

Transcript of TechPrecision Second Quarter 2019 Earnings Call November 13, 2018

Participants

Brett Maas - Hayden Investor Relations
Alex Shen - Chief Executive Officer
Tom Sammons - Chief Financial Officer

Analysts

Ross Taylor - ARS Investment Partners
Richard Greulich - REG Capital Advisors
Mark Gomes - Pipeline Data

Presentation

Operator

Greetings and welcome to the TechPrecision Second Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions].

It is now my pleasure to introduce your host, Brett Maas from Hayden IR. Thank you. You may begin.

Brett Maas - Hayden Investor Relations

Thank you. On the call today is Alex Shen, Chief Executive Officer; and Tom Sammons, Chief Financial Officer. This call is also being simulcast on the company's website, techprecision.com.

Before I begin, I'd like to remind our listeners that management's remarks may contain forward-looking statements, which are subject to risks and uncertainties, and management may make additional forward-looking statements in response to your questions. Therefore, the company claims the protection of the Safe Harbor for forward-looking statements as contained in the Private Securities Litigation Reform Act of 1995.

Actual results may differ from those discussed today, and therefore, we refer you to a more detailed discussion of risks and uncertainties in the company's financial filings with the SEC. In addition, projections as to the company's future performance represent management's estimates as of today, November 13, 2018. TechPrecision assumes no obligation to revise or update these forward-looking statements.

With that out of the way, I'd like to turn the call over to Alex Shen, Chief Executive Officer, to provide opening remarks. Alex?

Alex Shen - Chief Executive Officer

Thank you, Brett. Good day to everyone, and thank you for joining us. The second quarter of fiscal year 2019 was profitable. Net income was \$181,000, or \$0.01 per share basic and diluted compared to net income of \$368,000 in the year ago quarter, or \$0.01 per share basic and diluted.

Our results for the second quarter were highlighted by improved gross margins and higher overhead absorption when compared to the first quarter of fiscal 2019. At the end of the second quarter of fiscal 2019 we returned to target levels of project activity, driven by successful management planning and execution, working closely with clients on specific projects that have longer build cycles.

As a reminder for everyone, at the beginning of our fiscal year we adopted the new revenue recognition guidance issued by the Financial Accounting Standards Board. Under this guidance, we adopted a new revenue recognition model that allows us to recognize revenue over the duration of most of our customer contracts.

Now I'd like to turn the call over to Tom for more about our second quarter financial results. Tom?

Tom Sammons - Chief Financial Officer

Thank you, Alex. Net sales for the second quarter of fiscal 2019 were \$3.6 million, or \$1 million lower when compared to the same quarter a year ago. In the second quarter, net sales in our defense and energy markets decreased by \$0.5 million each when compared to the same quarter a year ago. The slower order flow from fiscal 2018 and a shift in production products with increased cycle times resulted in lower revenue levels during the second quarter.

Our cost of sales for the three months ended September 30, 2018, was \$2.5 million compared to \$3.2 million for the three months ended September 30, 2017. Gross profit decreased by \$0.3 million for the three months ended September 30, 2018, when compared to the three months ended September 30, 2017. Cost of sales and gross profit decreased because of the lower revenue levels.

As Alex mentioned, we returned to targeted levels of production during the second quarter, and gross margin improved to 30.2% for the three months ended September 30, 2018. The increased manufacturing activity has resulted in lower unabsorbed overhead.

Selling, general and administrative expenses increased by \$31,000 for the second quarter ended September 30, 2018 when compared to the same quarter a year ago, primarily due to an increase in share-based compensation in connection with executive stock option grants. Interest expense decreased by 10% and should continue to decrease as we amortize debt principal.

Net income was \$181,000, or \$0.01 per share basic and diluted compared to net income of \$368,000 in the year ago quarter, or \$0.01 per share basic and diluted. For the six months ended September 30, 2018, net sales decreased by \$2.7 million or 26%, to \$7.7 million when compared to \$10.4 million for the six months ended September 30, 2017.

Our cost of sales for the six months ended September 30, 2018 was \$5.6 million compared to \$7.2 million for the six months ended September 30, 2017. Gross margin was 27.8% for the six months ended September 30, 2018.

Total SG&A expenses for the six months ended September 30, 2018 decreased by approximately \$159,000, due primarily to a decrease in compensation expense and outside advisory fees when compared to the six months ended September 30, 2017. Interest expense decreased by 11% for the six months ended September 30, 2018 and should continue to increase as we amortize debt principal.

