

Synalloy Corporation NasdaqGM:SYNL

FQ2 2021 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

Table of Contents

Call Participants	3
Presentation	4
Question and Answer	8

Call Participants

EXECUTIVES

Benjamin Rosenzweig

Christopher Gerald Hutter
Interim President, CEO & Director

Sally M. Cunningham
Senior VP & CFO

ANALYSTS

Michael E. Hughes
SGF Capital Management, LP

ATTENDEES

Cody Cree
Gateway Group, Inc.

Unknown Attendee

Presentation

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Synalloy's financial results for the second quarter ended June 30, 2021. Joining us today are Synalloy's Chairman of the Board, Ben Rosenzweig, Interim President and CEO, Chris Hutter; CFO, Sally Cunningham; and the company's outside Investor Relations adviser, Cody Cree. Following their remarks, we'll open the call for your questions. Before we 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-looking statements. Cody, please go ahead.

Cody Cree

Gateway Group, Inc.

Thanks, Laurie. Good afternoon, and thank you all for joining our conference call to discuss Synalloy second quarter 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 the 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 the 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 a 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 Chairman of the Board, Ben Rosenzweig. Ben?

Benjamin Rosenzweig

Thank you, Cody. I'd like to start by saying how appreciative I am to be here at Synalloy. As Chris and I have said all along, we think Synalloy has incredible potential and are confident that with the right strategy, personnel and oversight, this company will do great things to benefit all stakeholders.

It begins with our employees, and we've made a concerted effort to invest in our talent, starting by bringing in experienced leaders from outside the organization who were confident can best position our incredibly skilled and loyal team members for success. I've truly enjoyed seeing our workforce react enthusiastically to these changes and the energy is palpable as we continue to professionalize the organization and drive a cohesive will to win attitude across all of our facilities.

I'd also like to reiterate what Chris has stated in the past. We're not just here to fix. We're here to grow. This year has been about getting back to basics with our new team focused on identifying and executing on the building blocks of our future operational success that we've made great strides in quickly rightsizing our cost structure and we'll remain mindful of our expenses moving forward. We're not in cost-cutting mode. We're simply establishing a culture of scrutinizing our expenditures to make sure we're getting max benefit out of every dollar.

There's a tremendous amount of potential value in our businesses, and the bulk of that will be realized in our being a best-in-class operator, capable of continuing to grow share with our loyal customers. We won't hesitate to spend money on targeted well-vetted growth initiatives that deliver value to the marketplace and provide an attractive risk-adjusted return. My hope is that our strategic growth can be achieved by

surrounding ourselves with principled and motivated leaders and giving them every resource they need to be successful.

We're committed to inclusive, data-driven decision-making and believe in driving a pervasive ownership mentality throughout the organization, where aligned incentives and transparency breed a culture of accountability.

I'm excited by the opportunity we have in front of us and proud of what the team has been able to accomplish so far.

We're building this company for the long term. While there's still lots of work to do, I genuinely believe we're taking the right measures to set Synalloy up for lasting success.

Now I'd like to pass the call over to Chris and Sally, and I'll be happy to rejoin at the end for questions. Chris?

Christopher Gerald Hutter
Interim President, CEO & Director

Thanks, Ben. Good afternoon, everyone, and thank you for joining today's call. I'm pleased to report that the second quarter showed nice improvement as we continue to progress on our journey towards consistent, profitable growth and sustained shareholder value creation. I am honored to have the opportunity to lead this exceptional team, and I am proud of the advancements we've made during the first half of 2021.

Those who know me know that I'm never satisfied, but the progress we made strengthens my confidence in our ability to be successful in building a company that can provide durable value to all of our stakeholders. In Q2, we achieved a second consecutive quarter of sequential increases in net sales across each of Synalloy's business segments. We also reported improvements in profitability driven by rebounding customer demand, a strong raw materials market, our continued efforts to improve quality and driving down costs through process efficiencies. And these improvements helped deliver notable increases to our net income, adjusted EBITDA and adjusted EBITDA margin both on a year-over-year and sequential basis.

From a strategic and operational standpoint, we're continuing to refine throughputs in an effort to optimize customer demand with our production schedule and expect to see reductions in earnings volatility as we execute on our operational improvement plan. We believe our operations planning and margin enhancement initiatives will ultimately work to minimize the fluctuations our input costs have on our profitability.

