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Q4 2019 Synalloy Corp Earnings Call

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CORPORATE PARTICIPANTS

Craig C. Bram *Synalloy Corporation - President, CEO & Director*
Dennis M. Loughran *Synalloy Corporation - Senior VP & CFO*

CONFERENCE CALL PARTICIPANTS

Charles Gold *BB&T Scott & Stringfellow - Senior MD*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Synalloy Fourth Quarter Earnings Conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Craig Bram, President and CEO. Please go ahead, sir.

Craig C. Bram ***Synalloy Corporation - President, CEO & Director***

Good morning, everyone. Welcome to Synalloy Corporation's fourth quarter 2019 Conference Call. Dennis Loughran, our CFO, will provide a review of the Q4 financials, and then I'll provide some comments on our business segments. We will then open the call to questions. Dennis?

Dennis M. Loughran ***Synalloy Corporation - Senior VP & CFO***

Hello, everyone. As usual, the financial results will be presented using 3 different methods: First, GAAP-based EPS; Second, adjusted net income, a non-GAAP measure as defined in the earnings release; And third, adjusted EBITDA, a non-GAAP measure also defined in the earnings release.

Fourth quarter GAAP-based net loss was $0.9 million or $0.10 diluted loss per share as compared with net income of $0.5 million or $0.06 diluted earnings per share in the fourth quarter of 2018. The majority of the decline in profitability took place in the Metals Segment, where despite a 5.5% year-over-year increase in pipe and tube shipments, operating profit declined $3.7 million due to several orders of competitive and surcharge related pricing declines, compounded by a weakened tariff-based pricing support since they're imposition in early 2018.

Other significant differences in year-over-year performance include: the American Stainless acquisition increased fourth quarter 2019 operating income by $0.7 million, with no comparable results in the prior year period. This January 1st addition to our welded pipe and tube portfolio certainly provided -- proved to be a strong addition that we expected, delivering consistent sales and profitability, while other sectors were experiencing soft markets.

Q4 of this year was favorably impacted by a $1.7 million dollars in mark-to-market valuation gain on investments in equity securities compared to a loss of $2.1 million in the fourth quarter of last year.

Q4 of this year contained $0.6 million inventory price change loss compared to the fourth quarter of last year, which incurred inventory price change losses totaling $0.2 million. The fourth quarter was substantially improved in the balance in pricing and inventory costs compared to the second quarter and third quarters where the majority of 2019's $6.4 million inventory pricing losses were incurred.

Q4 of this year included favorable net one-time adjustments and amortization and prior period manufacturing variances totaling $0.6 million compared to similar favorable impacts totaling $0.3 million in the fourth quarter of 2018.

Q4 of this year included the negative impact of $0.8 million of increased earnout accrual compared to the favorable earn-out adjustment of $0.8 million in the fourth quarter of 2018. The increase in projected earnout liability represents the present value of expected payouts under the Marcegaglia and ASTI acquisition agreements as a result of improved prognosis for sales from those units for the remaining contract periods.

Chemical sales slipped 5.5% compared to the fourth quarter of 2018, primarily related to significant access by customers to delay orders in managing their year-end working capital levels at the end of 2018. The decline produced a drop in operating income of $0.2 million as compared to the fourth quarter of 2018.

Fourth quarter non-GAAP adjusted net loss was $0.8 million or $0.09 diluted loss per share as compared with adjusted net income of $2 million or $0.22 diluted earnings per share in the fourth quarter of 2018.

Fourth quarter non-GAAP adjusted EBITDA totaled $2.5 million or 3.7% of sales compared to prior year's fourth quarter adjusted EBITDA of $5.9 million or 8.1% of sales.

The combined adjusted EBITDA as a percentage of sales for the operating businesses in the fourth quarter was 6%, down from the prior year's fourth quarter of 10.5%.

Company had $75.6 million of total borrowings outstanding with its lender as of December 31, 2019. Since January 1, 2019, when company borrowed $22.7 million to fund the American Stainless acquisition, of which $20 million was term loan and $2.7 million was against our company's line of credit, the company has reduced borrowings by $20.9 million, $3.7 million against the term loan and $17.2 million against the line of credit.

