

FERRO CORP  
Form DEFA14A  
March 05, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**FERRO CORPORATION**

**(Name of registrant as specified in its charter)**

**(Name of person(s) filing proxy statement, if other than the registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required
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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:



Ferro Corporation  
Q4 and FY 2012 Earnings Presentation  
March 5, 2013

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Safe Harbor

Cautionary Note on Forward-Looking Statements

Certain statements in this presentation may constitute forward-looking statements within the meaning of Federal securities laws and are subject to a variety of uncertainties, unknown risks and other factors concerning the Company's operations and business environment that could cause actual results to differ materially from those suggested by these forward-looking statements and that could adversely affect the Company's future financial performance. Factors that could cause such differences include the following: demand in the industries into which Ferro sells its products may be unpredictable; consumer spending may be influenced by consumer spending; Ferro's ability to successfully implement its value creation strategy; Ferro's ability to successfully administer its cost-saving initiatives, including its restructuring programs, and produce the desired results, including projected results; changes in the Company's credit facilities could affect its strategic initiatives and liquidity; Ferro's ability to access capital markets, both through public offerings and private transactions; the effectiveness of the Company's efforts to improve operating margins through sales growth, price increases, price

improved purchasing techniques; the availability of reliable sources of energy and raw materials at a reasonable cost; currency economic, social, regulatory, and political conditions around the world; Ferro's presence in certain geographic regions, including the Pacific, where it can be difficult to compete lawfully; increasingly aggressive domestic and foreign governmental regulations and regulations affecting health, safety and the environment; Ferro's ability to successfully introduce new products or enter into new markets; limited or no redundancy for certain of the Company's manufacturing facilities and operations at those facilities; Ferro's ability to complete future acquisitions or dispositions, or successfully integrate future acquisitions; intense price competition; Ferro's ability to protect its intellectual property or to successfully resolve claims of infringement; management of Ferro's general and administrative expenses; Ferro's multi-jurisdictional tax structure; the impact of changes in tax laws on its ability to utilize significant deferred tax assets; the effectiveness of strategies to increase Ferro's return on capital; the impact of and investments made in order to meet stringent environmental, health and safety regulations; stringent labor and employment laws affecting the Company's employees; the impact of requirements to fund employee benefit costs, especially post-retirement costs; implementation of new processes and information systems; the impact of interruption, damage to, failure, or compromise of the Company's information systems; sale of products into the pharmaceutical industry; exposure to lawsuits in the normal course of business; risks and uncertainties related to intangible assets, including the final amount of impairment and other charges described in this press release; Ferro's borrowing costs could increase if interest rate increases; liens on the Company's assets by its lenders affect its ability to dispose of property and businesses; Ferro's ability to repurchase its common stock in the foreseeable future; and other factors affecting the Company's business that are beyond its control, including changes in laws and governmental actions.

The risks and uncertainties identified above are not the only risks the Company faces. Additional risks and uncertainties not presently known to the Company or that it currently believes to be immaterial also may adversely affect the Company. Should any known or unknown risks or uncertainties develop into actual events, these developments could have material adverse effects on our business, financial condition and results of operations. This presentation contains time-sensitive information that reflects management's best analysis only as of the date of this release. We do not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that may arise after the date of this presentation. Additional information regarding these risks can be found in our Annual Report on Form 10-K for the year ended December 31, 2012.

#### Non-GAAP Financial Measures

This presentation includes certain non-U.S. GAAP financial measures. The calculation of these measures, and a reconciliation of these non-GAAP comparable measures calculated in accordance with U.S. generally accepted accounting principles (GAAP), can be found on the

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Executive Speakers

Peter T. Thomas

Interim President and Chief Executive Officer

Jeffrey L. Rutherford

Vice President and Chief Financial Officer

John T. Bingle

Treasurer and Director of Investor Relations

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Ferro Q4 2012 Financial Overview

Sales decline driven by EMS, primarily solar  
pastes and metal powders and flakes

Value added sales declined in all segments

Weakness in Europe adversely impacted

Coatings and Color & Glass

SG&A includes pension mark-to-market  
adjustments of \$27M and \$52M in 2012 and

2011

Excluding pension, SG&A reduced partially due



to lower variable selling costs, reduced  
compensation expenses and lower professional  
fees

Increase in net debt by \$5M during Q4

(a)

Non-GAAP measure; see reconciliation in the appendix.