Now I'll dive a bit deeper into each of our segments. During the quarter, our Metals segment benefited from a continued strong commodities pricing environment and overall demand tailwind. We also made steady safety and operational enhancements throughout the segment to lay the foundation for long-term growth and success. As previously announced, Tim Lynch took the helm of this segment in late April, and we are proud of the progress he has already made as he ramped into his role. Tim has done an incredible job of assembling a proven and capable team in a short period. And I'm very excited about the initiatives and operating procedures they have begun to implement.

Part of the initiatives include a revised vision and mission for our Metals segment that I would like to share. Our metals vision is to be the premier solution provider through best-in-class safety, quality and customer experience while creating value for all team members and stakeholders. Our metals mission is to safely produce best-in-class quality while improving on-time delivery, efficiency and financial performance.

I'm proud that everyone within our Metals segment had the opportunity to contribute to our revised vision and mission, and I couldn't be prouder of the team.

Additional Q2 highlights for the segment include the implementation of a safety summit, baseline and standardization of efficiencies as well as measurements of all aspects of our sales and production processes. Tim and the entire Metals team are drawing the road map to success and Q2 provided evidence

that the changes are working. The team is working tirelessly to build a Metal segment that focuses on results through communication, transparency and accountability. The combination of these will deliver consistent growth, profit and opportunity for all stakeholders.

In our Chemicals segment, net sales grew slightly despite challenging year-over-year comps given the unprecedented demand for hand sanitizer that accompanied the on-site of the pandemic in the year ago quarter. We also experienced operational challenges due to labor constraints and product shipment delays related to trucking shortages, which weighed on the segment's profitability.

To combat these challenges, we implemented price increases later in the quarter but we will not see the full benefits realized until the back half of the year. We are taking proactive measures to better realize the opportunity in chemicals, including the appointment of Dave Kuzy as the Executive Vice President of the segment.

Dave is not only a seasoned executive with C-suite experience in multinational chemical companies, but he has a proven history of cultivating teams built upon the principles of culture, safety and accountability. I'm excited to have Dave on board and look forward to seeing our Chemicals segment grow and thrive under his leadership.

Additionally, we recently expanded our executive team with the appointment of Doug Tackett, as Synalloy's Chief Legal Officer. Doug brings decades of experience in corporate law and governance, including with public companies such as support.com and StarTek. We are confident in Doug's ability to guide our executive team and Board of Directors in all legal and commercial matters and firmly believe his expertise will be a crucial asset.

While there is certainly room to continue to expand and improve our management team, particularly in roles supporting our commercial group and operations, I am proud of the progress we have made in upgrading our talent during the first half of the year. We will continue to leverage the collective knowledge and experience of our high-performing team members, including both the recent appointments and our experienced contributors.

I firmly believe that we can't be successful without surrounding ourselves with A talent, and it feels good to see the team's efforts begin to bear fruit. I invested in Synalloy and joined this company with a vision for what it could become. And we are just beginning the process to turn that vision into a reality.

Although we still have much to do, I am thankful for the contributions from every member across our organization, and I firmly believe we are establishing a strong foundation that will enable us to build towards our vision for Synalloy's future. Sally, over to you.

Sally M. Cunningham
Senior VP & CFO

Thank you, Chris, and good afternoon, everyone. Second quarter 2021 net sales increased 26% to \$83.1 million compared to \$66.1 million in the prior year period. The increase was attributable to a strong performance in our Metals segment, which benefited from price increases improved operational throughput and rebounding demand.

Gross profit increased 220% to \$14.1 million compared to \$4.4 million in the prior year period. while gross profit margin more than doubled to 17% from 6.6% in the prior year period.

The improvement in both gross profit and gross profit margin was attributable to the increased pricing and surcharges that benefited net sales during the quarter, along with better operational efficiencies that accompanied the higher volume.

Net income in Q2 was \$2.9 million or \$0.31 diluted earnings per share, which is a considerable improvement from the net loss of \$7 million or \$0.77 diluted loss per share in the second quarter of 2020. Excluding the impacts from 2020 associated with exiting the Palmer business, net income in the second quarter improved \$1.9 million from the prior year period.

Adjusted EBITDA in Q2 increased more than 4x to \$9.8 million, and adjusted EBITDA margin also improved 880 basis points to 11.7% both compared to the prior year period. Lastly, looking at our liquidity position as of June 30, 2021, total debt was \$59.5 million, compared to \$61.4 million at December 31, 2020, with \$45.5 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.

Question and Answer

Operator

[Operator Instructions] And our first question will come from [David Sigfreud], investor.

Unknown Attendee

Congratulations, guys, on your second consecutive quarter of net income, debt reduction and operating efficiencies, really nice to see.

Christopher Gerald Hutter

Interim President, CEO & Director

Thanks, David.