For the six months ended September 30, 2018, our net income was \$345,000, or \$0.01 per share basic and fully diluted compared with a net income of \$793,000 or \$0.03 per share basic and fully diluted for the six months ended September 30, 2017.

Fully diluted earnings per share is based on an average weighted share count of approximately \$30.2 million and \$30.1 million for the second quarter and the year-to-date periods, respectively. Our backlog at September 30, 2018, was \$12.1 million compared to \$14 million at March 31, 2018.

Turning to the balance sheet. Our working capital increased by \$380,000 to \$5.3 million at September 30, 2018, compared to \$4.9 million at March 31, 2018. We finished the quarter with \$1.4 million in cash at September 30, 2018.

Cash used in operations for the six months ended September 30, 2018 was \$683,000. The year-to-date period was marked by an increase in manufacturing activity, which resulted in more cash expended to ramp up new projects, offset in part by cash collected from customer milestone payments.

Net cash used in investing activities and in financing activities was \$228,000 and \$377,000, respectively for the six months ended September 30, 2018.

With that, I will now turn the call back over to Alex. Alex?

Alex Shen - Chief Executive Officer

Thank you, Tom. Since my arrival at Ranor in June of 2014 we crafted, implemented and continued to execute a long-term strategy to focus on core customers where Ranor can truly add value by meeting high precision, specification driven customer requirements. These core customers are in the defense sector and in the nuclear sector, and opportunistically in the precision industrial sector.

Our implementation continues successfully. Ranor is proud and honored to serve the United States defense industry, predominantly the U.S. Navy, on the Virginia class submarine, on the Ohio replacement Columbia class submarine and on aircraft carrier. For fiscal year 2018, defense revenue was 84%. Our defense customers continue to emphasize the need for Ranor to be a stable and viable player within their supply chain in order to support our U.S. Navy submarine and other programs over the next three decades.

In response, the management team, with our teams of craftsmen, have worked effectively to maintain a sharp focus on tactical execution to fulfill our strategy, enabling us to meet customer expectations, resulting in sustained core customer confidence. This sustained core customer confidence is expressed in new orders.

As I have stated on previous earnings calls, we expect a strong pipeline of business from our defense customers. Specific new orders continue to be fulfilled, as we added \$8.9 million in new orders since July 1, 2018. This enabled us to grow our backlog from \$12.5 million at June 30, 2018 to \$16 million at October 31, 2018.

The path forward with our core customers remains clear in our drive towards top line growth and bottom line profitability. I would now like to open up the call for questions and answers.

Operator

Thank you. Ladies and gentlemen, we will now be conducting our Q&A session. [Operator instructions]. Our first question comes from the line of Ross Taylor from ARS Investment Partners. You are now on line.

Q: Thank you. Alex, you said a lot in very few words, which is often the way you operate. I picked up a number of things I'd like to follow up on. First, you specifically referenced the fact that you are now producing items, products for an aircraft carrier. That's a completely new line of business in the last couple of years for you guys? That's a question.

Alex Shen - Chief Executive Officer

I acknowledge the question. Ranor has been on aircraft carrier before, and you are correct, this is the first time I mentioned an aircraft carrier now in the 4.5 years I've been at Ranor.

Q: Okay. So that's obviously a really nice positive move, to be moving away from just submarines. Can you tell us whether that's with the parent company of the New England sub builder or is it the one who builds subs further south?

Alex Shen - Chief Executive Officer

I can tell you that aircraft carrier is built by one shipyard, Newport News.

Q: Okay, cool. Fantastic. That's great to see. Also you referenced the fact that you are looking—when you referenced your DoD business, you said predominantly Navy. That indicates that you have business with other service branches as well, which is not something that I can recall you guys having done recently.

Alex Shen - Chief Executive Officer

That's not something I can talk about right now.

Q: Okay. I'll take that as a yes. You and I've learned to work together. Additionally, you talked about the idea you have—you referenced specifically nuclear at this point in time. Are you currently doing work for or bidding for work with the Department of Energy specifically perhaps in the nuclear containment vessel area?

Alex Shen - Chief Executive Officer

No.

Q: Do you anticipate doing business in that area?

Alex Shen - Chief Executive Officer

That would be skirting awfully close to forecasting.

Q: No. It would simply be indicating the fact that you believe that you have revenue opportunities in that area. It appears that the DoE has been very slow playing a need to build the capability to move nuclear materials. So I'm really trying to get the idea of you have done that for them in the past, or Ranor has done that for them in the past. It's an area you have the expertise and you actually have the proper paperwork, which many people have let lapse, and so I'm trying to get an understanding of—how close to being front-burnered is that with the DoE?

