

Synalloy Corporation (Q4 2021 Earnings)

March 29, 2022

Corporate Speakers:

- Cody Cree; Gateway Group, Inc.; Director
- Ben Rosenzweig; Synalloy Corporation; Executive Chairman
- Chris Hutter; Synalloy Corporation; President, CEO & Director
- Aaron Tam; Synalloy Corporation; CFO

Participants:

- Unidentified Participant; Unknown; Analyst
- Mike Hughes; SGF Capital Management, LP; Principal & Portfolio Manager
- Charles Gold; Truist; Analyst
- Unidentified Participant; Unknown; Analyst
- Arthur Byrnes; Deltec Asset Management; Analyst

PRESENTATION

Operator: Good afternoon, everyone, and thank you for participating in today's conference call to discuss Synalloy's financial results for the third quarter and full year ended December 31, 2021. Joining us today are Synalloy's Executive Chairman of the Board, Ben Rosenzweig, President and CEO, Chris Hutter; CFO, Aaron Tam; and the company's outside Investor Relations adviser, Cody Cree.

Following their remarks, we will open the call for your questions. Before we go further, I would like to turn the call over to Mr. Cree as he reads the company's safe harbor statement within the meaning of the Private Securities Litigation Reform Act of 1995 that provides important cautions regarding forward-statements. Cody, please go ahead.

Cody Cree: Thanks, Alexander. Good afternoon, and thank you all for joining our conference call to discuss Synalloy's fourth quarter and full year 2021 financial results. Before we continue, we would like to remind all participants that the discussion today may contain certain forward-looking statements pursuant to the safe harbor provisions of the federal securities laws.

These statements are based on information currently available to us and are subject to various risks and uncertainties that could cause actual results to differ materially. Synalloy advises all of those listening to this call to review the latest 10-Q and 10-K posted on its website for a summary of these risks and uncertainties. Synalloy does not undertake the responsibility to update any forward-looking statements.

Further, the discussion today may include non-GAAP measures. In accordance with Regulation G, the company has reconciled these amounts back to the closest GAAP-based measurement. The reconciliations can be found in the earnings press release issued

earlier today and posted on the Investors section of the company's website at synalloy.com.

Please note that this call is available for replay via a webcast link that is also posted on the Investors section of the company's website. With that, I'd like to turn the call over to Synalloy's Executive Chairman of the Board, Ben Rosenzweig. Ben?

Ben Rosenzweig: Thank you, Cody, and good afternoon, everyone. I'd like to start by congratulating Chris on the removal of the interim tag and his appointment as President and CEO. Speaking for the Board as well as the company's largest shareholder, we continue to have confidence in Chris to lead the organization and felt that now is the right time to make this announcement.

Chris truly brings an owner-operator mentality to the company and has done an incredible job in ensuring that this mindset permeates the rest of the executive team and flows throughout the organization. Chris and I worked very well together, and the new roles are merely a formalization of what we've already been doing for the past year plus.

I'd also like to take the time to welcome Aldo Mazzaferro to the Synalloy Board. Aldo has a tremendous amount of knowledge about the steel industry and have seen it all throughout his years covering the sector for major Wall Street banks and brokerage firms. He will be a fantastic resource for us as we continue to grow both organically and through acquisitions and look to amplify our story across the investment community.

In the fourth quarter, we capped off a record year at Synalloy with revenue, earnings and adjusted EBITDA all at the highest levels in the history of the company. I'm extremely pleased that we were able to achieve these results in our first full year since embarking on our turnaround strategy.

Over the course of 2021, we made tremendous strides across the organization to set this company up for sustained success, and I cannot be prouder of all of our dedicated employees that have responded so well to our rapid transformation efforts. Their hard work and actions are reflected in the strong financial results we reported this year, but there are many achievements at the business level that give us confidence we've done much more than just passively take orders all year.

As one example, there have been major upgrades to the way the commercial team has been positioning our go-to-market strategy as we intend to capture additional market share across all of our products. Our operations team has also wasted no time in building systematic processes as we strive for best-in-class reliability and customer satisfaction.

Our finance team, rebuilt under Aaron's leadership, has worked tirelessly to ensure we're getting the highest return out of our fixed expenses. We're hopeful that as our personnel stabilizes and the team has more time with each other, we can further leverage data analytics and insights across the business units to be able to take a step back and provide additional value to our operators.

