



February 16, 2021

CURRENT PRICE: \$29.43
RATING: HOLD
PRICE TARGET: N/A
CURRENT YIELD: 0.4%

EPS Estimates - Non-GAAP

	SEP 20A	SEP 21E
1Q	\$0.03	\$0.42A
2Q	\$0.23	\$0.36
3Q	\$0.34	\$0.61
4Q	\$0.38	\$0.38
	\$0.98	\$1.77

Trading Data

52-WEEK PRICE RANGE: \$29.87 - \$10.00
SHARES OUTSTANDING: 19.43(M)
MARKET CAP: \$571.8(M)
AVG. DAILY TRADING VOLUME: 62(K)
S&P 500: 3,933

Valuation Data

BOOK VALUE: \$12.62
PRICE TO BOOK: 2.33x
DIVIDEND: \$0.12

INSTEEL INDUSTRIES, INC (NSDQ: IIN)

1Q21 Earnings Results

Highlights

- 1Q21 earnings of \$0.42/share vs. \$0.03/share during 1Q20
- Earnings helped by increased demand & wider spreads
- Gross margins rose to 16.6% from 6.4%
- Strong customer demand for IIN's products
- Maintain HOLD rating

Investment Thesis

IIN could be an interesting speculative play for aggressive investors. Since most of IIN's business is related to the US construction market, its stock has been volatile during the past four years as investor's have moved in and out of the shares based on expectations of a recovery in the construction industry. While an increase in meaningful customer orders may start to materialize, improvement in construction spending may lead to earnings growth for IIN. Aggressive and speculative investors should look for attractive entry points into IIN for potential price appreciation as US construction market improves, and increasing demand for the company's products, and an end to the Section 232 tariff.

Company Summary

Insteel Industries (IIN-\$29.43), headquartered in Mt. Airy NC, is the nation's largest manufacturer of steel wire reinforcing products for concrete construction applications. IIN manufactures/markets PC strand and welded wire reinforcement (WWR) products. Products are sold through its sales force, primarily to concrete product manufacturers for use in nonresidential construction. Virtually all of the company's sales are from within the US.. Started in 1958, the company has approximately 834 employees, and generated total revenues of \$472.6 million during FY20. An estimated 85% of IIN's sales went towards nonresidential construction (approximately 85% infrastructure & 15% non-infrastructure) and 15% to residential construction. IIN is debt free and has a \$100 million revolving credit facility.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the last two pages of this report.

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Recent Earnings

IIIN reported 1Q21 earnings of \$0.42/share vs. \$0.03/share during 1Q20. The improvement came from a rise in gross profit margins, higher shipments, and strength throughout IIIN's construction markets. Additionally, during 1Q21 average selling prices rose 1% when compared to 1Q20 and 2% when compared to 4Q20. Net earnings for 2Q21 include \$700,000 of restructuring charges related to the 2020 acquisition, and relocation, of Strand-Tech Manufacturing's assets, hurting earnings by \$0.03/share. Revenues increased to \$119.6 million from \$97.6 million.

When comparing 1Q21 to 1Q20 IIIN's gross profit rose to \$19.9 million from \$6.2 million while the gross profit margins improved to 16.6% from 6.4%. These increases came from a recovery in spreads between selling prices and raw material costs, volume increases, and lower conversion costs. Shipments were higher by 21.6% due to strong demand from IIIN's customers which generated increased demand for most of its product lines. Due to IIIN's recent profitability, shareholders received a one-time special dividend of \$1.50/share.

SG&A expense rose to \$8.6 million from \$5.7 million because of incentive compensation expense accruals, as IIIN returned to a capital based incentive plan, and higher legal expenses related to its normal run rate related to support for its ongoing trade cases. The trade cases involved the company's legal pursuit to stop foreign dumping of products into the US markets.

RECENT EARNING CONFERENCE CALL

Following the 1Q21 earnings release, IIIN held a conference call to discuss results and forward expectations for its business. Improved results came from a resilient non-residential construction market and expectations for rising steel prices. Management noted improvement in 1Q21 earnings vs. 1Q20 results came from strength in demand for virtually all of its products. This produced higher product shipments, allowed for price increases, and allowed its gross profit margin to rise to 16.6% from 6.4%.

Improved gross profits (\$19.9 million vs. \$6.2 million) came from a sustained recovery in spreads between selling prices/raw material costs, as well as the impact of incremental volume and marginally lower conversions costs. Cash flow from operations generated \$14 million, mainly due to improved earnings, with a small increase in working capital.

