

Company: ADVANCED FORMING TECHNOLOGY

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Operator: Good day and welcome to the All Group World Wide conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Willman. Please go ahead sir.

Aaron Willman: Thank you. Hello everyone. Welcome and thank you for joining us today on this call. As most of you are aware this call contains 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 does not necessarily indicate 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 on our filings with the SEC including our annual report on Form 10K, the quarterly report on Form 10Q and our current reports on Form 8-K all of which can be found on our Web site. Please note that during the call all financial measures presented will be non-GAAP unless otherwise indicated.

I'll now share some results from the third quarter fiscal 2019. Sales came in at \$19.9 million which is a 5.7 decrease compared to \$21 million of fiscal Q3 of 2018. Gross deficit of \$200,000 compared to \$1.7 million gross profit of 2018. EBITDA came in at a \$400,000 loss compared to a \$900,000 gain in 2018. For the first nine months ended March 31, 2019 compared to the last line - or the first nine months of 2018 ended April 1 sales were \$61.3 million compared to \$57.6 million, gross profit

of \$4.4 million compared to \$2.6 million last year and EBITDA of \$2.9 million compared to \$100,000 loss last year.

One other meaningful item to note was that in this quarter or I'm sorry subsequent to this quarter we completed a new debt facility in the nature of \$7.5 million. This allowed us to make some extensions to our current debt financing and we believe will allow us the time to make significant changes to correct our balance sheet in the future. With that I will turn it over to Mr. Allen Quasha our CEO for his comments.

Alan Quasha: Yes, thank you Aaron. Still, I mean, obviously the third quarter results were disappointing. I will - Jed Rust will - who has importantly taken over running our Colorado operation and we're very pleased with him at the helm. He will take us through some of the operational results after I talk a little bit about the key focus which we focused on during this past quarter which was taking four main steps to restructure the company hopefully fundamentally which hopefully will also mark a turning point in the business.

So first we completed the sale of our 3-D business. It's EBITDA in the first nine months through the date of the sale was a loss of \$3.9 million. We could afford to keep betting on this technology as it was a tremendous drain on both cash and on management resources. The second item was the implementation of a very significant cost savings plan in excess of \$8 million. These changes included significant cuts to labor, leases and variable expenses.

The third phase was to review our customer base, weed out our core or low margin making business line customers. Some of the products also included low volume customers with little future growth. It also included some long term legacy parts which didn't fit our core competencies. Finally, the company has put in place a more stable debt structure and has been able to extend out our current debt to December 31, 2020 and later. This will give us time to work to put in place a better long term solution for the company but this was a very important interim step.

So I do want to say however before Jed makes his points that while results particularly at Colorado which Jed is taking over and Aaron is also going back to oversee stamping which was also quite disappointing for the quarter we had good results in our medical business in Florida. So don't want to leave the call without pointing out some positives on the operational side. With that though I will set it over to Jed Rust. Over to you Jed, thanks.

Jed Rust: Thanks Alan. As we've kind of mentioned our Q3 was a particularly challenging quarter from a top line revenue standpoint. As Aaron stated we were at \$19.9 million for Q3 in comparison to our prior year result of \$21 million. The decrease was primarily driven by softness in the defense sector. We experienced strong sales during Q1 and Q2 of this fiscal year however saw disproportionate decline in Q3. The decline was driven by some short term saturation in the defense sector and as such many of our large OEM customers reduced their production levels fairly substantially during our Q3.

On a more positive note we did actually see a 55% increase in Q3 over prior year in our aerospace sales in our Colorado operation. This strategic growth does continue to show our focus on diversifying our business and creating some long term stability. While we're seeing rapid growth in the sector we have to remain grounded on solving the near term operational and balance sheet challenges in ARC. As Alan mentioned we have taken decisive action to flex our business to balance the near term sales market challenges. We did make substantial cuts heavily in the labor side but not to be – not to short change the efforts also done on a fixed cost side of our business as well. These major changes amounting to almost \$8 million will help us to right the business and balance out with the sales that we currently have. As you mentioned we also leaned out our operation. In doing so we also rationalized our customer base to ensure that the products we're manufacturing are within our core competency and generating the appropriate value.