Even though 2021 was unquestionably a success, this is not a self-congratulatory type of call. We've put in place a strong foundation and created some value, but there's too much opportunity ahead for us to slow our sense of urgency. Our unwavering commitment to doing right by our shareholders continues to be at the center of our decision-making process as we evaluate and execute upon growth initiatives to best drive long-term shareholder value.

To that end, as we continue to balance prudent capital allocation with our focus on long-term growth, we initiated a rights offering for our current shareholders towards the end of the year to prepare for additional investment opportunities. We successfully raised \$10 million in gross proceeds and an oversubscribed offering solidifying the confidence our current shareholder base has in the long-term potential of Synalloy. We're very pleased with the outcome of this capital raise, especially since we were able to do so in such a cost-efficient and shareholder-friendly manner.

As we look ahead to 2022, both segments of our business are continuing to show signs of strength. However, we're keenly aware that we operate in a very dynamic market environment. From where we sit today, we expect pricing to begin normalizing sometime in the second quarter. As a result, continuing to proactively ensure we can earn competitive margins in any pricing environment remains one of our top priorities this year.

We're also going to make focused investments in technology and automation to further drive operational efficiencies and bolster our product development efforts in both segments. We'll continue to be opportunistic in exploring acquisitions that can strengthen our manufacturing capabilities, bring innovative product offerings to our catalog and further expand our customer base.

As market and macro conditions remain fluid, I'm not going to give too much specificity into future expectations. But what I will say is that we don't anticipate our growth this year being as linear as it has been over the past several quarters. We remain committed to executing on our strategy, excelling in the areas that we can control and trying to build value brick by brick.

Now I'd like to pass the call over to Chris to provide more details on our operations across both segments, but I'll be available later on to answer any questions. Chris, over to you.

Chris Hutter: Thanks, Ben, and thank you all for joining today's call. I'd just like to say that I'm honored by the Board's continuing faith in me, and I'm proud to be a part of the incredible Synalloy team. Ben and I have been deliberate in building an organization that we can profitably scale while working to fill it with talented people who share our goals and work ethic. I had the pleasure to get to know many of you personally over the past year or so, and I'm incredibly excited about what we'll accomplish together in the future.

As Ben mentioned, 2021 was a transformative year for Synalloy. We would not be in the position we are today without such hard-working personnel in both segments and a leadership team that is firmly committed to executing our strategic vision. I'd like to acknowledge everyone within our organization, along with our stakeholders, for their tireless support throughout this first full year of our turnaround strategy.

The momentum we've generated throughout the year continued in the fourth quarter as we close out the year reporting our third consecutive quarter of year-over-year growth in net sales, net income and adjusted EBITDA. Our efforts to drive operational efficiencies and better position the company commercially allowed us to further capitalize on the strong pricing environment we experienced in both segments. Additionally, our teams across the organization worked relentlessly to make timely deliveries to our customers despite supply chain challenges and labor constraints that impacted us throughout the quarter.

With that, let's dive deeper into operational reviews of each segment, starting with metals. This segment ended the year benefiting from the continued strong demand and pricing environment. Our business development team did an excellent job capitalizing on order flow with an increase in bookings across all product lines. This resulted in a 65% year-over-year increase in net sales for the fourth quarter. Additionally, through leveraging our enhancements we've made in our operations and cost structure, we were able to translate this top line growth into a more than 1,000 basis point improvement in our adjusted EBITDA margin.

When we embarked on our turnaround strategy, we envisioned our metals segment to be the premier solution provider in the industry through high-quality products, a top-notch customer experience, consistently providing on-time deliveries and operating the safest plants for our employees to produce material for our order book. We have continued to make this vision a reality throughout the year, and I'd like to note some of the incremental progress we made this quarter.

First and foremost is the health and safety of our employees. I'm happy to say that we continue to make significant strides on our safety statistics with a 21% decline in our total recordable incident rate during 2021. I expect this trend to continue, and our culture of safety first is fully embraced at all levels of the organization. Further enhancements to safety for this year include adding automation at high-risk workstations while transitioning these roles to other value-add responsibilities within our plants.

Second, we have made significant investment in our business development team and enhanced our focus on new business opportunities. As Ben alluded, shifting from a reactive to proactive culture is not easy. And I'd like to thank [John Mark], our Senior Vice President of Commercial Operations within metals for his tireless efforts on improving customer engagement as well as identifying new product growth ideas.