After purchasing Strand-Tech's manufacturing assets, some are being moved to IIIN facilities and others are being sold. Management believes there is a good deal of interest from perspective buyers for properties which formerly housed Stranded-Tech's relocated assets.

Based on IIIN's 2Q21 sales forecast, management said its quarter end inventories equals 2.4 months of shipments vs. 3 months at the end of 4Q20. Inventory at the end of 1Q21 was valued at an average unit cost higher than 4Q20's cost basis, yet favorable to current replacement costs.



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Management noted that through November of 2020, public construction in 2020 was resilient with spending higher by 4.3% from 2019. Highway and street construction, one of the largest users of IIIN's products, was level with 2019 levels during 2020, yet was 4% vs the last quarter of 2019. IIIN noted the fast movement of increases in rod costs can create volatility in its operating environment as supply/demand factors can change over a relatively short period. Also, third party forecasts for non-residential construction spending could pose a problem for IIIN.

Going forward into FY21, IIIN believes demand will remain steady across its product markets, based on near-term shipment trends and current market sentiment. The company announced price increases during 2Q21 to offset rising raw material costs, which they said have been accepted by its customers. These increases could have a "pronounced effect" on IIIN's selling prices during 2Q21.

Management anticipates IIIN's tax rate for the rest of its fiscal year will be approximately 23%.

IIIN received good news for its PC Strand cases filed last April against 15 countries, representing 89% of PC strand imports during 2019. The International Trade Commission issued a positive determination (for IIIN) with respect to Argentina, Columbia, Egypt, Netherlands, Saudi Arabia, Taiwan, Turkey, and the UAE, which implemented duties ranging from 24% to 194% of value PC Strand imports. Additionally, in June of 2020, IIIN and four other domestic producers of standard wire reinforcing filed anti-dumping claims and duty petitions against Mexico and Mexican subsidized companies. A decision is expected sometime this month.

IIIN said risks to 2021 results could come from a downturn in funding sources for public construction, increased risk profile of the private non-residential construction market and a slowing US economy. However, current strength of the economy is positive for IIIN and a potential new US infrastructure plan could also be of benefit to the company's profits.

Our Thoughts

IIIN had a strong earnings report as the company reported 1Q21 earnings of \$0.42/share vs. \$0.03/share during 1Q20. The improvement came from a rise in gross profit margins (16.6% vs. 6.4%), higher shipments (+21.6%), and strength throughout IIIN's construction markets. Additionally, during 1Q21 average selling prices rose 1% when comparing the two quarters. Revenues increased to \$119.6 million from \$97.6 million. The overall improvement came from a rebounding US economy resulting in strong customer demand for IIIN's products.

IIIN's earnings should continue to grow throughout FY21 with the current pace of the US economic recovery. Under this scenario, our 2021 earnings estimate is \$1.77/share vs. \$0.98/share during 2020. However, we continue to rate IIIN a HOLD, given the stock is trading near its 52-week high, high bullish stock market public sentiment, and whether a new infrastructure bill passes through US Congress. We expect IIIN's shares will continue to be volatile, given current stock market trading volatility. Potentially, market volatility may create attractive entry points for IIIN's shares, at lower levels, in the future.



Risks

There are no guarantees IIIN will be able to grow future earnings. Declining customer orders, rising commodity prices, and rising operating costs could negatively affect the company's profits. An influx of foreign imports and increase in competition could cause a decrease in overall revenues. Negative equity markets, rising interest rates, terrorist attacks, and failure to comply with the Sarbanes Oxley Act could cause a decline in IIIN's share price. Given the relatively small amount of daily trading activity in IIIN's stock, any increase in trading volume could significantly accelerate the volatility of its share price movement.

