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P: Michael Hughes;;

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Operator^ Good day, ladies and gentlemen, and welcome to the Synalloy Fourth Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded. I would now like to introduce your host for today's conference, Mr. Craig Bram, President and CEO of Synalloy Corporation. Mr. Bram, you may begin.

Craig C. Bram^ Good morning, everyone. Welcome to Synalloy Corporation's Fourth Quarter 2017 Conference Call. As usual, Dennis Loughran, our CFO, is with me today. Dennis will provide a review of the Q4 financials, and then I'll provide some comments on our business segments and what we're seeing so far in 2018. We will then open the call to questions. Dennis?

Dennis M. Loughran^ Good morning, everyone. As usual, the financial results will be presented using 3 different methods: GAAP-based EPS; adjusted net income, a non-GAAP measure as defined in the earnings release; and adjusted EBITDA, a non-GAAP measure also defined in the earnings release. Along with that standard comment, I need to point everyone's attention to the special note that was included in the earnings release pertaining to an adjustment in the presentation of our 2 non-GAAP measures. In short, in constant with comments from and discussions with the SEC staff, we have amended our formats to exclude from both adjusted EBITDA and adjusted net income 4 measures, and they include: the inventory pricing change loss; inventory cost adjustments; days inventory adjustments; and manufacturing variances. While we will continue to identify and discuss the comparability of those values between periods, they will no longer be included in the reported non-GAAP totals. The significance of this change, as it pertains to our non-GAAP results for 2017 and 2016, presented in our earnings release filing, is that both years will show lower results than the previous presentation, especially our previous guidance, which included all the items. As an example, underlying adjusted EBITDA performance improvement as presented in the filing is approximately $10.5 million from 2016 to 2017, nearly identical to the improvement that would have been shown under the old format. However, that comparability would not be the same for all periods due to significant variability of the factors in question. For that reason, we continue to present the calculated factors as notes to the exhibits to the earnings release, in hopes that they will provide investors with valuable insights into year-to-year results. We can address any questions you may have at the end of the prepared remarks.

Fourth quarter GAAP-based net income was $1.0 million or $0.11 per share as compared with a loss of $1.4 million or $0.17 loss per share in the fourth quarter of 2016. Significant differences in year-over-year performance include: Q4 of this year had a pretax inventory loss of $1 million as compared with an inventory loss of $0.2 million in the fourth quarter of last year. Q4 of this year included unfavorable net onetime adjustments and amortization of prior period manufacturing variances, totaling $0.3 million compared to unfavorable $0.9 million in the fourth quarter of 2016. Q4 of this year included $0.5 million of increased earnout accrual compared to no such cost in the fourth quarter of last year. The increase in projected earnout liability represents the present value of expected payouts under the Marcegaglia acquisition agreement as a result of the favorable prognosis for sales and profitability increases above original acquisition projections.

Fourth quarter non-GAAP adjusted net income was $1.2 million or $0.13 per share as compared with adjusted net loss of $0.9 million or $0.11 per share loss in the fourth quarter of 2016. Fourth quarter non-GAAP adjusted EBITDA totaled $4 million or 7.5% of sales compared to prior year's fourth quarter adjusted EBITDA loss of $0.1 million or 0.2% of sales. Those comparable figures topped off a tremendous turnaround year for the company, with full year adjusted EBITDA totaling $12.5 million compared to just $2.1 million for the full year of 2016.

The combined adjusted EBITDA as a percent of sales for the operating businesses in the fourth quarter was 10.5%, up substantially from prior year's fourth quarter of 3.4%. At the end of the fourth quarter, our outstanding borrowings against our ABL facility totaled $25.9 million, down $0.8 million from the September 30, 2017 total. The calculated ABL facility remaining availability as of December 31, 2017 was approximately $30.8 million.

I will now turn the call back over to Craig.

Craig C. Bram^ Thanks, Dennis. Revenue and earnings momentum continued to build in the fourth quarter, and the company achieved a record revenue on a continuing operations basis of $201 million for the year. Each product line in the Metals Segment showed positive sales growth against the prior year's quarter and on a year-to-date basis. Sales in the Chemical Segment in the fourth quarter turned positive with a 5% increase over the same quarter of 2016.

Wrapping up 2017, several of our key indicators were flashing positive signals. In the Metals Segment, order activity continued to strengthen across all product lines. Since mid-2017, pricing has also improved every quarter. Some of this reflects general firming in overall pricing and some of this is due to better product mix. The backlog in the stainless steel product line as of year-end had average pricing that was 45% higher than the average price realized throughout 2017.