Alex Shen - Chief Executive Officer

It's not on my front burner.

Q: Okay. I assume that that's an area that has potential backlog or potential opportunities equivalent to perhaps some of the business you're doing with the DoD, so when that moves forward with the DoE, I think it would be great for us to perhaps have some form of press release around it. As I said, eventually those materials do have to be moved and stored, and so my guess would be that there's a clock ticking there? Pause for effect, Alex. I will pass on to other people with the opportunity of coming back later if I think of other questions.

Alex Shen - Chief Executive Officer

Thank you very much for your support.

Q: Thank you.

Operator

Thank you. [Operator instructions]. Our next question comes from the line of Richard Greulich from REG Capital Advisors. You're now live.

Q: Thank you. I was a little confused about the backlog numbers. So the backlog at the end of September 30 was what?

Tom Sammons - Chief Financial Officer

\$12.1 million.

Q: Okay. It was \$12.5 as of the end of June, and it was \$16 million at the end of October.

Tom Sammons - Chief Financial Officer

Correct.

Q: So, the \$4 million or \$5 million, I guess, of new orders in October, were those for early material purchases or are those part of more of a regular?

Alex Shen - Chief Executive Officer

I'm unable to comment on that at this time.

Q: Okay. And were those orders primarily in the defense area?

Alex Shen - Chief Executive Officer

I'm unable to comment at this time.

Q: Okay.

Alex Shen - Chief Executive Officer

Our core customers are in the defense and nuclear sectors, opportunistically in the precision industrial sector.

Q: Okay. Is everything in the backlog likely to be shipped and revenue recognized over the next 12 months?

Alex Shen - Chief Executive Officer

It depends how you define likely. I think I get asked this question regularly as far as how far out I forecast it to be, and really it depends.

Q: Were the orders—yes, go ahead.

Alex Shen - Chief Executive Officer

So things change with the customer and they may change what they want. So it's probably not a very good idea for me to forecast something that's not likely to occur, or that could occur, or that causes me to forecast. I'm generally not a wonderful forecaster, so I shy away from forecasting.

Q: Were the orders that were received in October part of the, I think it was \$75 million to \$100 million business that you were chasing over the next two years, or were they elsewhere?

Alex Shen - Chief Executive Officer

The \$75 million to \$100 million that we were chasing are opportunities.

Q: And did the orders that were received in October in those areas?

Alex Shen - Chief Executive Officer

I'm not going to be able to answer that that specifically. The idea behind \$75 million to \$100 million in true opportunities, that was true. And that's what we aim ourselves at. And our orders that we actually receive for new sales orders are a result of our pursued activity against what we've targeted ourselves against. I hope that clarifies that.

Q: Yes. Would you be able to characterize your pursuit of those opportunities at this point, have any not transpired that you have been pursuing?

Alex Shen - Chief Executive Officer

Can you say that again, please?

Q: Of the \$75 million to \$100 million opportunities that you are pursuing, at this point in time, let's say over the last three to five months, have any come to a dead end, and you know now that those aren't ones that you'll be pursuing or be successful in pursuing or is everything still in the chase? Let's put it that way.

Alex Shen - Chief Executive Officer

Well, everything back then may not be in the chase because there may be new opportunities that come into the chase. I won't be able to answer your question very specifically.

Q: Okay. Well, just last then, would you be able to say that on a rolling two year basis that there are still \$75 million to \$100 million kind of opportunities to go after?

Alex Shen - Chief Executive Officer

I will not be saying that.

Q: Okay. Thank you.

Operator

Thank you. Our next question comes from the line of John Castiglione [ph], a private investor. You are now live.

Q: Alex, what's the current plant utilization? Is it 100%, one shift?

Alex Shen - Chief Executive Officer

I won't be able to answer that question.

Q: Okay. Thank you. That's it.

Operator

Thank you. [Operator instructions]. Our next question comes from the line of Mark Gomes from Pipeline Data. You're now live.

Q: Thank you. Could you let us know at full capacity approximately how much revenue could be generated by the company?

Alex Shen - Chief Executive Officer

I will not be able to answer that.

Q: Thank you.

Operator

Thank you. Ladies and gentlemen, we have no further questions in queue at this time. I'd like to turn the floor back to management for closing.

Alex Shen - Chief Executive Officer

Thank you very much, everyone. Have a good day.

Operator

Thank you. Ladies and gentlemen, this does conclude our teleconference for today. You may now disconnect your line at this time. Thank you for your participation and have a wonderful day.