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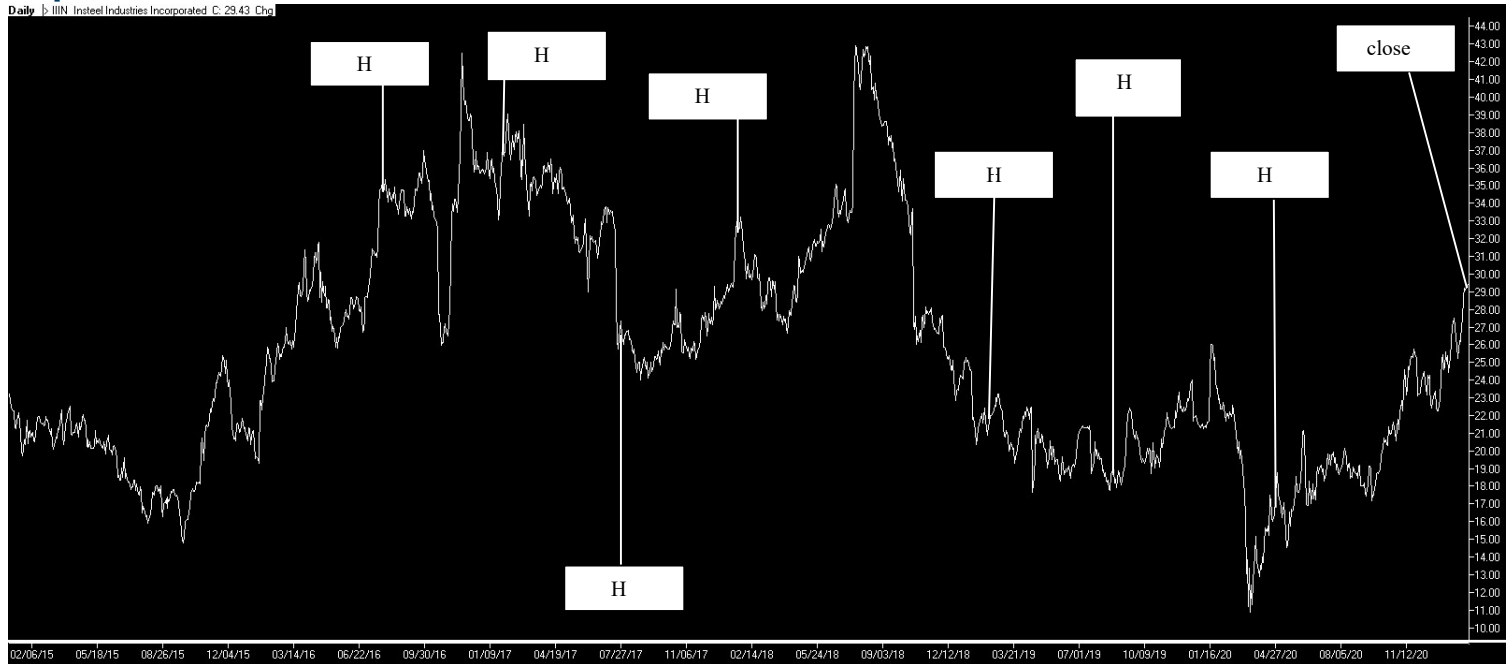
FY ends 9/30

(in thousands except per share amounts)

	1Q20	2Q20	3Q20	4Q20	2020	1Q21	2Q21e	3Q21e	4Q21e	2021e
Revenues	\$97,569	\$114,859	\$121,959	\$138,231	\$472,618	\$119,605	\$132,418	\$140,165	\$149,679	\$541,867
Cost of sales	91,332	99,576	107,154	118,769	416,831	99,754	110,305	116,057	131,418	457,534
Inventory write-downs										
Gross profit	6,237	15,283	14,805	19,462	55,787	19,851	22,113	24,108	18,261	84,333
SG&A	5,744	9,602	6,694	9,308	31,348	8,553	9,659	8,247	9,773	36,232
Acquisition costs		187	8		195					
Bargain Purchase gain										
Gain on debt extinguishment										
Pension settlement loss										
Restructuring charges		149	808	738	1,695	657	474	412	185	1,728
Other expenses/income	25	18	1,240	29	1,254	13	19	26	57	115
Income	518	5,363	8,535	9,387	23,803	10,628	9,204	15,423	9,531	44,786
Interest expense	26	26	26	28	106	25	25	26	26	102
Interest income	226	204	22	21	473	5	12	38	22	77
Income taxes	163	1,177	1,867	1,954	5,161	2,465	2,114	3,551	2,192	10,322
Earnings from continuing Ops.	555	4,364	6,664	7,426	19,009	8,143	7,077	11,884	7,335	34,439
Earnings from discount. Ops										
Net Earnings	\$555	\$4,364	\$6,664	\$7,426	\$19,009	\$8,143	\$7,077	\$11,884	\$7,335	\$34,439
Net earnings/share	\$0.03	\$0.23	\$0.34	\$0.38	\$0.98	\$0.42	\$0.36	\$0.61	\$0.38	\$1.77
Cash dividends/share	\$0.03	\$0.03	\$0.03	\$0.03	\$0.12	\$1.53	\$0.03	\$0.03	\$0.03	\$1.62
Fully diluted shares outstanding	19,370	19,386	19,377	19,396	19,383	19,434	19,434	19,434	19,434	19,434

Important Disclosures

Daily ▶ IIRN Insteel Industries Incorporated C: 29.43 Chg



3/07/11 \$11.74 Initiate HOLD

Ratings:

Buy: B

Hold: H

Sell: S

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