Pricing in the storage tank and vessel backlog at year-end was 27% higher than the average price realized throughout 2017. With raw material prices increasing in the Chemical Segment, we are beginning to see selling prices increase there as well. Business activity has continued to accelerate in the first quarter of this year. With 2 months in the books, on an unaudited basis, both the Metals and Chemical Segments are posting excellent year-over-year sales gains. The Metals Segment, excluding the

Marcegaglia acquisition, which was not in place until March 1 of last year, had sales gains of 21%, while the Chemical Segment was up 10% year-over-year.

Consolidated gross profit has also shown substantial improvement company-wide, up 57% year-over-year, excluding the Marcegaglia acquisition. Our February year-to-date 2018 operating profit for the company came in at $3.3 million compared to just over breakeven last year-to-date. Adjusted EBITDA, as redefined in our earnings release in agreement with SEC guidance, was $4.8 million for the 2-month period, just over a 300% increase to last year's comparable figure.

We continue to be excited about the progress of the Munhall operations acquired from Marcegaglia, with 2018 sales starting out very strong, averaging over $3 million per month. In fact, we just recently committed to purchase a high-frequency laser mill at a cost of approximately $1 million, with a capability to handle over 20 million pounds of production.

Let me make a few comments on Section 232 and the tariff situation. It should come as no surprise that we are very much in support of the President's efforts to level the playing field in the domestic steel industry, particularly as it relates to the welded stainless steel pipe and tube market. We have spent millions of dollars in legal fees over the past 10 years battling the dumping of pipe and tube in the U.S. Imports have taken about 40% of the North American market, with domestic producers operating at about 65% of capacity. Bristol Metals, both Bristol and Munhall, has the capacity to produce in excess of 75 million pounds of pipe and tube annually, and in 2017, produced just under 50 million pounds. Taking our production to 80% of capacity as targeted by the tariffs would result in incremental volume of 10 million pounds annually. As our laser mills in Munhall are focused on smaller OD products, which is where imports have been concentrated, we believe the potential gain for Bristol Metals could be closer to 15 million pounds annually or an increase of 30% over 2017 volume. Taking Bristol Metals' operating levels to 80% or greater, we materially improve our profitability, irrespective of any price increases that may be realized.

Bristol Metals' customers have taken note of the changing market dynamics. In the last 5 weeks, this unit has booked over $23 million in new orders. Bristol's -- Bristol Metals' backlog currently stands at about $40 million. Effective March 1, Bristol Metals implemented a separate charge for freight, which is based on where the product is being shipped in the U.S. This is the first time that such a program has been initiated by a domestic mill and others in the industry quickly followed suit. An additional price increase is being rolled out today, and price quotes from this point forward will include the metal surcharge at time of shipment as opposed to the metal surcharge at the time of quoting.

The Chemical Segment should have a solid rebound year in 2018. The new product pipeline looks very good, with 12 million pounds to 15 million pounds of annual volume potential. We are also seeing increased activity in the oil and gas sector.

Excluding acquisitions, 2018 should set a new record for total company revenue, and adjusted EBITDA should exceed the previous high watermark. The balance sheet's in excellent shape, and we continue to look for acquisitions to build on our current businesses, both organically and through acquisitions. Tax reform will also provide us with additional cash flow in 2018. At the 2018 forecast, the lower tax rate and accelerated expensing of capital expenditures will provide annual savings of approximately $1.6 million. While we're certainly pleased with the company's improved performance in 2017, we are even more excited about its potential in 2018. We'll now open the call to questions.

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Operator^ (Operator Instructions) And our first question comes from Mike Hughes with AGF Capital (sic) [SGF Capital].

Michael Hughes^ Craig, I just wanted to clarify, did you say the adjusted EBITDA for the first 2 months of this year, which I realize is on an unaudited basis, was $4.8 million?

Craig C. Bram^ That's exactly right.

Michael Hughes^ Okay. So for the full quarter -- I don't know if the first 2 months of the quarter are typically stronger than March, but if that trend continue, that would be roughly $7 million for the quarter, which annualizes to $28 million. So I think the full year guidance is $20 million. So I guess, my question is, what's the disconnect? And when was the budget put together as just they're betting environmental end market change since you compiled the budget numbers?