Our new commercial sales structure expanded both our business development team and customer service team while creating a new role dedicated to marketing and customer

experience. These changes are increasing new customer identification, expanding our direct relationships with customers and reducing our reliance on that and employee sales representatives to drive our commercial growth.

In addition to these commercial improvements, we also made strides in rolling out operational metric enhancements and expanded inventory visibility for our sales team to better capture spot sales opportunities. Examples include OEE dashboards, mill capacity reports and with backlog status all in an effort to ensure we deliver on time to customers. We are eliminating the proverbial blame game between commercial and operations by providing visibility and open communication between the teams and further aligning incentives to be consistent with our One Metals mantra.

In terms of where we stand today, Customer demand and bookings remain strong, and we have exceeded our shipping and production targets in this segment during the first 2 months of the year. We anticipate demand remaining elevated for the near future and a more normalized pricing environment once there is additional clarity about how the current global conflicts will impact nickel costing and supply. Additionally, we've been making a concerted effort to expand and streamline our footprint as well as increase our product offerings.

Looking at our current footprint, we expect to increase our production volume with the installation of an additional high-frequency mill and finishing equipment in 2022. Further, we are exploring the growth of our footprint to better locate products to our end distribution points and direct customer base. I look forward to sharing additional news as this initiative progresses.

Looking at our macro environment for 2022, we continue to monitor both headwinds and opportunities emerging in our end markets. As we mentioned on last call, we are closely watching outcomes around the world in regard to certain Section 232 tariffs being lifted. As a reminder, these tariffs are country-specific, and to date, only the U.K. and Japan have had modifications. However, as the situation unfolds, we could be affected by an increase of foreign supply in the back half of the year that may drive prices down from current levels.

Additionally, we are keeping a close eye on the situation in Ukraine given they are currently the ninth largest exporter of steel in the world, and this conflict has caused significant price swings in nickel values. Another large factor impacting nickel costs is the surging worldwide production of batteries, and we expect continued upward pressure on this raw material cost based on what we've seen thus far. Given the volatility in the macro environment these past few years, we are still focused on tightly managing our working capital and demonstrating consistent operational excellence regardless of market conditions.

Overall, I'm extremely pleased with the progress we made in this segment throughout 2021. We inherited a metals business that had stagnating growth and were generating low single-digit adjusted EBITDA margins. Since then, we have returned it to a state of

consistent profitable growth through significant operational and management level changes. The turnaround in results has proven there is a bright future ahead, and I look forward to capitalizing on its potential.

Now turning to our Chemicals segment. Our Chemicals business continued to grow as we experienced a 95% year-over-year increase in net sales for the fourth quarter of 2021 with approximately half of that coming from our DanChem acquisition. We continue to make pricing adjustments throughout the quarter to offset some of the operational challenges such as [trucking] shortages that have been persistent in our industry. However, with the pricing adjustments and the addition of DanChem in the fourth quarter, we were able to overcome these challenges and grow our adjusted EBITDA margin by 303 basis points.

I'm pleased to report that the integration of DanChem into our Chemicals segment has gone smoothly, and having John Zuppo at the helm has accelerated the implementation of our One Chemical team approach. John's past experience executing a highly successful turnaround strategy in this industry is evident, and we've been impressed with what he's been able to accomplish in just a few short months.

One of his main focuses has been converting our CRI business into a specialty chemical plant versus just utilizing this as a tolling facility. With our industry-leading reactor and [hot oil] system already in place CRI, we can sell significantly higher value-added services that come with an improved margin profile. Further, the breadth and depth of our equipment and capabilities across 3 sites now enables us to provide a broader range of product alternatives and manufacturing redundancies than many of our smaller competitors don't have. Furthermore, we have experienced noteworthy cross-selling between DanChem's customer base and our existing customer base that we expect to accelerate in 2022.

As we look at the overall chemicals market, we're continuing to see signs of strength starting off this year. Similar to our outlook for the metals segment, we believe that having a clear message of who we are is paramount. Our Chemicals business is focused on being a premier specialty chemical manufacturer utilizing our exceptional engineering and process design team to assist our customers solve complex chemistries.

With our go-to-market focus refined, we have also transformed our commercial team and new market experts under areas of focus, including case, pulp and paper, water treatment, additive, agriculture, oil and gas and construction and textile. But this refinement will primarily drive sales efficiency, and we believe it will lead to a significant funnel growth in 2023 and beyond.