Our Florida facility has remained strong from both a top line standpoint as well as from an operational excellence standpoint. We continue to rely on them as they continue to perform for us. We do remain optimistic to our long term growth and diversification strategy and recognize that we must remain laser focused on improving our profitability and balance sheet in the near term. With that Alan, any further words before we answer questions?

Alan Quasha: No thanks.

Aaron Willman: And we'll take any questions.

Operator: Thank you. Ladies and gentlemen if you have a question please signal by pressing Star 1 on your telephone keypad. If you are using a speakerphone please make sure to mute, your mute function is turned off to allow your signal to reach our equipment, again press Star 1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions, thank you. Ladies and gentlemen once again if you want to ask a question please press Star 1. We have our first question from (Paul Rini) a private investor. Please go ahead.

(Paul Rini): Yes, thank you. I don't know who this would be particularly for but my concern is the stock losing its NASDAQ standing. What steps are going to be taken to ensure that it doesn't lose the NASDAQ listing? And another question, can you let us know what the sale of that 3-D went for since we are selling off assets to pay down debt? I mean I think it's a very significant step but, you know, that would be vital information I would think? Thank you.

Alan Quasha: Yes, so I'll address the NASDAQ listing. Obviously we're hoping to take steps to get it back over a dollar. We have I think until late fall to September, October to do that. So hopefully it'll take care of itself. We will do what we can do obviously to avoid that and I think we'll be successful in that but it's - it does require us to make a fundamental turn around here and for shareholders to,

you know, to buy more than they sell. So I don't know what else to say about that but it's obviously something we're – we intend to deal with.

(Paul Rini): Well, as well as long as it isn't – yes as long as it isn't another reverse split I'll tell you that. We've been through a few of those in the past with ARC Wireless.

Alan Quasha: Yes. Yes, we're not planning to do a reverse split.

(Paul Rini): Well that's good news.

Alan Quasha: We - sorry the...

(Paul Rini): The sale of the 3-D cost.

Alan Quasha: Yes, so well there's a lot of different ways to look at that.

(Paul Rini): Okay.

Alan Quasha: But and the reason for that is because there were a lot of capital and operating leases that went with the business.

(Paul Rini): Okay.

Alan Quasha: So obviously we took a loss on the sale. But - and Aaron you'll have the actual numbers in front of you but in terms of payables, and operating leases, and capital leases that were assumed which the company would have had to pay off itself had we kept the business. What was the cumulative of all of those expenses? I just don't have it in front of me.

Aaron Willman: Sure, I mean in the first nine months alone we...

Alan Quasha: No, no I understand that but I'm just talking about the liabilities that were assumed.

Aaron Willman: Oh okay basically \$3 million between the leases, payables and other items that they had to take on.

Alan Quasha: Thanks.

(Paul Rini): What was that \$3 million?

Aaron Willman: Correct.

(Paul Rini): Three million dollars, okay, so according to that (McGlardy) loan the sale assets has to go directly to that bottom line. Is that where that money went or how was that handled?

Alan Quasha: No, it just - it really- just there really is in cash that went to - I mean debt was paid down in the sense that liabilities were no longer in our balance sheet. But...

(Paul Rini): Okay.

Alan Quasha: ...there's no sort of real cash that went anywhere.

(Paul Rini): I see.

Aaron Willman: Correct there was no proceeds but they took on annual payments of \$2.4 million of leases on top of additional payables in excess of inventory and accounts receivable of another half a million dollars.

(Paul Rini): I got you, okay all right. So we still stand with that \$14 million on that 11% interest rate with (McGlardy)?

Aaron Willman: Yes, I think its \$15 million, yes.

(Paul Rini): Fifteen oh sweet. Okay, all right. Well I hope we're doing the necessary things to right this company. You know, I hate to see you go full circle from the pink slips, on the (NASD) and back to the pink slips. I mean this has been some ride. You know, Mr. Quasha you feel it more than anyone I'm sure and...

Alan Quasha: Yes.