Craig C. Bram^ Yes, Mike, for starters, we put the budget together back in September. It got revised a few times and then eventually approved by the Board in November. So there's been a lot of activity on multiple fronts, particularly on the Metals side. The tariff situation has certainly -- has been a positive in terms of order activity. The whole pricing dynamic that we've talked about from this time last year after acquiring Marcegaglia, timing wise, that couldn't have been better for us. What we're seeing in the market generally is ability for domestic mills to have some pricing power for the first time in probably a decade. And because Bristol Metals, following the Marcegaglia acquisition, is controlling about 38% of that market right now, we have continued to take the lead on pricing increases. We had 2 price increases in the latter part of 2017. The freight -- the increased or separate charge for freight is something we've talked about for years and really, have not been able to implement. We did that March 1 and it's gone through without any hitches. All the domestic competitors followed suit. The price increase today will basically position the domestic producers -- our pricing at a level following the tariffs that would be basically comparable. So we're taking advantage of the opportunity to improve pricing in the welded stainless steel pipe and tube market. So that's certainly driving part of it. We've also had improved nickel pricing. So in the first 2 months of this year, we experienced about $1.4 million in inventory profits versus $700,000 of inventory profits in the first 2 months of last year. Surcharges are continuing to move up. So we would expect to continue to participate in the inventory profit fixture going forward. It's unknown at this point, obviously, what that may look like on a month-to-month or quarter-to-quarter basis, but based on where the surcharges are currently sitting, we would expect Q1 and Q2 to be very strong, and that's also a reflection of our backlog in general order activity on the pipe side. We've also seen a lot of activity -- increased activity on the heavy wall seamless carbon business. That business had a much improved 2017, and they're off to a very, very strong start in 2018. The same with Palmer, we're seeing improved activity there as well. So at this point, the projections that we laid out for the 2018 plan are looking pretty conservative.

Michael Hughes^ Okay. Okay. And then the $40 million in backlog, did that include the Marcegaglia? Or is that a legacy number?

Craig C. Bram^ Well, the $40 million does include Marcegaglia. So it's Bristol and Marcegaglia. The bookings that have occurred in the last 5 weeks of $23 million have been spread over those 2 facilities. And I would tell you that 1/3 of that $40 million, what we would refer to as Cadillac products, they're the products with higher margins, special alloys, heavy wall, quick turn, that's a reflection of the investment that we made in Bristol. So we're really starting to see the new investments, the new equipment that we purchased last year starting to fill out with some very nice volume.

Michael Hughes^ Okay. And can you summarize, in percentage terms, what's happened to pricing? Where it stands today versus 1 year ago, putting aside the surcharges, just the pure pricing number, if that's possible, on the Metals business?

Craig C. Bram^ I don't have precise -- I can be there. I mean, I can tell you that we've instituted -- in the latter part of 2017, we had 2 price increases that, in total, were roughly 7.5% combined. The price increase that we're rolling out today is 10%. And if you look at our backlog in Bristol -- in the Bristol facility at the end of the year was roughly $3.10 a pound and it was $2.35 a pound for all of 2017. And at Munhall, the backlog at the end of 2017 was $2.80 a pound and that was up from about $1.80, $1.85 range for all of 2017. So there's base price increases in those numbers but there's also a product mix that's reflected in those numbers. And of course, we've been saying it all along, we wanted to see our product mix move away from heavy commodity into special alloy. And so, we're starting to see that as well.

Michael Hughes^ Okay. Just 1 follow-up and then 1 more question for you. So the 10% price increase that you just announced, number one, is not embedded in the guidance that you gave for the year today. And then number 2, is basically 10% on a $3 number, which is $0.30 times what's your annual production, did you say it's roughly -- if you could just cite that number again, that would be helpful.

Craig C. Bram^ Yes. We're just 50 million pounds -- just shy of 50 million pounds last year. Our original plan was for 56 million pounds this year, and we're probably going to be tracking closer to 65 million pounds in 2018 now.

Michael Hughes^ Okay. And again, that 10% price increase isn't in today's guidance for 2018?

Craig C. Bram^ That's right.

Michael Hughes^ Okay. Last question for you. M&A, it's noted in the press release that you've acquired some stock in a publicly traded company. I'm not sure if you're willing to or want to talk about whether that's on the Metals side or the Chemical side. And then just maybe size on how you'd potentially finance that acquisition?

Craig C. Bram^ I can tell you it's on the Chemical side. And that's about -- all I can say about that at this time. I can tell you, we're continuing to look at opportunities. We've got some interesting opportunities on the Metals side as well. So hopefully, we'll have more to report on that later in the first half of this year.

Dennis M. Loughran^ Yes, and for funding, Mike, we have ample revolver facility. We've discussed with our partner BB&T potential combination of revolver in term combination, and certainly, if we ever got to the point where we needed to look at our capital structure and our stock price was in the place where we thought it was appropriate, a balance of equity might -- to get us to the right debt to equity ratios that are good for our company would be also in play, if something big enough.

Michael Hughes^ Okay. And Dennis, remind me, what's the maximum debt to EBITDA you would go to?

Dennis M. Loughran^ We like to be at 2 or under, but certainly in terms of post transaction kind of stuff, getting up to 3 and then getting it back down to 2 as quickly as possible and be lower would be desirable.

Operator^ (Operator Instructions) And I am not showing any further questions at this time. I would now like to turn the call back over to Craig Bram for any further remarks.

Craig C. Bram^ As always, we appreciate everyone's support. We're very excited about how 2018 has started out, and we're looking forward to harvesting some of the benefits of the spending that we made in 2017, as we push further into 2018. Thank you.

Operator^ Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.