Overall, we maintain high expectations for this segment. We believe the full benefit of the income in 2022, along with driving facility optimization and cross-selling opportunities, we will see more consistent improvements throughout the year. We expect to capitalize on this strength and further utilize our newly acquired resources to better optimize this segment and start capitalizing on new growth opportunities. We are

confident that our combined platform will continue to drive profitable growth into this year, and we look forward to sharing our progress along the way.

Across both segments, in terms of our operational focus for the year, we're going to be heavily focused on investing in technology and automation within our facilities to counter some of the pervasive wage inflation we're seeing as well as help offset any labor constraints that may arise in the future. We will be diligent and opportunistic when it comes to future acquisitions that can expand our capabilities, footprint and customer base while also looking to grow these areas organically. Most importantly, we will build upon a culture of high effort results-based performance to further empower our dedicated staff to continue executing at the highest level.

As Ben stated earlier, there is much to be proud of when recapping the year, but the hard work has only just begun as we continue executing our strategy. We will remain steadfast in our commitment to our shareholders to deliver long-term value, and we firmly believe that we are on the right path. I'd like to now turn it over to our CFO, Aaron Tam, to walk through our fourth quarter financial results in more detail. Then I'll return to answer any questions you may have. Aaron, the floor is yours.

Aaron Tam: Thank you, Chris, and good afternoon, everyone. Let's jump right into our fourth quarter financial results. Net sales increased 71% to \$95.7 million compared to \$55.9 million in the prior year period. The increase was attributable to a continuation of strong commodities pricing and adjustments made to our mix in the metals segment to better meet end market demand. It's important to note that our net sales for the fourth quarter of 2021 included \$5.7 million from the DanChem acquisition. Excluding this benefit, net sales increased approximately 61% compared to the same period last year.

Gross profit increased significantly to \$19.9 million compared to \$6.1 million in the fourth quarter of 2020, while gross margins increased 90 basis points to 20.8% from 11.0% in the prior year period. The improvement in both gross profit and gross margin was primarily attributable to the benefit from pricing power as a result of increased customer demand, along with operational efficiencies, to offset higher raw material costs.

Net income in the fourth quarter increased considerably to \$8.1 million or \$0.84 diluted earnings per share compared to a net loss of \$8.6 million or \$0.93 diluted loss per share for the fourth quarter of 2020. While the increase was primarily attributable to the strong net sales performance, net income for the fourth quarter of 2021 included a \$0.6 million benefit from the DanChem acquisition. Note that the prior year period also had a \$0.01 impact to diluted loss per share as a result of the rights offering compared to what we had previously reported.

Adjusted EBITDA in the fourth quarter increased significantly to \$14.9 million and adjusted EBITDA margin also improved 1,010 basis points to 15.5%, both compared to prior year period. Adjusted EBITDA for fourth quarter of 2021 included a \$1.1 million benefit from the acquisition of DanChem.

Lastly, looking at our liquidity position as of December 31, 2021, total debt was \$70.4 million compared to \$61.4 million at December 31, 2020, with the balance increasing due to the closing of the DanChem acquisition in October for a total purchase price of approximately \$33 million. As of the end of the year, we had \$39.4 million of borrowing capacity under our revolving credit facility compared to \$11 million at December 31, 2020. With that, I'll now turn it back over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) And your first question comes from the line of [David Sigfried].

Unidentified Participant: Congratulations, guys, impressive results.

Chris Hutter: Thanks, [David].

Ben Rosenzweig: Thanks.

Unidentified Participant: So I noticed you paid off a good chunk of the DanChem acquisition. Can that pace continue going forward with cash flow the way it is right now?

Chris Hutter: I would say our continued focus, David, is on working capital efficiency and improvement of our working capital throughput to pay down our revolving credit facility. So we would expect to continue to generate cash as we convert this pricing environment into receivables and, ultimately, cash.

Ben Rosenzweig: Right. And back to what I said before, David. it's tough to forecast and judge the business on a quarterly basis. So if you look at it that way, it's going to be tougher than maintain that linear progression. But I think if you look at larger chunks every 6 to 12 months, obviously, we're happy in the direction that it's going, and we would expect that to continue.

Unidentified Participant: Sure. Yes. Now the 3 domestic stainless steel producers are they still being disciplined with their stainless production? I mean I know there will be some pricing declines in the second quarter and going forward. But -- or is it like a decline or a collapse of pricing?