Q4 2012

Q4 2011

Net Sales

\$ 406

\$ 443

Net Value-Added Sales

366

392

Gross Margin

59

74

% of VA Sales

16.2%

18.8%

Pre-tax Income

\$(68)

\$(74)

Net Income

(64)

(61)

EBITDA (a)

\$ 12

\$ 14

Adjusted EPS

\$(0.07)

\$(0.06)

5

Ferro FY 2012 Financial Overview

Sales decline driven by EMS, primarily solar pastes, metal powders and flakes and continued weakness in Europe

Precious metal sales fell by over 55%

Change in FX reduced sales by approximately 2%

SG&A includes pension mark-to-market adjustments of \$27M and \$52M in 2012 and 2011

Impairments of nearly \$215M, primarily EMS  
goodwill and assets; Restructuring of \$11M  
Tax expense primarily related to nearly \$190M  
charge associated with increase in valuation  
allowances

Increase in net debt of \$31M for year

(a)

Non-GAAP measure; see reconciliation in the appendix.

2012

2011

Net Sales

\$ 1,769

\$ 2,156

Net Value-Added Sales

1,596

1,757

Gross Margin

298

412

% of VA Sales

18.7%

23.5%

Pre-tax Income

\$(264)

\$ 24

Net Income

(374)

4

EBITDA (a)

\$ 94

\$ 191

Adjusted EPS

\$ 0.09

\$ 0.80

6  
Redefining Ferro's Strategy to Deliver Value  
to Shareholders  
Where We Were  
2007  
2012  
Where We Are  
2013  
Where We Are Going  
2014 & Beyond  
Strategy centered on

Solar & EMS

Increased level of  
capital investment  
Strategy redefined and  
implemented  
Period of transition and  
opportunity  
Build around Ferro's  
core competencies  
Capitalize on high-return  
investments  
Deterioration in Solar  
and EMS markets  
Higher cost structure  
Margins compressed  
Increased earnings  
volatility  
Rationalizing  
infrastructure investment  
Streamlining operations  
Increasing efficiency  
Improving profitability  
and accountability  
Deliver consistent growth  
in earnings  
Maximize cash flow  
Enhance ROIC  
Drive growth in  
shareholder value  
Early Stages of Value Strategy Delivering Results

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Ferro's Strategic Framework

Differentiation

Strategic

Objective

Strategic

Pillars

Deliver Consistent,

Strategy

Drive Profitability and Cash Flow by Cultivating New Business Development Across

Geographies and Delivering Higher Value Applications in Target End Markets

Capitalize  
on  
Ferro's  
Strengthen  
Leadership Position  
in Core Businesses  
Achieve  
Continuous  
Operational  
Improvement  
Expand into  
Attractive Adjacent  
Markets  
Core Competencies  
Predictable Growth in  
Shareholder Value

8  
Focus on Ferro's Core  
Leadership positions in  
attractive niche markets  
Global presence and  
broad geographic reach  
Strong customer and  
channel relationships  
Breadth of technology  
and application expertise  
Reputation for quality and



consistency  
History of innovation  
Core  
Strengths  
Technical  
Expertise  
Organization  
Forms the Building Blocks for Shareholder Value Creation  
Particle Engineering  
Color and glass science  
Formulation and  
optimization  
Surface application  
technology  
Polymer science  
Organic synthesis  
Dedicated and motivated  
management team  
Global workforce with  
common core values  
Ability to think globally and  
act locally  
Regional R&D and  
technical centers  
Physical proximity to our  
customers

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Ferro's Strategy in Action: Current Focus

Divest Non-Core Businesses

Streamline Operations and Reduce Operating Costs

Pursue High-Return Growth Investment

1

2

3

10

Solar Pastes

October 2012: Announced exploration of strategic options

February 2013: Completed sale to Heraeus

Provides significant immediate benefits:

»

Cash proceeds of approximately \$11 million

»

Reduced precious metal leases by approximately \$12 million

»

Eliminates 2012 segment loss of \$16 million  
Remaining Portfolio  
Actively manage and evaluate Ferro portfolio  
Exit underperforming businesses and product lines  
1  
Divest Non-Core Businesses

11

Streamline Operations and Reduce  
Operating Costs

2

Reduced the number of business units from 8 to 5  
Created one Performance Materials manufacturing group  
Restructured Tile Coating and PE manufacturing  
infrastructure in Southern Europe  
Reduced the global commercial management structure of

Color & Glass and EMS

Creating

One

Ferro

procurement

and

supply

chain

groups

Over \$6

million of cost savings realized to date

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Expected run-rate annual savings > \$50 million

