

**January 2, 2024**

**CURRENT PRICE:** \$37.76  
**RATING:** HOLD  
**PRICE TARGET:** N/A  
**CURRENT YIELD:** 0.3%

**EPS Estimates - Non-GAAP**

	SEP 23A	SEP 24E
1Q	\$0.57	\$0.37
2Q	\$0.26	\$0.39
3Q	\$0.54	\$0.69
4Q	\$0.29	\$0.83
	<b>\$1.66</b>	<b>\$2.28</b>

**Trading Data**

52-WEEK PRICE RANGE: **\$39.38 - \$25.44**  
 SHARES OUTSTANDING: **19.57(M)**  
 MARKET CAP: **\$738.9(M)**  
 AVG. DAILY TRADING VOLUME: **114.6(K)**  
 S&P 500: **4,743**

**Valuation Data**

BOOK VALUE: **\$19.61**  
 PRICE TO BOOK: **1.93x**  
 DIVIDEND: **\$0.12**

**INSTEEL INDUSTRIES, INC (NSDQ: IIN)**

*4Q23 Earnings Results*

**Highlights**

- 4Q23 earnings of \$0.29/share vs. \$1.24/share during 4Q22
- Narrower spreads hurt earnings
- Gross margins fell to 8.9% from 19.1%
- Management saw stabilization in customers' ordering patterns
- 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 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 may lead to earnings growth for IIN in FY24 & FY25. 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-\$37.76), headquartered in Mt. Airy NC, is the nations 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.*



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## Recent Earnings

IIIN reported 4Q23 earnings of \$0.29/share vs. \$1.24/share during 4Q22. The decrease was the result of narrower spreads between selling prices and raw material costs, higher unit manufacturing costs, and lower net sales. When comparing the two quarters, net sales decreased 24.3% (\$157.5 million vs. \$208.0 million) reflecting a 27.8% decline in average selling prices which was partly offset by a 4.9% increase in shipments. The uptick in shipments came from higher orders following customers' completion of inventory destocking.

Gross profit fell to \$14.0 million from \$39.8 million as gross profit margins decreased to 8.9% from 19.1% due to continued compression of the spread between selling prices and raw material costs. Profit margins were also affected by higher plant operating costs coming from lower production levels created by IIIN's inventory reduction measures.

SG&A expense decreased to \$8.1 million from \$8.3 million because of the year-over-year change in IIIN's cash surrender values of life insurance policies, along with lower depreciation expense. This was partly offset by higher compensation costs.

Interest income rose to \$1.4 million from \$216,000 as IIIN's cash balances, invested in short-term cash securities, earned higher interest income generated by the recent rise in interest rates.

For FY23, IIIN reported earnings of \$1.66/share vs. \$6.37/share during FY22. The decrease came from rising interest rates which slowed down IIIN's end construction markets. Revenues, when comparing the two years, decreased to \$649.2 million from \$826.8 million.

## RECENT EARNINGS CONFERENCE CALL

Following the 4Q23 earnings release, IIIN held a conference call to discuss results and expectations for IIIN's business going forward into FY24. Management believes the recent problems experienced by the company may be dissipating and were "optimistic about the underlying level of demand" for IIIN's products.

Management said a competitive pricing environment, the downward trend in steel scrap pricing, and low-priced PC strand led to a decline in the average selling price of its products during 4Q23. These factors led to lower earnings, decreased sales, and a reduction in gross profits when comparing 4Q23 to 4Q22.

IIIN's product sales were affected by slowing residential construction markets which caused declines in average selling prices. This trend continued during 4Q23, however, there was an improvement in shipping volumes. Management believes this occurred as customers returned to normal purchase patterns after having stocked up on inventories the previous year.

IIIN expects margins to remain under pressure during 1Q24 due to industry-wide pricing competition. During 4Q23 conversion costs rose because of lower operating volumes at certain plans as management "implemented inventory reduction measures" causing weakened cost absorption, and creating higher unit conversion



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costs. Management expects conversion costs to remain elevated during 1Q24, which is traditionally a slow period for the construction industry.

