like to thank our employees who have demonstrated the grit, the persistence and the constant innovation, and who have translated that into performance that continuously improves and promises more to come. I'd also like to thank our shareholders and all of you who cover us. We appreciate your interest and your confidence in the business.

You know, we're focused on both our traditional market spaces and the new ones that further leverage our assets. We're ready to deliver value for this year and for the next 100.

If you have any follow-up questions please don't hesitate to contact Tina. Thank you again and have a great day.

Operator:

This concludes today's conference call. You may now disconnect.