

**August 12, 2024**

## INSTEEL INDUSTRIES, INC (NSDQ: IIN)

**CURRENT PRICE:** \$30.80  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 0.4%

*3Q24 Earnings Results*

### Highlights

- 3Q24 earnings of \$0.34/share vs. \$0.54/share during 3Q23
- Lower sales & narrower spreads hurt earnings
- Gross margins fell to 10.6% from 12.3%
- Management saw stabilization in customers' ordering patterns
- Maintain HOLD rating

### EPS Estimates - Non-GAAP

|    | SEP 23A       | SEP 24E       |
|----|---------------|---------------|
| 1Q | \$0.57        | \$0.06        |
| 2Q | \$0.26        | \$0.35        |
| 3Q | \$0.54        | \$0.34        |
| 4Q | \$0.29        | \$0.34e       |
|    | <b>\$1.66</b> | <b>\$1.09</b> |

### Trading Data

52-WEEK PRICE RANGE: **\$39.38 - \$25.01**  
SHARES OUTSTANDING: **19.57(M)**  
MARKET CAP: **\$602.8(M)**  
AVG. DAILY TRADING VOLUME: **117.1(K)**  
S&P 500: **5,344**

### Valuation Data

BOOK VALUE: **\$17.80**  
PRICE TO BOOK: **1.73x**  
DIVIDEND: **\$2.62**

### 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 few years as investor's have moved in and out of the shares based on expectations of growth in the construction industry. After earnings growth in FY22, earnings declined in 2023. Going forward, improvement in construction spending, by IIN's customers, may lead to earnings growth for IIN in FY25 &/or FY26. Aggressive and speculative investors should look for attractive entry points into IIN for potential price appreciation based on an improvement in the US construction market.

### Company Summary

Insteel Industries (IIN-\$30.80), 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, welded wire reinforcement (WWR) products including engineered structural mesh (ESM), and concrete pipe reinforcement. 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 884 employees, and generated total revenues of \$649.2 million during FY23. An estimated 85% of IIN's sales went towards nonresidential construction and 15% to residential construction. IIN is debt free and has a \$125.7 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.*



# EQUITY RESEARCH

## Recent Earnings

IIIN reported 3Q24 earnings of \$0.34/share vs. \$0.54/share during 3Q23. The decline was caused by narrower spreads between selling prices and raw material costs. When comparing the two quarters, total sales fell 12.0% to \$145.8 million from \$165.7 million due to a 16.3% decrease in selling prices and was partly offset by a 5.1% rise in shipments. Lower selling prices resulted from competitive pricing pressures of welded wire reinforcing (WWR) markets and the impact of low-priced PC strand imports.

Gross profit decreased to \$15.4 million from \$20.4 million while gross profit margins fell to 10.6% from 12.3% because of the lower spreads between selling prices and raw material costs. This negative was partly offset by higher product shipments.

SG&A expense decreased slightly to \$7.88 million from \$7.92 million. An increase in depreciation expense, combined with relative year-over-year change in cash surrender value of life insurance policies were offset by lower compensation expense under IIIN's return on capital based incentive plan.

Interest income rose to \$1.25 million from \$1.10 million, due to higher interest rates, however, it was not enough to offset lower gross profits. As a result, IIIN's 3Q24 generated EBIT of \$8.72 million vs. \$13.54 million during 3Q23.

## RECENT EARNINGS CONFERENCE CALL

Following the 3Q24 earnings release, IIIN held a conference call to discuss results and expectations for its business going forward into 2H24. Management believes that while current operating conditions have been difficult there are some initial signs of a potential improvement in its business.

Management noted the company has faced operating headwinds of declining steel prices, customers' inventory liquidations, lower product shipments, and the normal seasonality of customer orders. However, IIIN believes these issues may have run its course and is seeing some increased demand driven by market fundamentals and from the company's recent cap-ex program of recent years.

While shipments during 3Q24 "were not impressive", each month during the just-completed quarter, did show sequential improvement due to favorable customer inventory positions creating a favorable supply chain situation, higher construction spending, and improving employment conditions potentially pointing to improving market conditions.

IIIN expects slowly improving customer demand may continue into its 4Q24. On a negative note, backlogs in its welded wire reinforcement business continued to weaken because of shorter operating schedules created by weak order entry and lower shipments in prior quarters. Currently the company is ramping up its production orders at certain facilities due to the recent increase in orders from customers.



