

FERRO CORP
Form DEFA14A
March 20, 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
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

Edgar Filing: FERRO CORP - Form DEFA14A

(2) Aggregate number of securities to which transaction applies:

(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Ferro Corporation
Our Plan to Create Value
Investor Presentation
March 2013

2

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. Actual results could cause actual results to differ materially from those suggested by these forward-looking statements and that could adversely affect the Company's financial performance include the following: demand in the industries into which Ferro sells its products may be unpredictable; changes in demand by consumer spending; Ferro's ability to successfully implement its value creation strategy; Ferro's ability to successfully implement cost saving initiatives, including its restructuring programs, and produce the desired results, including projected savings; restrictive covenants in credit facilities could affect its strategic initiatives and liquidity; Ferro's ability to access capital markets, borrowings, or financing; and the Company's efforts to improve operating margins through sales growth, price increases, productivity gains, and improve

availability of reliable sources of energy and raw materials at a reasonable cost; currency conversion rates and economic, social and political conditions around the world; Ferro's presence in certain geographic regions, including Latin America and Asia-Pacific, where operations are conducted in a lawful manner; increasingly aggressive domestic and foreign governmental regulations on hazardous materials and regulations affecting the environment; Ferro's ability to successfully introduce new products or enter into new growth markets; sale of products into highly competitive markets; or no redundancy for certain of the Company's manufacturing facilities and possible interruption of operations at those facilities; future acquisitions or dispositions, or successfully integrate future acquisitions; competitive factors, including intense price competition; ability to protect its intellectual property or to successfully resolve claims of infringement brought against the Company; management of operating and administrative expenses; Ferro's multi-jurisdictional tax structure; the impact of the Company's performance on its ability to raise capital; assets; the effectiveness of strategies to increase Ferro's return on capital; the impact of operating hazards and investments made in the environment, health and safety regulations; stringent labor and employment laws and relationships with the Company's employees; requirements to fund employee benefit costs, especially post-retirement costs; implementation of new business processes and information systems; impact of interruption, damage to, failure, or compromise of the Company's information systems; manufacture and sale of products in a competitive industry; exposure to lawsuits in the normal course of business; risks and uncertainties associated with intangible assets, including goodwill impairment and other charges described in this press release; Ferro's borrowing costs could be affected adversely by interest rate fluctuations; the Company's assets by its lenders affect its ability to dispose of property and businesses; Ferro may not pay dividends on its common stock in the future; and other factors affecting the Company's business that are beyond its control, including disasters, accidents, and government actions. The risks and uncertainties identified above are not the only risks the Company faces. Additional risks and uncertainties not presently known or that it currently believes to be immaterial also may adversely affect the Company. Should any known or unknown risks and uncertainties, or 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 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-comparable measures calculated in accordance with U.S. generally accepted accounting principles (GAAP), can be found on the

3
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

4

Ferro's Strategic Framework

Differentiation

Strategic

Objective

Strategic

Pillars

Strategy

Drive Profitability and Cash Flow by Cultivating New Business Development Across

Geographies and Delivering Higher Value Applications in Target End Markets

Strengthen

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

5

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

6

Ferro Today
Performance

Materials

2012 Sales: \$ 1,059M

Performance

Chemicals

2012 Sales: \$ 515M

Current Organization Structure

Performance

Coatings

Performance Colors
and Glass

Pigments, Metal

Powders and Oxides

Polymer Additives

Specialty Plastics

Pharmaceuticals

Sales by End Markets

Sales by Region¹

Ferro is a Leading, Global Supplier of Performance
Materials and Chemicals

(1) Not pro forma for sale of Solar Paste

2012 Sales: Value added sales, excluding solar pastes

Building &

Renovation

45%

Appliances &

Household

18%

Transportation

12%

Other

11%

Electronics

8%

Containers / Packaging

6%

Europe / ME

/ Africa

35%

United States

33%

Asia /

Pacific

20%

Latin

America

12%

6

7

Tile Coatings

Digital Inks

Porcelain Enamel

Glass Enamels

Conductive Pastes

Forehearth Colors

Performance Materials

Conductive

Powders & Flakes

Inorganic Colored

Pigments

Sales by End Markets

Sales by Region¹

Key Products

Select Applications

(1) Not pro forma for sale of Solar Paste

8
PVC Additives
Antibacterial agents
Water treatment,
oilfield additives
Engineered
Specialty Plastics
Gelcoats
Liquid colors
Performance Chemicals

Active ingredients

High-purity

carbohydrates

Sales by End Markets

Sales by Region¹

Key Products

Select Applications

(1) Not pro forma for sale of Solar Paste

Building &

Renovation

37%

Appliances

and Household

10%

Other

24%

Containers /

Packaging

10%

Electronics

1%

North

America

75%

Europe

22%

Latin America

2%

Asia Pacific

<1%

9

Ferro's Strategy in Action: Current Focus
Divest Non-Core Businesses
Streamline Operations and Reduce Operating Costs
Pursue High-Return Growth Investment

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
Divest Non-Core Businesses
1

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

12

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

2

13

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

®

14

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

15

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

17

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)

18

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

19
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

20

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)

21

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
3
-
-
-
-
(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
1
\$(968)
\$(50,792)
-

-
16,563
35,197
0.41
Other
2
(4,761)
(4,100)
-
\$(397)
2,963
6,295
0.07
Taxes
3
-
-
-
-
\$(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

22

Disclaimers

Additional Information

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, from Ferro at its website, www.ferro.com, or by contacting the Company at 6060 Parkland Boulevard, Mayfield Heights, Ohio 44124, Attention: Corporate Secretary.

Participants in Solicitation

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.