Transitioning functional support to regional / global structure

Implementing global shared service model for select administrative activities

Rationalizing Ferro's real estate and lease portfolio

Approximately \$14 million of cost savings realized to date

Streamline Operations and Reduce

Operating Costs





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Higher Value Applications

Tile: Digital Inks and Glazes

Polymer Additives: Nonphthalate Product Offerings

Specialty Plastics: Color Concentrates and Nanoclay Products

Porcelain Enamel: AquaRealEase®

Color and Glass: Digital and Organic Inks

Pigments: UV Absorbing and Camouflage Pigments

Geographic Expansion to High Growth Areas

Northern Africa / Egypt

Eastern Europe / Turkey

Asia

Bolt-on Acquisition Opportunities

3

Pursue High-Return Growth Investments

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Our Scorecard

Objective

In Process

Completed

Divest Underperforming Solar

Business

Streamline Operations and Reduce

Operating Costs

Reassess Capital Allocation and

Refocus on Higher Growth Projects

1  
2  
3

Achieved run-rate annual savings > \$20 million

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2013 Guidance

Adjusted earnings per share for 2013 are expected to be in the range of \$0.25 to \$0.30 per diluted share

We expect the first quarter of 2013 to be the lowest earnings quarter (\$0.02 -

\$0.05/share) due to the timing

of the cost savings programs rollout

Adjusting for the impact of the Solar Pastes transaction and foreign currencies, sales growth is expected to be approximately 2%

For the year, cash flow is expected to be neutral

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2015 Targets

Top line sales growth 4% per annum

Gross profit as percent of sales > 21%

SG&A expense as percent of sales < 13%

EBITDA margin of approximately 11%

Maintenance CAPEX of \$25 million

EPS of \$0.75 -

\$0.85

Note: Sales = value added sales

Appendix



18  
Non-GAAP Reconciliations  
EBITDA Reconciliation (\$M)  
2012  
4Q2012  
Net income as reported (GAAP)  
\$(373)  
\$(63)  
Add -  
Income tax as reported  
\$

109  
\$(4)  
Charges (excluding income tax)  
277  
59  
Depreciation and amortization as reported  
57  
16  
Interest expense as reported  
28  
7  
Other  
(4)  
(3)  
EBITDA  
\$  
94  
\$  
12

- 19  
Reconciliation of Reported Loss to Adjusted  
Loss
- (1)  
Pension and other postretirement benefits mark-to-market adjustment of the related net liabilities.
  - (2)  
Includes certain severance costs, impairments, ongoing costs at facilities that have been idled, loss/gain on divestitures, and certain business development activities.
  - (3)  
Adjustment of reported earnings and of special items to a normalized 36% rate for 2012 and 32% for 2011.  
(Dollars in thousands, except per share amounts)

Three months ended December 31, 2012

Cost of sales  
 Selling,  
 general and  
 administrative  
 expenses  
 Restructuring  
 and  
 impairment  
 charges  
 Other expense,  
 net  
 Income tax  
 (benefit)  
 expense  
 Net (loss)  
 income  
 attributable to  
 common  
 shareholders  
 Diluted (loss)  
 earnings per  
 share  
 As reported  
 \$  
 346,541  
 \$  
 96,352  
 \$  
 21,990  
 \$  
 8,618  
 \$(4,133)  
 \$(63,876)  
 \$(0.74)  
 Special items:  
 Impairments  
 -  
 -  
 \$(16,403)  
 -  
 \$  
 5,905  
 \$  
 10,498  
 \$  
 0.12  
 Restructuring  
 -  
 -

(5,587)  
-  
2,011  
3,576  
0.04  
Pension  
1  
\$(3,758)  
\$(23,480)  
-  
-  
9,806  
17,432  
0.20  
Other  
2  
(1,861)  
(8,222)  
-  
-  
3,630  
6,453  
0.08  
Taxes  
3  
-  
-  
-  
-  
(20,205)  
20,205  
0.23  
Total special items  
\$(5,619)  
\$(31,702)  
\$(21,990)  
\$  
0  
\$  
1,147  
\$  
58,164  
\$  
0.67  
As adjusted  
\$  
340,922  
\$  
64,650  
\$

0  
 \$  
 8,618  
 \$(2,986)  
 \$(5,712)  
 \$(0.07)  
 Three months ended December 31, 2011  
 As reported  
 \$  
 368,946  
 \$  
 125,158  
 \$  
 12,986  
 \$  
 9,897  
 \$(13,487)  
 \$(60,962)  
 \$(0.71)  
 Special items:  
 Impairments  
 -  
 -  
 \$(12,129)  
 -  
 \$  
 3,881  
 \$  
 8,248  
 \$  
 0.09  
 Restructuring  
 -  
 -  
 (857)  
 -  
 274  
 583  
 0.01  
 Pension  
 1  
 \$(968)  
 \$(50,792)  
 -  
 -  
 16,563  
 35,197  
 0.41  
 Other  
 2

(1,137)  
(760)  
-  
\$(397)  
734  
1,560  
0.02  
Taxes  
3  
-  
-  
-  
-  
(10,286)  
10,286  
0.12  
Total special items  
\$(2,105)  
\$(51,552)  
\$  
12,986  
\$(397)  
\$  
11,166  
\$  
55,874  
\$  
0.65  
As adjusted  
\$  
366,841  
\$  
73,606  
\$  
0  
\$  
9,500  
\$(2,321)  
\$(5,088)  
\$(0.06)

20

Reconciliation of Reported Loss (Income) to  
Adjusted Income

(1)

Pension and other postretirement benefits mark-to-market adjustment of the related net liabilities.