(Paul Rini): ...you may be the largest shareholder but you're not the only shareholder so just keep us in mind also.

Alan Quasha: Yes, well we're not – we're - we - the company took on way too much debt and overpaid for things...

(Paul Rini): Yes.

Alan Quasha: ...so we're definitely trying to work our way out of that. It's not an easy thing to be doing. And trust me it's not something that thrills any of us.

(Paul Rini): Right. Well this is really not, you know, I've read a lot about you and this is just not your game. I mean you're a - you run a very tight ship. And I still don't understand how it got to this point especially in Colorado to be such to such a drain on the company when the company was - when

that division was purchased it was profitable so I don't know how it broke and, you know, so bad but it's been a nightmare.

Alan Quasha: Yes, so I mean just so you - I mean everybody you should understand this (Paul) that Colorado is a great facility. It has tremendous capacity. If you've been out to visit it it's a very large facility. It has a lot of fixed costs. And when your core revenue stream basically halves because, you know, it's title off to the defense business firearms in particular and that business is down, you know, well over 50% so you have to absorb all these fixed costs and that's not a pretty sight.

And we've been - and it takes a while to change your product mix to, you know, to a different kind of mix which is what we're trying to do because...

(Paul Rini): Yes.

Alan Quasha: ...there are some of us who think that the heydays of the firearm business is not somebody anybody should be counting on coming back.

(Paul Rini): Right, right well not with the current administration, yes. The past administration he was the best gun salesman around. So well I see, you know, we have at least three to four space companies, you know, competing against each other that's, you know, got to be a big boon for us, you know, where before it was just NASA and now we have, you know, several going on. So, you know, we're just an arms dealer, you know, selling to all of them I hope that's how it is, you know, well good luck to you guys.

Alan Quasha: No, no anyways so I think long term I think one has to build a strategy. I mean just so everybody knows I mean long term our bets are going to be with medical and aerospace and so that's where we're making longer term commitments.

(Paul Rini): Good, good. Well good luck to you guys, you know, we're in your corner.

Alan Quasha: Thank you (Paul).

(Paul Rini): I appreciate it. Bye.

Operator: Ladies and gentlemen, if you find that your question has been answered you may remove yourself from the queue by pressing Star 1. And once again if you would like to ask a question please press - sorry if you would like to remove yourself from the queue please press Star 2, apologies. And once again if you'd like to ask a question please press Star 1. We'll take our next question from Ralph Weil of R. Weil Investment Management. Please go ahead sir.

Ralph Weil: Regarding the stamping business how dependent are you at this point on the - on have been on the auto business, and what are you seeing there, and what else can you do or what other areas might you be pursuing so that, that doesn't become a problem, more of a problem?

Aaron Willman: Yes certainly. We are currently 95% dependent upon automotive. That automotive mix is primarily to your Japanese transplant companies -- your Hondas, Nissans, Subarus, cars of those natures. The diversification that we're actually working on pretty heavily is into I'll call it defense or you call it - I'm sorry Jed you call it aerospace. It's more in the governmental contracts side. There is significant history and those plants specifically the Wauseon facility in during government contract work and that's really the future where we're headed. A few things are definitely in the queue. I can't share any results yet as we have not been issued POs but that is the primary focus at this point in time is non-automotive work some appliance but more so in the defense and aerospace segments.

Ralph Weil: Does that mean you're not going to focus on autos anymore because it's been cyclical, or up and down or, you know, what are the thoughts there?

Aaron Willman: No, we certainly still are focusing on automotive. I would say in the past years that was all of our focus. We weren't really prospecting a lot of new customers outside of the automotive just because of our niche knowledge in that area. However in recent years -- and it's a bit of a slower process, I think Colorado went through the same thing when they started their patent aerospace -- we have been really on, focusing on the aerospace side for the last year and half, two years. And that's where we're starting to see some very good traction albeit no POs yet to get us to start to diversify. We - this year we have won significant POs with the automotive business. And we will continue to take those POs but our intent is to focus a larger portion of our marketing and sales force on to non-automotive work.