IIN's inventory position, at the end of 4Q23, represented 3.3 months of shipments compared with 3.2 months at the end of 3Q23. Management noted its inventories, at 4Q23's conclusion, were valued at an average unit cost which was lower than IIN's 4Q23's cost of sales.

The company has \$125.7 million cash-on-hand and is debt free. Additionally, IIN has no outstanding borrowings on its \$100 million credit revolver.

Management provided an overview of the macro indicators associated with its construction end markets. For the first eight months of 2023, seasonally adjusted construction spending rose 7.4% on an annual basis. Non-residential construction spending increased 18% as public highway and street construction rose 12%. However, US cement shipments trailed levels seen during 2022. The most recent Architectural Billing/Dodge Momentum Indexes report (ABI) showed leading indicators for non-residential building construction implied softening conditions. September's ABI report came in at 44.8% and anything under 50% normally indicates a decline in billings and a downturn in business conditions at architectural firms. Dodge's August report indicated higher interest rates and stricter credit standards had impacted the institutional and commercial segments.

## Our Thoughts

IIN reported 4Q23 earnings of \$0.29/share vs. \$1.24/share during 4Q22. The decrease was the result of narrower spreads between selling prices and raw material costs, higher unit manufacturing costs, and lower net sales. When comparing the two quarters, net sales decreased 24.3% (\$157.5 million vs. \$208.0 million) reflecting a 27.8% decline in average selling prices which was partly offset by a 4.9% increase in shipments. Gross profit fell to \$14.0 million from \$39.8 million as gross profit margins decreased to 8.9% from 19.1% due to continued compression of the spread between selling prices and raw material costs. Profit margins were also affected by higher plant operating costs coming from lower production levels created by IIN's inventory reduction measures.

While IIN's earnings declined from last year, management is hopeful there will be improvement in FY24. They base this on customers returning to normal purchasing patterns, potentially higher scrap prices, & continued growth in the US economy next year. IIN's shares have rallied, as have most stocks during November, on Wall Street traders' belief the Fed will ease interest rates in 2024 and the economy will avoid a recession. In our opinion, this is a very bullish outlook, and investors may want to wait for lower entry points, into IIN's stock, as the future of the US economy is far from certain. We rate this stock a HOLD.



## 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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INSTEEL INDUSTRIES, INC.

FY ends 9/30

(in thousands except per share amounts)

	1Q23	2Q23	3Q23	4Q23	FY23	1Q24e	2Q24e	3Q24e	4Q24e	FY24e
Revenues	\$166,899	\$159,051	\$165,714	\$157,524	\$649,188	\$157,781	\$162,478	\$178,392	\$194,588	\$693,239
Cost of sales	149,113	145,789	145,347	143,541	583,790	145,474	146,485	154,131	164,427	610,517
Inventory write-downs										
Gross profit	17,786	13,262	20,367	13,983	65,398	12,307	15,993	24,261	30,161	82,722
SG&A	7,126	7,506	7,924	8,129	30,685	8,024	8,147	8,184	8,247	32,602
Acquisition costs										
Bargain Purchase gain										
Gain on debt extinguishment										
Pension settlement loss										
Restructuring charges										
Other expenses/income	3,342	57	24		3,423	27	24	26	48	125
Interest expense	24	23	20	20	87	22	23	24	27	96
Interest income	440	747	1,097	1,422	3,706	1,437	1,322	1,245	1,086	5,090
Income	14,418	6,537	13,544	7,256	41,755	9,466	9,740	17,324	20,849	57,379
Income taxes	3,295	1,436	2,979	1,630	9,340	2,082	2,143	3,811	4,587	12,623
Earnings from continuing Ops.	11,123	5,101	10,565	5,626	32,415	7,384	7,597	13,513	16,262	44,756
Earnings from discount. Ops										
Net Earnings	\$11,123	\$5,101	\$10,565	\$5,626	\$32,415	\$7,384	\$7,597	\$13,513	\$16,262	\$44,756
Net earnings/share	\$0.57	\$0.26	\$0.54	\$0.29	\$1.66	\$0.37	\$0.39	\$0.69	\$0.83	\$2.28
Cash dividends/share	\$2.03	\$0.03	\$0.03	\$0.03	\$1.62	\$0.03	\$0.03	\$0.03	\$0.03	\$0.12
Fully diluted shares outstanding	19,584	19,562	19,548	19,386	19,386	19,568	19,568	19,568	19,568	19,568

