

Transcript of
TechPrecision Corporation
Second Quarter 2021 Earnings Call and Webcast
November 12, 2020

Participants

Jeff Stanlis - Partner and Vice President, Communications at Hayden IR
Alexander Shen - Chief Executive Officer
Thomas Sammons - Chief Financial Officer

Analysts

Ross Taylor - ARS Investment Partners

Presentation

Operator

Good afternoon, everyone, and welcome to today's TechPrecision Second Quarter 2021 Earnings Call and Webcast. At this time, all participants are in a listen-only mode. Later, you will have an opportunity to ask questions during the question-and-answer session. [Operator Instructions]

It is now my pleasure to turn today's program over to Jeff Stanlis from Hayden IR. Please go ahead.

Jeff Stanlis - Partner and Vice President, Communications at Hayden IR

Thank you, Jamie. I apologize for the technical issues. On the call today are Alex Shen, Chief Executive Officer; and Tom Sammons, Chief Financial Officer.

Before we 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 Securities and Exchange Commission.

In addition, projections as to the company's future performance represents management's estimates as of today, November 12, 2020. 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?

Alexander Shen - Chief Executive Officer

Thank you, Jeff. Good day to everyone and thank you for joining us.

Our second quarter was highlighted by a sales increase of 53% over the same quarter a year ago, as a favorable project mix led to improved gross margins and higher net income. We expect to carry these improvements in revenues and margins into the remainder of fiscal year 2021.

TechPrecision booked over \$5.1 million of new orders in the second quarter as our sales order backlog was \$14.8 million on September 30, 2020. We continue to see significant opportunities within our customers, particularly in the defense sector, as the order flow from prime defense contractors remains strong. Orders from the precision industrial sector are more sporadic. Working capital was \$7.1 million compared with working capital of \$5.6 million at March 31, 2020.

And now, I would like to turn the call over to our CFO, Tom Sammons, for a brief review of our fiscal 2021 second quarter results. Tom?

Thomas Sammons - Chief Financial Officer

Thank you, Alex. Net sales were \$4.7 million, and as Alex mentioned, 53% higher when compared to \$3.1 million in the same quarter a year ago. Our defense sector sales increased by \$363,000, while our sales to precision industrial sector increased by \$1.3 million, when compared to the same quarter a year ago.

Gross profit was \$1.1 million in the second quarter of fiscal 2021 or \$700,000 higher when compared to the second quarter of fiscal 2020. Gross margin percentage improved to 23.9%, driven by a profitable – a favorable project mix and better throughput. SG&A decreased by \$45,000, due to lower professional fees and lower travel expenses.

As a result of the preceding, operating income was \$433,000 for the fiscal 2021 second quarter. Net income for the second quarter of fiscal 2021 was \$271,000 or \$0.01 per share basic and diluted.

For the 6 months ended September 30, 2020, revenue increased by 8% when compared to the same period a year ago to \$8 million, driven by an increase in sales of \$684,000 to customers in the precision industrial sector.

Gross profit was \$1.8 million or 20% higher when compared to the same period a year ago. The gross margin percentage was 22.8% for the 6 months ended September 30, 2020. SG&A was relatively flat, up by \$7,000 over the same period a year ago.

Operating income was \$336,000 for the 6 months ended September 30, 2020. Net income was \$155,000 or \$0.01 per share basic and diluted for the 6 months ended September 30, 2020.

Turning to the balance sheet. Cash on hand at September 30, 2020 was \$1.1 million. Our total debt stands at \$3.9 million or \$1.3 million higher than reported on March 31, 2020. As

previously disclosed, the debt increase is a result of the funds we received on May 11, 2020 under the Paycheck Protection Program.

Our first payment under the amended provisions of the loan will not be due before September 2021, if loan forgiveness is not achieved under the program. Our net debt at September 30, 2020 was \$2.8 million compared to \$1.7 million at March 31, 2020.

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

Alexander Shen - Chief Executive Officer

Tom, thank you. TechPrecision is proud and honored to serve the United States defense industry, specifically, naval submarine manufacturing through its Ranor subsidiary. We continue to see meaningful opportunities in our defense sector, primarily in the nuclear submarine business for the next 12 months and beyond.

I would like to share some publicly available information at this time, relevant to the meaningful opportunities in the defense industry. The U.S. Navy has awarded a \$9.47 billion cost plus fixed fee modification to a previously awarded integrated product and process development contract. This contract modification supports the lead ship and the second ship of the Columbia class.

Before we take questions, I need to make 2 points. The first is with regard to Stadco. As we are continuing our due diligence and negotiations with regard to the proposed acquisition, we will not be making any comments or taking any questions with regard to any aspect of that transaction. We ask that you do not make any comments and refrain from referring to it in any way.

The second is to remind you that we do most of our work in very sensitive industries that preclude us from speaking about many things that a company not operating in these fields might discuss. As such, there are very real limits as to what I can discuss. And sometimes those limitations change and become more restrictive. Please understand that my saying, "I'm not allowed to discuss that," is based on that fact.

Operator, we are ready for Q&A.

Operator

Okay. [Operator Instructions] Our first question comes from Ross Taylor from ARS Investment. Your line is open.

Q: Thank you very much. Alex, just a couple of quick questions. First, have you added any backlog since the end of the quarter?

Alexander Shen - Chief Executive Officer

Yes.

Q: Is it meaningful?

Alexander Shen - Chief Executive Officer

Yes.

Q: Will you want to give us an idea how meaningful?

Alexander Shen - Chief Executive Officer

I'm not allowed to discuss that.

Q: Okay. But it is meaningful. Second is, with the order flow we've been seeing to the primes and to other players in the subspace with regard to Columbia Class and the like, and also Virginia, do you believe that we have finally broken the logjam on the order flow that we should be seeing, that tech should be seeing from these projects, particularly the Columbia Class going forward?

Alexander Shen - Chief Executive Officer

That's a good question. Honestly, I can't tell yet.

Q: Give me your gut feel.

Alexander Shen - Chief Executive Officer

My gut feel is the – well, okay, my gut feel is that these stops and starts that I think seem to be impacted by less human interaction with the COVID is interfering with how things would flow. And the countermeasures that are being enacted are by and large pretty effective. But then, we encounter, like a new way of trying to do business. So that's why I can't tell. It goes back and forth.

Q: The sticking point here was probably more COVID-related than it is that as we get past the COVID we should start to see some money breakout. I mean, there's a lot of thought. It's interesting that the U.S. needs to really make a big effort in this. I think that it's the Navy's number one, Columbia's Navy's number one program going forward.

It would seem that we should be finally getting to where we had hoped to be a year to 2 years ago, and that we would already be there ex-COVID. Do you feel that's an adequate assessment of it?

Alexander Shen - Chief Executive Officer

I certainly hope so.

Q: Okay, okay. And I would look forward to – if you're able to close the deal you're not allowed to talk about, I would look forward to you guys having a call to talk to investors, and give us greater insight into the thought process and the opportunities that would pose when you're able to talk about it.

Alexander Shen - Chief Executive Officer

I can't talk about it.

Operator

At this time, we...

Alexander Shen - Chief Executive Officer

Go ahead, operator.

Operator

Okay. At this time, it appears that we have no further questions. I will now turn the program back over to Jeff for any additional or closing remarks.

Alexander Shen - Chief Executive Officer

I'll take that, Jeff. Thank you, everyone, for your participation. Have a good day.

Operator

This does conclude today's program. Thank you for your participation. You may disconnect at any time.