Unknown Attendee

Question. So capital expenditures, are those still expected to be \$4 million or less for this year?

Christopher Gerald Hutter

Interim President, CEO & Director

Yes. As you can see, we're tracking significantly below that number, and I anticipate that we'll be nowhere near the \$4 million as we originally projected.

Unknown Attendee

Got it. I noticed there is, I think, a \$632,000 cash expense related to the proxy contest. Could you explain a little bit about that?

Christopher Gerald Hutter

Interim President, CEO & Director

Ben, do you want to take that?

Benjamin Rosenzweig

Yes, sure. Well, I think I don't want to speak for the independent directors, but that was a reimbursement for Privet and UPG from the proxy contest. So the reason that we sought reimbursement is because we placed highly qualified directors on the Board as well as being able to bring in Chris as CEO. So we think that, that's worked out well. And the Board gave it a little bit of distance to evaluate whether that was still a good investment for the shareholders and they determined that it was. So that was something that was accrued for in the second quarter and it will be paid out in the third quarter.

Unknown Attendee

Got it. And then after third quarter, that's -- that close the books on that?

Benjamin Rosenzweig

Correct.

Unknown Attendee

Okay. Good. All right. Getting product produced our the door and delivered on time in the Metals segment, it looks like there's improvement there. Is there still room for more improvement?

Christopher Gerald Hutter

Interim President, CEO & Director

Yes, there's definitely room for more improvement on the flow-through and efficiency side. I would say our supply chain team is definitely working very well with matching inbound customer orders via through mill coordination on the master coil and through our production efficiency processes through the mills and then finished goods. I think we're in the sixth or seventh inning on getting a great process put in, but we're definitely significantly further along than we were in the last quarter. And to speak at some specific details on that is our on-time delivery is at the highest level that it's been in the last -- at least 1 year. So we're definitely making significant strides on getting product delivered on time to our customers.

Unknown Attendee

Excellent. Is the backlog still growing?

Christopher Gerald Hutter

Interim President, CEO & Director

Backlog is very robust.

Unknown Attendee

Question regarding inflation. Now with the price of materials, it seemed like maybe that hit chemicals a little bit. But -- can we continue to pass on these increases to customers? Or is there a point where it begins to hurt the margins?

Christopher Gerald Hutter

Interim President, CEO & Director

Yes. It's -- we've pushed as -- again, the elasticity we've tested definitely on our pricing I would say more so in the metal side than our chemical side, and we were behind the 8 ball on increasing our chemicals prices as fast as we should have and have caught up with that process now. But we are not seeing any significant pushback from our customers on pricing. They're more concerned about can they get the product in the door to make whatever they're making and deliver their product to their customer. So it's definitely an interesting market.

Unknown Attendee

Yes. Okay. Is the team getting closer to putting out a strategic plan?

Christopher Gerald Hutter

Interim President, CEO & Director

Yes. I mean we're definitely working on a strategic plan, as you heard on the call with our vision and mission within metals, I think we're definitely closer in the Metals segment than our Chemicals segment. But that is something that we hope to announce here on a complete holistic strategic road map to deliver to shareholders in the next few quarters.

Unknown Attendee

Okay. Some of the competitors mentioned the strong business cycle, we thought would spill over into 2022. And that if infrastructure is passed there'd be a strong 2023 and beyond. So do you kind of see that with Synalloy as well?

Christopher Gerald Hutter

Interim President, CEO & Director

I would definitely echo that. But I always say we're such a small component of the market globally in terms of what Synalloy produces, and there's always ways we can gain market share regardless of the demand cycle of the macro environment. So I mean, we're building a team that is willing to capture market share in every market cycle. And truly, as Ben mentioned, we have the will to win. So we're building just a different culture, different mentality. We're not going to blame pricing or market on our performance. We are really trying to be the authors of our future success based on the metrics we put in place.

Unknown Attendee

Got it. Well, congratulations, again, excellent quarter.

Christopher Gerald Hutter
Interim President, CEO & Director

Thanks, David.

Operator

[Operator Instructions] Our next question is from Mike Hughes of SGF Capital.

Michael E. Hughes
SGF Capital Management, LP

Can you start out by just talking about the specialty pipe and tube business, the master distribution business? I think most of that business is in Houston and Ohio and if you're seeing any variances and then just overall strength in that business.