This was accomplished while also paying down acquisition rate earn-out payments of $4 million through a concerted year-long focus on inventory reduction and other working capital management. The calculated ABL facility remaining availability as of December 31, 2019, was approximately $13.4 million.

I'll now turn the call back over to Craig.

Craig C. Bram *Synalloy Corporation - President, CEO & Director*

Thank you, Dennis. The coronavirus has been front and center news for several weeks now. So let me start by commenting on the impact that we are seeing in our respective businesses. With the Chinese economy under pressure, base metal prices have fallen by double-digit percentages since the end of 2019. Nickel prices are down 10% and surcharges are down by between 15% and 17%. Oil and gas prices have been under pressure as well with the WTI price up more than 23% since year-end. With the outlook for a weakening global economy, there is a fundamental oversupply of oil and gas that will likely not reverse in the near term. The supply of raw materials to the metals and chemical units have not been an issue. We have limited exposure to raw materials and other supplies that are produced overseas. And do not anticipate any shortages that would be detrimental to our production goals. One of our galvanized customers has had difficulty securing raw material from China for their European operation and has increased their tonnage with our Munhall facility. We'll have to see how long this additional tonnage last. We've also purchased a new acid regeneration system for the Munhall operation that will be coming from a manufacturer in Italy. We expect the delivery may be delayed, but we have adequate capacity to meet our pickling requirements in the meantime.

In preparing our forecast for 2020, we projected a flat to marginally down year in terms of volume and pricing, much like we experienced in the second half of 2019. Our forecast does not reflect the manufacturing recession. The exception to this thinking is the Palmer operation. At Palmer, our forecast calls for volume comparable to what we realized in 2016, and we have rationalized our cost structure there accordingly. We also anticipated normalized inventory levels in the welded stainless steel pipe and tube distribution channel. That has been confirmed by several of our largest customers. However, should the virus become a greater threat to the domestic economy, the chance of a recession increases and our forecast would most certainly be negatively impacted.

In Q4 of last year, we instituted a cost-cutting program to better position the company for a weaker industrial economy in 2020. Excluding the cost-cutting effort at Palmer, over $6 million in annual savings have been implemented as of January 1st. Headcount reductions and other personnel-related savings accounted for $2 million. Material and supply savings totaled almost $3 million, and the balance of $1 million came from reductions in professional fees, business insurance and other savings. During Q1, we identified another $1.5 million in potential savings that we are currently pursuing.

I'm pleased to report that the repairs of the heavy wall press at Bristol have been completed. And the equipment is fully operational. We will get started on the heavy wall, quick turn backlog this month and look forward to a contribution from this product line during the balance of 2020.

Through February, profits for both the Metals and Chemical segments are running ahead of the 2020 forecast. Bookings in the Metals Segment have also exceeded the forecast. We have several promising new products in development in the Chemical unit.

We'll now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Charles Gold with BB&T, Scott & String.

Charles Gold ***BB&T Scott & Stringfellow - Senior MD***

About 20, 25 minutes ago, there was a press release that Privet had increase their holding by, I believe, 314,000 shares and owns over 1.5 million shares. Could you comment on that? And have you had any contact with them in the last month?

Craig C. Bram ***Synalloy Corporation - President, CEO & Director***

Charles, we saw the filings last night, both the Privet filing and the UPG filing. Between the 2 of them, they filed as a group, and they now own 25% of Synalloy's outstanding shares. We have not had any contact with Privet since December 5 or 6. So at this point, we have not spoken with them since their most recent filings.

Charles Gold ***BB&T Scott & Stringfellow - Senior MD***

Could you elaborate on up UPG?

Craig C. Bram ***Synalloy Corporation - President, CEO & Director***

UPG owns 723,000 shares. They own roughly 8% of the company now. Obviously, the heavy volume that we've seen in our stock trading in the last several weeks has been UPG. And then in the last 3 days, it's been Privet. And we have not spoken with those folks either. They look like a privately held holding company for primarily steel businesses. And beyond that, I don't know anything about.

Operator

(Operator Instructions) And I'm not showing any further questions at this time. I will now turn the call back to Craig Bram for any further remarks.

Craig C. Bram ***Synalloy Corporation - President, CEO & Director***

We thank you for your interest in the company and look forward to sharing more details with you in the future.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.