Chris Hutter: Well, I'm not sure I understand the question entirely. I can't speak to their discipline. We see continued strength in our order book and order volume. We are definitely operating in a very disciplined manner ourselves. So I don't think -- if your question is, is there going to be flooding a market of domestic stainless pipe and tube, I don't believe that would be the case.

Unidentified Participant: Got it. Okay. How is that going from the transition from being a producer and stockpiler to just being a producer?

Chris Hutter: It's been very welcoming for our mill operators as well as our customer base that can now count on product being delivered in a timely fashion. So when you run the business like it should be run as a mill and you're booking your mills out based on a production schedule, you can now fulfill your orders based on the order RFQ or PO process versus committing to a date and then not being able to fit into a production schedule because you're changing your production schedule consistently. So it's becoming a much more operationally efficient business to provide consistent throughput through our facilities.

Unidentified Participant: Okay. Now I noticed in the past DanChem had a customer who contributed some capital that they used to purchase equipment and build out capacity to produce our product. Is that something that could be a road map help with CapEx on the Chemicals side of the business going forward?

Chris Hutter: Yes. That's a strategy we're going to continue to implement and try to foster within the existing facilities we have. We actually have something that could be a unique opportunity, very similar to what DanChem's implemented within the Danville facility and a few of other facilities with our customer base now. So that is the strategy that John utilizes and it's a strategy that we would adopt as a team of Synalloy.

Unidentified Participant: Okay. beautiful. One last question. With the quarter -- first quarter almost over, any comment on the first quarter and how that's -- I guess you did make some comments already, but anything further?

Chris Hutter: I think I'll stick to those comments. It's -- given we're not providing guidance.

Operator: (Operator Instructions) We have your next question. from Mike Hughes with SGF Capital.

Mike Hughes: First, I wanted to start with the Chemicals business. If I back up at DanChem acquisition, it looks like it was about 300 basis points of margin erosion sequentially from the third quarter into the fourth quarter. And I assume that you referenced this as far as catching up with pricing because of the higher transportation costs and some other things. So how quickly can you recapture that? And remind me what the ultimate goal for that business is from a margin perspective.

Chris Hutter: Well, great question. I think I'll start off by answering the margin erosion with, obviously, not only logistics but also our raw material inputs for product in the fourth quarter. We've made significant changes within our procurement team. John's identified some weaknesses that we've since corrected and are now making modifications to make sure you don't get behind the supply chain curve into 2022 and going forward. So we expect to make that up during 2022. Regarding our margin profile of the business, we expect it to exceed what we delivered in 2021, but we'll not provide a specific number to the market.

Mike Hughes: Okay. But you think you can recapture the 300 basis points you lost sequentially from pricing in the core business?

Chris Hutter: Yes, I do.

Ben Rosenzweig: That's our goal. That's certainly our goal.

Mike Hughes: Okay. Okay. And then moving on to the welded stainless steel pipe business. Can you just speak to any issues with stainless steel availability?

Chris Hutter: Actually, availability is not that challenged at the moment. It's yet to be seen how the mill producers have any -- if they have any true nickel impact to their book of business. But we have no issues getting hot roll or cold roll availability out of our domestic ore for mills.

Mike Hughes: Okay. And the prior question alluded to a price decline. And I think you talked about maybe peak pricing in the second quarter. I just want to be clear on that. I assume all you're alluding to there is just the alloy surcharge being a very elevated level right now, and that might soften up. Is that what you're referring to?

Chris Hutter: Yes, that's primarily what we're referring to, correct. But some of our businesses outside of, obviously, welded stainless pipe and tube when you go into our heavy wall, which is more carbon-based products, follows more of the hot-rolled market more than a stainless or surcharge type market.

Mike Hughes: Okay. I mean hot-rolled steel has recovered because of the war in Ukraine. You're just assuming -- with that comment, you're assuming that, that's probably going to roll back over, too.

Chris Hutter: Correct.

Mike Hughes: Okay. Okay. That's fair and conservative. Second question. On that business, the past management team would talk about the specialty alloy aspect of that business, which was very small versus the 304 and 316 business. But the indication was the margins were like 4 to 5x of the 304 and the 316 business. And I think one of the drivers of that business was LNG projects. And just reading the headlines, it looks like we're going to see significant CapEx on the LNG front starting next year and beyond. So just any thoughts on that part of your business?