Christopher Gerald Hutter
Interim President, CEO & Director

Yes, it's a great question. Obviously, that's a business where we are a distributor of heavy wall seamless pipe and tube. The Houston market in the first half of the year, obviously, was continued to be impacted by rebounding oil demand. We are seeing a significant pickup in that business, specifically related to the Texas distribution side. And the Ohio market with the Midwest has been very robust with the applications that materials going into think of hydraulic applications, construction equipment, high-pressure applications, valves, fitting. So anything related to a rebounding economy, they're definitely seeing a tailwind there.

Michael E. Hughes
SGF Capital Management, LP

Okay. So you expect that strength to continue into the back half?

Christopher Gerald Hutter
Interim President, CEO & Director

Yes, we do.

Michael E. Hughes
SGF Capital Management, LP

And do I remember correctly that, that business carries a very high EBITDA margin?

Christopher Gerald Hutter
Interim President, CEO & Director

It carries a very relatively healthy defined high. I think it's a healthy EBITDA margin. I think we're making strides into, again, refining our supply chain process within that business by refining the number of SKUs we have on hand, truly identifying A, B, C, D items and an overall implementation of a new inventory program, which we've implemented and have seen our inventory days reduced significantly to better align supply with demand.

Michael E. Hughes
SGF Capital Management, LP

Okay. And then on the BRISMET and Munhall business, did you disclose what the volume did in either pound -- I guess, using the metric of pounds on a year-over-year basis?

Christopher Gerald Hutter
Interim President, CEO & Director

Sally, do you have those numbers by chance?

Sally M. Cunningham

Senior VP & CFO

I do. We did -- I just have it at the Metals segment. Metals as a whole year-over-year, we were up on pounds at 21%.

Michael E. Hughes

SGF Capital Management, LP

And Chris, did you quantify where the backlog was just in percentage terms versus the end of the March quarter? Was it actually up prior to surcharges?

Christopher Gerald Hutter

Interim President, CEO & Director

Backlog is up in the areas where we wanted to be up in terms of the customer profile that we're going to be looking for going forward. So without getting into significant detail, backlog in general is up, but we're changing the mix on the end use profile of where we expect our backlog to be delivered.

Michael E. Hughes

SGF Capital Management, LP

Presumably to optimize margins.

Christopher Gerald Hutter

Interim President, CEO & Director

That would be correct.

Michael E. Hughes

SGF Capital Management, LP

Okay. On to the chemicals business, what will it take until the fourth quarter to get back to kind of a more normalized EBITDA margin for that business?

Christopher Gerald Hutter

Interim President, CEO & Director

I hope sooner than that. I'm giving Dave some benefit of the doubt, he's really coming into a situation where he's got to build a team, get operational excellence and really understand the book of business I think having been in the chemical side, I was new to chemicals and starting to turn over leaves and understand it.

We provide a highly value-added process and product to many, many customers in most Fortune 500 type names on the Chemicals business. So I don't think we've been charging enough in terms of the value we are providing to our customers and the prices that we're asking for it. And the changes of that started really in end of Q2 and we're seeing complete acceptance from the customer base on a new pricing strategy.

Michael E. Hughes

SGF Capital Management, LP

Beyond leveraging the corporate overhead costs, what are the real synergies of having the Chemicals business along with the metals business?

Christopher Gerald Hutter

Interim President, CEO & Director

I mean when you look at the overall spend on vendors, I mean, there's synergies within the expense side, whether it be uniforms, whether it be certain raw material inputs, everything from logistics. I like the

business because it should have a healthier margin in my opinion, than metals. We just have to go capture it.

Michael E. Hughes

SGF Capital Management, LP

Okay. And then last question for you. Remind me, are you on LIFO or FIFO accounting?

Christopher Gerald Hutter

Interim President, CEO & Director

Sally, do you want to take that? It depends on I think on a tax basis or not.

Sally M. Cunningham

Senior VP & CFO

We are on -- technically, we're on neither.

Michael E. Hughes

SGF Capital Management, LP

Okay. So -- how do you -- is it a weighted average cost? How does your inventory costs? How do they flow in?

Sally M. Cunningham

Senior VP & CFO

Sorry, it's standard costing. It's a standard costing.

Operator

At this time, this concludes our question-and-answer session. I would now like to turn the call back over to Mr. Hutter, Synalloy, Interim President and CEO, for closing remarks.

Christopher Gerald Hutter

Interim President, CEO & Director

Thank you, Laurie. Again, I'd just like to thank all of our employees for their efforts that contributed to what I would say is a significantly improved performance in this quarter. I do look forward to our continued success in the second half of the year and believe we can capture it.

I also like to thank everyone on this call for listening. We look forward to speaking with you again when we report our third quarter 2021 results in November.

Laurie, over to you.

Operator

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

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