Pricing of IIN's products have been negatively affected by lower priced PC strand imports as competitors appear to be skirting around the Section 232 tariff on hot-rolled steel by using "down streaming" production. This materialized last year causing imported PC strand's average unit value to be lower than the domestic price for wire

rod. The company, and its industry peers are appealing to the White House to end the work-around "loopholes" created by the Section 232 tariff.

Management is optimistic about the of potential positive impact from the recently passed Infrastructure Investment & Jobs Act (IIJA) which could lead to a way of funding infrastructure spending. The IIJA spending rollout has been slower than expected for a myriad of reasons.

Total 2024 cap ex spending, originally estimated to be approximately \$30 million earlier in the year is expected to total \$25 million by fiscal year end based on current business conditions. While the amount was reduced IIN stated it had not cancelled cap-ex projects which were previously scheduled.

IIN continued its share repurchase program during 3Q24 by repurchasing \$1 million worth of its stock. The company has approximately \$100 million of cash on its balance sheet and no debt.

Management believes the risk to a recovery in its business would be slowdown in the US economy.

## Our Thoughts

During the past few years IIN's share price has swung up, and down, based upon expectations of either an increase, or decrease in earnings. This was predicated upon it's trending sales and the spread between the cost of goods and price of goods sold to customers. Unfortunately, the recent decrease in sales and profit margins caused IIN's stock to fall from its 52-week high of \$39.38/share to its current level of \$30.80. If management is correct, that its customer demand cycle has bottomed, then increasing sales-along with increasing profit margins, could increase forward earnings. Potentially, this may increase investor demand for its stock and push shares higher. However, given the recent volatility in the equity markets, combined with mixed US economic signals, we continue to rate IIN a HOLD until more evidence materializes of an improving business environment which could improve earnings in 2025 or 2026.



## Risks

There are no guarantees IIN 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 IIN's share price. Given the relatively small amount of daily trading activity in IIN's stock, any increase in trading volume could significantly accelerate the volatility of its share price movement.

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# EQUITY RESEARCH

INSTEEL INDUSTRIES, INC.

FY ends 9/30

(in thousands except per share amounts)

|                                  | 1Q23      | 2Q23      | 3Q23      | 4Q23      | FY23      | 1Q24      | 2Q24      | 3Q24      | 4Q24e     | FY24e     |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenues                         | \$166,899 | \$159,051 | \$165,714 | \$157,524 | \$649,188 | \$121,725 | \$127,394 | \$145,775 | \$147,392 | \$542,286 |
| Cost of sales                    | 149,113   | 145,789   | 145,347   | 143,541   | 583,790   | 115,455   | 111,679   | 130,387   | 128,084   | 485,605   |
| Inventory write-downs            |           |           |           |           |           |           |           |           |           |           |
| Gross profit                     | 17,786    | 13,262    | 20,367    | 13,983    | 65,398    | 6,270     | 15,715    | 15,388    | 19,308    | 56,681    |
| SG&A                             | 7,126     | 7,506     | 7,924     | 8,129     | 30,685    | 6,367     | 7,875     | 7,879     | 8,078     | 30,199    |
| Acquisition costs                |           |           |           |           |           |           |           |           |           |           |
| Bargain Purchase gain            |           |           |           |           |           |           |           |           |           |           |
| Gain on debt extinguishment      |           |           |           |           |           |           |           |           |           |           |
| Pension settlement loss          |           |           |           |           |           |           |           |           |           |           |
| Restructuring charges            |           |           |           |           |           |           |           |           |           |           |
| Other expenses/income            | 3,342     | 57        | 24        |           | 3,423     | 22        | 9         | 15        | 37        | 61        |
| Interest expense                 | 24        | 23        | 20        | 20        | 87        | 29        | 28        | 19        | 26        | 102       |
| Interest income                  | 440       | 747       | 1,097     | 1,422     | 3,706     | 1,659     | 1,147     | 1,245     | 796       | 4,847     |
| Income                           | 14,418    | 6,537     | 13,544    | 7,256     | 41,755    | 1,555     | 8,950     | 8,720     | 8,937     | 28,162    |
| Income taxes                     | 3,295     | 1,436     | 2,979     | 1,630     | 9,340     | 423       | 2,011     | 2,155     | 2,234     | 6,823     |
| Earnings from continuing Ops.    | 11,123    | 5,101     | 10,565    | 5,626     | 32,415    | 1,132     | 6,939     | 6,565     | 6,704     | 21,340    |
| Earnings from discount. Ops      |           |           |           |           |           |           |           |           |           |           |
| Net Earnings                     | \$11,123  | \$5,101   | \$10,565  | \$5,626   | \$32,415  | \$1,132   | \$6,939   | \$6,565   | \$6,704   | \$21,340  |
| Net earnings/share               | \$0.57    | \$0.26    | \$0.54    | \$0.29    | \$1.66    | \$0.06    | \$0.35    | \$0.34    | \$0.34    | \$1.09    |
| Cash dividends/share             | \$2.03    | \$0.03    | \$0.03    | \$0.03    | \$1.62    | \$2.53    | \$0.03    | \$0.03    | \$0.03    | \$2.62    |
| Fully diluted shares outstanding | 19,584    | 19,562    | 19,548    | 19,386    | 19,386    | 19,573    | 19,594    | 19,568    | 19,568    | 19,568    |