Chris Hutter: I mean I would say the overall tailwind from an infrastructure bill is going to help across all capital projects from LNG to chemical plants to refinery capacity. So obviously, our anti-corrosion material goes into a majority of those infrastructure-related projects. So we would expect to see some benefit from that.

And I would say and I would also add that the team we have today on the metal side has a much deeper metallurgical background than the prior management team. So I would

anticipate capitalizing on more complex grades of material and our ability to produce and weld it and deliver it defect-free to the market today versus years ago.

Mike Hughes: Okay. And then can you just speak to channel inventory? I'm not sure how great a handle you have on that, but any color you could kind of shed on what level of inventory the distributors are holding at this point, where it is versus historical levels?

Chris Hutter: I don't know exactly. Given I'm involved in no facts of a private distributor that I'm involved in the UPG side, I would say the inventory that they have are and relatively all-time lows. So I think broad-based, if you look at the public peers, whether it be Olympic or Ryerson or Reliance, I think all of your inventories are relatively disciplined on days on hand.

Mike Hughes: Okay. And then just one more on that business. You referenced market share earlier. I would assume it's rather difficult in this business to track your share, but do you have any comments on what you think is actually happening with your market share?

Chris Hutter: I would say, I don't think our market share is -- in terms of the total North American market has changed much as a percentage. I think we continue to earn a greater reputation or a better reputation of delivering product on a timely basis, which is a driver of demand. And I would say, given our talent shift, we are probably chipping away at a little bit more of the overall market, but I don't have exact statistics I can provide.

Mike Hughes: Okay. And then one last question for you just on the SPT business. Can you just speak to the level of the business in your Houston facility? I would assume that it's still well off peak levels, and that's an opportunity on a go-forward basis.

Chris Hutter: Yes. I think it is -- obviously, it's off of the historic we saw when there was significant rig in drilling 3-plus years ago, but it is starting to obviously pick up with the price of crude. And we are also expanding our SKU level there to carry more of our traditional inventory to deliver it closer to our end use base and distributor base versus just trying to supply SPT type material out of that facility.

Operator: We have your next question from Charles Gold with Truist.

Charles Gold: Congratulations. It's a fabulous report, and we appreciate your hard work. I'm very interested in nonrecurring expenses and whether we continue to put things behind us. I was disappointed that Dave Siegfried didn't ask about the earn-outs going away. That's a question that he's asked quarter after quarter. So in his honor, are we near the end of earnouts for some of the acquisitions that took place a couple of years ago?

Chris Hutter: Yes, Charles, the light is at the end of the tunnel. So...

Charles Gold: It's not another train, right?

Chris Hutter: Not another train. I think -- I believe, Aaron, if I'm wrong, there's 2 more payments than they should be done this year.

Aaron Tam: Right. We have -- we've got 2 different earnouts streams, 1 finishes actually here in the early part of the second quarter, and the other one has the last payment in July. And then we're done.

Charles Gold: Terrific. In the same vein, you've had several people leave that were -- had contracts and you paid them severance or whatever was due. Is that -- has that ended?

Aaron Tam: Yes.

Charles Gold: And then acquisition costs would be, I guess, another item that would be a onetime item unless you do some more acquisitions. Is that correct?

Ben Rosenzweig: Yes. DanChem.

Aaron Tam: Go ahead.

Ben Rosenzweig: That was me, Ben. I was just going to say DanChem did not have an earn-out structure. We do anticipate hopefully identifying targets that fulfill the needs and growth objectives of Synalloy and you would incur some additional by acquisition cost there, but there's nothing to announce on this call.

Charles Gold: And are all the quarters apples to apples? Or were there any accounting changes made? Because you had talked about taking the inventory aspect to make that less important. And I think an earlier question had to do with that, which I guess was David's question about producing for orders and not building inventory. So we're looking at apples and apples.

Aaron Tam: Yes. On that point, Charles, there's nothing of any real material change in the fourth quarter. We are making changes in the first quarter, dealing with -- looking at our material costs on a more of an actual cost basis as well as opposed to the way that we've done it in the past just to give us more clarity on the business and really help us even refine and take advantage of a lot of those price adjustments and price strategy that Chris and Ben had alluded to in their opening remarks.