Ralph Weil: Okay, I read in the release that plastics are down. What part of your business has been plastics versus metals and where into what areas would the plastics be go - what you do in plastics be going towards?

Jed Rust: I'll answer that. This is Jed. Our plastics division is located also in our Colorado facility and actually does a very similar ratio of defense and firearms work in comparison to a small proportion of other industries. So quite honestly it is impacted heavily by the same market challenges we were seeing in our MIM business in Colorado, so that's the primary driver there. As far as percentages of our businesses in Colorado that's there. You know, of the Colorado entity it's about 30% of our aggregate top line in Colorado combined.

Ralph Weil: You were introduced but Mr. Quasha didn't say where you - you're employment was or what you did in the past. Could you just tell us what you did?

Jed Rust: Yes absolutely. I've actually been with ARC and actually the prior entity called Advanced Forming Technology, been around for about 13 years. Had a variety of different roles but most recently have been really focusing on basically righting the ship in Colorado. I used to be Director of Operations

in the Colorado facility back about five, six years ago. And so I'm working aggressively right now to return it back to the entity that I know it can perform as.

Ralph Weil: Okay.

Operator: Ladies and gentlemen, once again if you would like to ask a question please do so by dialing Star 1 on your telephone keypad. We'll just take a brief moment to allow anyone else to queue up for questions, thank you. And we have our next question from (Paul Rini). Please go ahead sir.

(Paul Rini): Yes, yes I have another question. I understand the past manager from Florida was moved to Colorado and is he any longer with the company?

Jed Rust: No.

(Paul Rini): Okay. All right, because I guess that's where it began to really -- okay -- disintegrate. Okay good. That was the question that I had. Thank you very much.

Operator: Thank you. We'll now take our next question from Ralph Weil. Please go ahead sir.

Ralph Weil: Could you comment a bit more on what sense to me from what you said that to be an area that you're going to grow in more in the aerospace area. Could you comment on what type of business you have there and whether you've been getting small engineering and development orders, whether you've gotten production orders, whether you've gotten small ones which you feel will build over the next few years? Can you just elaborate a little more on the aerospace industry, your aerospace industry participation?

Jed Rust: Absolutely, so again I'm probably more excited than most on the aerospace side as it has been a work in process for quite a few years now. But we do have quite a few components in aircraft

engines flying overhead every single day with some very large engine manufacturers in the aerospace world. Those components are ongoing and steady production. We do have firm orders in our system out for several years actually on those components. And then that has been something that has been I'll say precipitating over the last 18 months or so. And that's part of the reason we're seeing some substantial growth here.

Further, we have won several new business or several new parts and those are in the process of being qualified right now. We are still projecting a very solid fiscal year '20 coming on in the aerospace field and it's something that we have rallied our business around to support. We are also still pursuing additional clients in this space. We do have as of the end of Q3 we have one client who is nearing submission of a new purchase order to us for a new development exercise. So this will further expand our aerospace into yet another client. So hopefully that answers your question but a lot of engine components for aircraft.

Ralph Weil: Are these also - when you say aerospace I take it this is also from space programs?

Jed Rust: We continue to do work with some of the launch companies however those are primarily development based type of efforts. They are not necessarily production at least in the way that we classify them.

Ralph Weil: Okay, thank you.

Operator: Thank you. Ladies and gentlemen, once again if you would like to ask a question you can do so by pressing Star 1 on your telephone keypad. We'll just take a brief moment to allow anyone else an opportunity to queue up for questions, thank you. It appears we have no further questions at this time. I would like to turn the call back over to Mr. Willman for any additional or closing remarks. Please go ahead Mr. Willman.

Aaron Willman: Well thank you everyone for joining today. I think I can speak for Alan and Jed here that results of Q3 certainly were disappointing. The company has taken some very significant steps to right the ship and I think we have a pretty solid plan too, you know, fix things on a go forward basis. Alan, Jed feel free to add any comments you wish to that but I think that's the message that we are trying to send.

Jed Rust: Agreed.

Alan Quasha: All right, thanks Aaron. Thank you all on the call and I think that's the - I think this ends the call so thank you.

Aaron Willman: Thank you, everyone.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.