(2)

Includes certain severance costs, impairments, ongoing costs at facilities that have been idled, loss/gain on divestitures, and certain business development activities.

(3)

Adjustment of reported earnings and of special items to a normalized 36% rate for 2012 and 32% for 2011.

(Dollars in thousands, except per share amounts)



Twelve months ended December 31, 2012

Cost of sales  
 Selling,  
 general and  
 administrative  
 expenses  
 Restructuring  
 and  
 impairment  
 charges  
 Other expense,  
 net  
 Income tax  
 expense  
 (benefit)  
 Net (loss)  
 income  
 attributable to  
 common  
 shareholders  
 Diluted (loss)  
 earnings per  
 share  
 As reported  
 \$  
 1,470,769  
 \$  
 302,658  
 \$  
 225,819  
 \$  
 32,934  
 \$  
 109,485  
 \$(374,268)  
 \$(4.34)  
 Special items:  
 Impairments  
 -  
 -  
 \$(215,279)  
 -  
 \$  
 77,500  
 \$  
 137,779  
 \$  
 1.60  
 Restructuring  
 -

-  
(10,540)  
-  
3,794  
6,746  
0.08  
Pension  
1  
\$(3,758)  
\$(23,480)  
-  
-  
9,806  
17,432  
0.20  
Other  
2  
(9,065)  
(14,191)  
-  
\$(808)  
8,663  
15,401  
0.18  
Taxes<sup>3</sup>  
-  
-  
-  
-  
(204,363)  
204,363  
2.37  
Total special items  
\$(12,823)  
\$(37,671)  
\$(225,819)  
\$  
808  
\$(104,600)  
\$  
381,721  
\$  
4.43  
As adjusted  
\$  
1,457,946  
\$  
264,987  
\$  
0

\$  
32,126

\$  
4,885

\$  
7,453

\$  
0.09

Twelve months ended December 31, 2011

As reported

\$  
1,743,560

\$  
335,311

\$  
17,030

\$  
35,419

\$  
19,338

\$  
4,239

\$  
0.05

Special items:

Impairments

-

-

\$(12,132)

-

\$  
3,882

\$  
8,250

\$  
0.10

Restructuring

-

-

(4,898)

-

1,567

3,331

0.04

Pension <sup>1</sup>

\$(968)

\$(50,792)

-

-

16,563

35,197  
0.41  
Other  
2  
(4,761)  
(4,100)  
-  
\$(397)  
2,963  
6,295  
0.07  
Taxes<sup>3</sup>  
-  
-  
-  
-  
\$(11,507)  
11,507  
0.13  
Total special items  
\$(5,729)  
\$(54,892)  
\$(17,030)  
\$  
397  
\$  
13,468  
\$  
64,580  
\$  
0.75  
As adjusted  
\$  
1,737,831  
\$  
280,419  
\$  
0  
\$  
35,022  
\$  
32,806  
\$  
68,819  
\$  
0.80

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Disclaimers

In connection with its 2013 Annual Meeting of Shareholders, the Company will file a proxy statement and other documents regarding the 2013 Annual Meeting with the SEC and will mail the definitive proxy statement and a proxy card to each shareholder of record entitled to vote at the 2013 Annual Meeting. **SHAREHOLDERS ARE ENCOURAGED TO READ THE PROXY STATEMENT AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC WHEN THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.** The final proxy statement will be mailed to shareholders. Investors and security holders will be able to obtain the documents free of charge at the SEC's website, [www.sec.gov](http://www.sec.gov), from Ferro at its website, [www.ferro.com](http://www.ferro.com), or by contacting the Company at

6060 Parkland Boulevard, Mayfield Heights, Ohio 44124, Attention: Corporate Secretary. The Company and its directors and executive officers may be deemed to be participants in the solicitation of proxies in connection with the 2013 Annual Meeting. Information concerning the Company's participants is set forth in the proxy statement, dated March 28, 2012, for its 2012 Annual Meeting of Shareholders as filed with the SEC on Schedule 14A. Additional information regarding the interests of participants of the Company in the solicitation

of  
proxies  
in  
respect  
of  
the  
2013  
Annual  
Meeting  
of  
Shareholders  
and  
other

relevant materials will be filed with the SEC when they become available.

Additional  
Information  
Participants  
in  
Solicitation