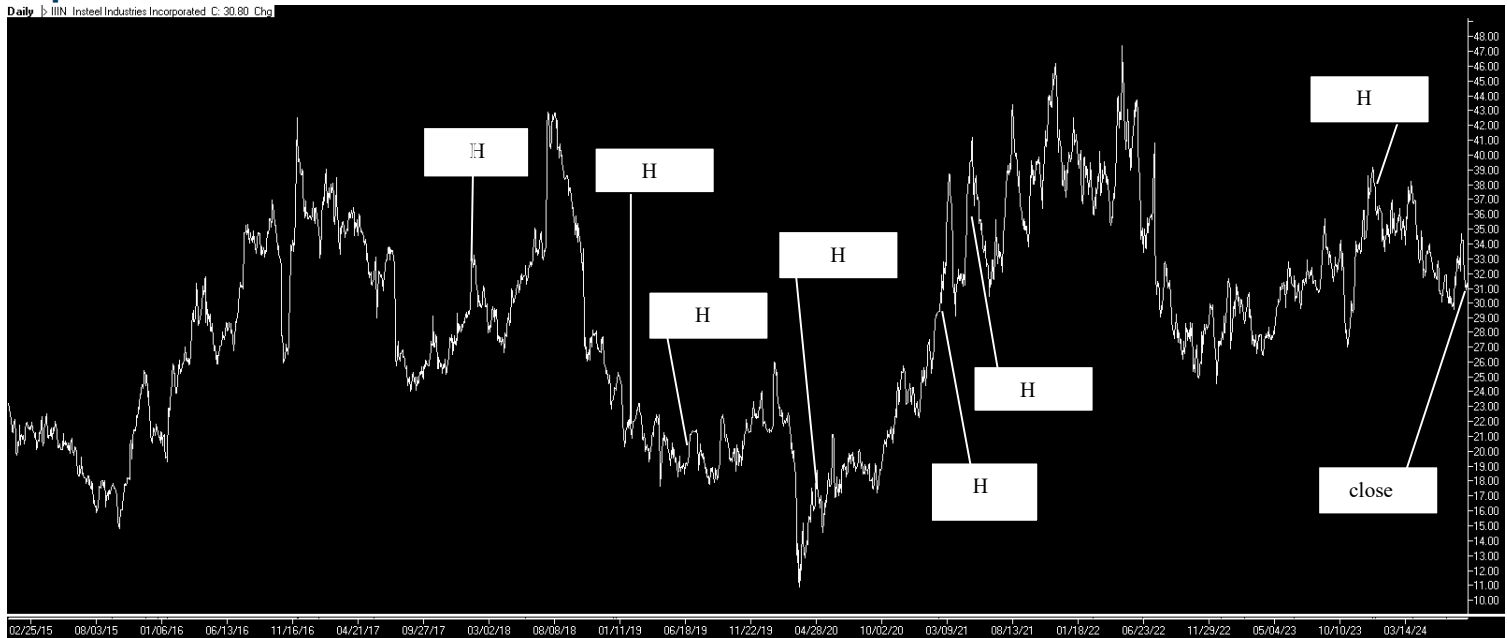


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SECURITIES**  
MANAGEMENT, INC.

**EQUITY  
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## Important Disclosures

Daily IN Insteel Industries Incorporated C:30.80 Chg



3/07/11 \$11.74 Initiate HOLD

Ratings:  
Buy: B  
Hold: H  
Sell: S

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