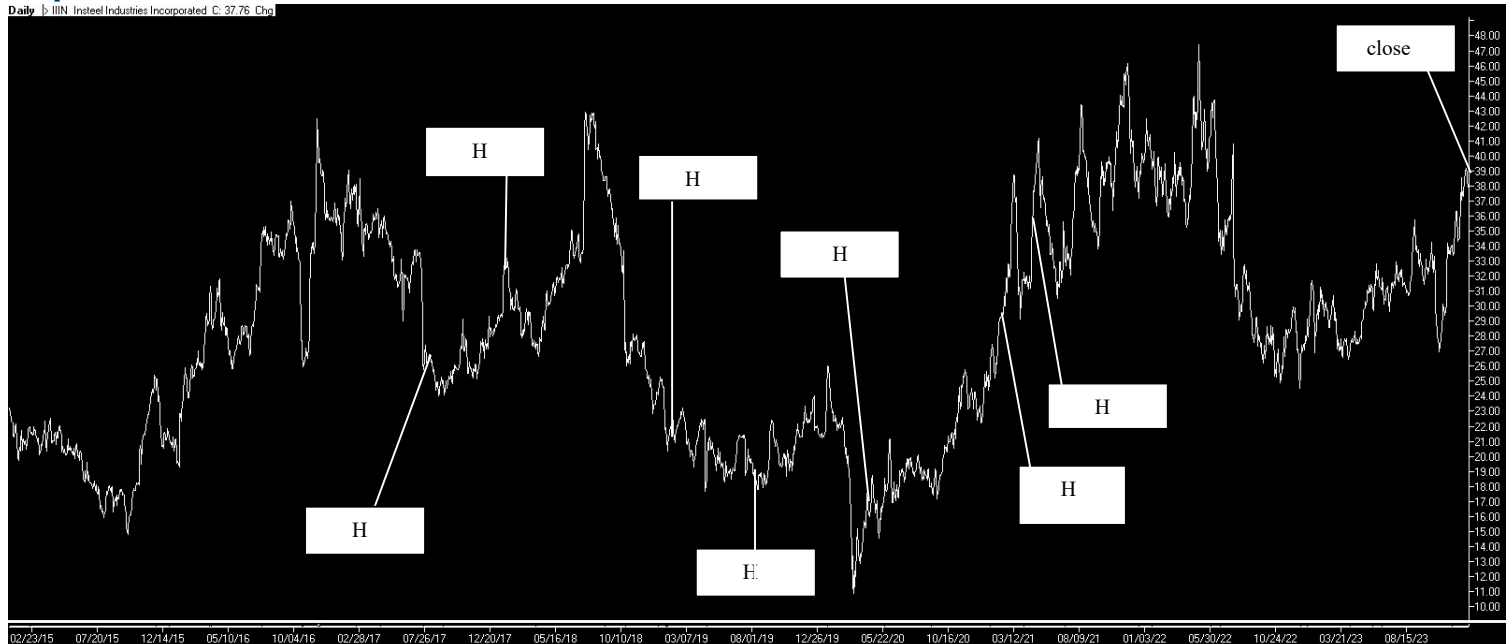


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## Important Disclosures

Daily Insteel Industries Incorporated C: 37.76 Cbg



3/07/11 \$11.74 Initiate HOLD

Ratings:  
Buy: B  
Hold: H  
Sell: S

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- (2) Hold – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
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