But to your question, Charles, everything is always going to be viewed on an apples-to-apples basis. So should we make any teams in how we do things, it will be made retroactively as well for comparison purposes. So we're not trying to make any changes to somehow artificially enhance our earnings in a way that doesn't have the comparability. We're really doing this in order to run the business better. We believe that if we do this, it will help us match our pricing with our costs better. We'll be able to generate more sustainable and the higher level of kind of run rate revenue and cash flow, and then we'll be able to present that to our shareholders in an apples-to-apples fashion.

Operator: We have your next question from [Doug Loughlin].

Unidentified Participant: I was actually going to ask about the substantial cash generation. Yet the DanChem, you talked about potential targets. Is there a particular industry or sub industry that you're going to be targeting going forward for your acquisitions? And then I have a follow-up after that.

Chris Hutter: I mean obviously, regarding our acquisition strategy, we have our 2 segments. They need to fit within those segments. We're now looking outside our segments to add businesses. It would obviously be either a capability expansion, a footprint expansion or a product line expansion.

Unidentified Participant: And my next question was about international. Does the North American steel market kind of flow through? Does the price of the international market impact the domestic market because I'm seeing interesting headlines about Russian pipes being offline, impacting oil and gas? Does that mean pricing will improve domestically for you guys and things like this?

Chris Hutter: Yes. I mean, I would say, obviously, pricing is dictated by the cost of producing the material as well as any surcharge involved when I was speaking of a stainless-type pipe or tube Obviously, with international shipping, the cost to ship today is significantly different than it was 2, 3 years ago on bringing product in via port. So there's obviously a favored environment to produce domestically and be extremely cost competitive versus years ago. I don't know if I can answer the question about the Russian product because...

Operator: We have your next question from Arthur Byrnes with Deltec Asset Management.

Arthur Byrnes: Two relatively insignificant questions. One, you mentioned labor issues in the quarter, and I don't think anyone said anything more about that. Can you just say what that was all about?

Chris Hutter: Shortage Yes. I mean it's obviously, I think every business is -- this is Chris, is encountering a difficult labor environment. And we're thankful for the hard working men and women we have, but it's still hard to fill open positions, and we have plenty of open positions to -- for skilled labor. So it's a tough hiring environment. I think everywhere in North America.

Arthur Byrnes: So it's had some impact on you.

Chris Hutter: Yes. And then not that we're seeing significant COVID outbreaks, but you still have employees with lost man hours related to COVID and those related illnesses. So I believe we're still counting on a quarterly basis thousands of lost man hours related to unfilled vacancies or sickness.

Arthur Byrnes: Second question, on the rights issue, you raised \$10 million. Why did you need \$10 million in equity as opposed to borrowing it? Did you have some balance sheet issue that you're trying to correct or -- and if you're going to do a rights offering, why didn't you do \$30 million?

Ben Rosenzweig: Well, it's a great question, and this is Ben, by the way.

Arthur Byrnes: So I'm a friend of your friends.

Ben Rosenzweig: That's right. That's good to hear your voice again, already. So I appreciate it. and appreciate your interest. Obviously, capital allocation isn't an exact science. So the best we can do is work with the information that we have. In hindsight, what we have wanted to raise maybe more, maybe less at a higher price, certainly. But we viewed \$10 million with the visibility that we had at the time as a prudent use of capital because of the target leverage that we're hoping to achieve and the near-term cash flow generation that we expected.

We obviously want to be acquisitive. So we do believe that we're going to continue to make acquisitions that can additive to our business lines and creating additional value. So I would -- what I would say is we're very happy with our current capital position. There could be the opportunity to raise more capital further down the road should we have a very, very good or that we believe outearns its cost. And I think that there could be opportunities for that.

So what I will say is by doing it in the fashion that we did with the rights offering, we felt as though by limiting it to existing shareholders that it would actually be a little bit less dilutive also having an overallotment allocation so people could decide to subscribe for additional shares, that even though it might be a little bit dilutive to our value raising at \$12.75 when we thought we were worth a little bit more, that value would stay kind of in a closed loop among our current shareholders and hopefully still fortify our balance sheet should we decide to be more acquisitive than we expect.

Arthur Byrnes: Are you -- is your balance sheet rightsized at the moment?

Ben Rosenzweig: Yes, I feel very good about our balance sheet right now.

Operator: At this time, this concludes our question-and-answer session. I would now like to turn the call back over to Mr. Hutter for his closing remarks.

Chris Hutter: Thank you, Alexander. Well, we'd like to thank everyone for listening to today's call, and we look forward to speaking with you again when we report our first quarter 2022 results. Operator?

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.