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# EDITED TRANSCRIPT

HAYN - Q1 2020 Haynes International Inc Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Haynes International First Quarter Fiscal 2020 Earnings Conference Call. (Operator Instructions) At this time, it is my pleasure to turn the floor over to your host, David van Bibber, Controller and Chief Accounting Officer. Sir, the floor is yours.

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**David Sean Van Bibber** - *Haynes International, Inc. - Controller & CAO*

Thank you very much for joining us today. With me today are Mike Shor, President and CEO of Haynes International; and Dan Maudlin, Vice President and Chief Financial Officer.

Before we get started, I would like to read a brief cautionary note regarding forward-looking statements. This conference call contains statements that are forward looking within the meaning of the Private Securities Litigation and Reform Act of 1995 in Section 21E of the Securities and Exchange Act of 1934. The words believe, anticipate, plan and similar expressions are intended to identify forward-looking statements. Although we believe our plans, intentions and expectations regarding or suggested by such forward-looking statements are reasonable, such statements are subject to a number of risks and uncertainties and we can provide no assurances such plans, intentions or expectations will be achieved. Many of these risks are discussed in detail in the company's filings with the Securities and Exchange Commission, in particular, Form 10-K for the fiscal year ended September 30, 2019. The company undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

With that, let me turn the call over to Mike.

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**Michael L. Shor** - *Haynes International, Inc. - President, CEO & Director*

Good morning. Haynes has had great momentum for the past year, including above-average revenue growth in our slice of the industry, a meaningful improvement in gross margin percentage and significantly improved profitability and cash flow. Our initiatives related to safety, pricing, cost, volume, cash and overall business process development continue to show excellent progress with meaningful improvements in our performance. Based on the actions taken and the results driven by our team at Haynes, we accomplished the following very significant items.

Our safety rates have continued to improve. We completed calendar year '19 with an OSHA recordable rate well below that of calendar '18. We've lowered our earnings breakeven point significantly by improving pricing and reducing costs, generating \$3.3 million in earnings in our first quarter of fiscal '20 despite shipping only 4.2 million pounds in the quarter.

Over the past 5 quarters, our sequential gross margin as a percentage of net sales rose from 10.6% in Q1 of fiscal '19 to 11.5% in Q2, 14.4% in Q3 and to 16.4% in Q4, and now, to our just reported 17.3% in Q1 of fiscal '20. Our Q1 gross margin of 17.3% is 670 basis points above the same quarter



last year, and our operating profit is \$7 million higher than last year's Q1. Our cash on the balance sheet increased to \$33.6 million at December 31, 2019.

The progress and performance of our business has been excellent. Our team is now focused on continued improvement in each of the following: our safety performance, share gain in certain key accounts, continuing to price for value, cost containment due to the lower volumes, product yield and cost improvements, staying close to our customers, and managing our inventories. In addition, we remain very well positioned to supply into the growing current and new generation aero engine platforms, most notably with our patented HAYNES 282 and HAYNES 244 alloys.

With that said, as you have read in our first quarter earnings release, the uncertainty around the Boeing 737 MAX build schedule and other significant issues are now causing volume reductions across our aerospace customer base that we believe will continue to impact our business throughout fiscal '20.

The duration of the current 737 MAX build shutdown is obviously still uncertain. While the 737 MAX is the majority of our projected reduced demand in fiscal '20, we are also experiencing additional demand reductions. Those demand issues are as follows. First, we experienced slow overall summer bookings due in large part to nickel volatility and aerospace supply chain inventory concerns. In addition, we are seeing reduced demand for material for the engines of the A320neo, primarily due to an inventory build in the supply chain impacting our customers' production activity that will continue in early calendar year 2020. Next, our U.S. and European-based aerospace customers are working through a fairly full supply chain and are in inventory reduction mode across many of the platforms they supply. Finally, we have seen base business CPI slow this quarter, likely related to China trade tariffs, our typical seasonality issues as well as global and economic and political concerns.

We look at these overall demand and volume reductions as a significant but temporary pause in our growth. We remain enthusiastic about the actions we've taken and the impact that they are having on our business. Our team will proactively manage this demand lull, and we are also taking the necessary actions to prepare for the anticipated return of robust aerospace demand.

Now as far as details for the quarter. Volume shipped in the quarter was 4.2 million pounds, which was 1.2 million pounds lower sequentially than Q4 of fiscal '19 and 100,000 pounds lower than last year's Q1. We are typically impacted in fiscal Q1 by planned maintenance outages, holidays and customers managing their calendar year-end balance sheets.

However, in addition to that, as I previously mentioned, we believe uncertainty in the aerospace market with the grounded 737 MAX, along with the other demand reduction issues such as lower base business CPI, impacted the quarter.

Net revenues were \$108.5 million in the first quarter of fiscal 2020, which was 1.3% higher than last year's first quarter. Other revenue contributed to this increase was solid increases in toll conversion over the past year. Average selling price in the first quarter of fiscal '20 was \$25.69 per pound, inclusive of our other revenue, up about 3.9% over last year's first quarter. With that, let me move to our key markets.

Sales to the aerospace market accounted for 54% of our revenue at \$58.8 million in the first quarter of fiscal '20. This represents an increase of 7.9% from the same period last year due to a 9% increase in volume, partially offset by a 1.2% decrease in average selling price per pound. The increase in volume is due to the planned outage that was undertaken last year in the first 3 months of fiscal '19, partially offset by lower shipments as the supply chain was beginning to be impacted by the aerospace issues previously mentioned.

Sequentially, revenue in aerospace market declined 13.9% in the first quarter of fiscal '20 compared to the fourth quarter of fiscal '19. Backlog dollars in aerospace decreased sequentially from Q4 to Q1 by 1.4%.

Sales to the chemical processing market accounted for 15% of our revenue at \$16.7 million in the first quarter of fiscal '20. This represents a decrease of 11.7% from the same period of fiscal '19 due to a 12.2% decrease in volume, partially offset by a 0.7% increase in average selling price per pound. Base business volumes have decreased in the first 3 months of fiscal '20 from the same period of fiscal '19, partly due to a decrease in sales to China driven by continued retaliatory tariffs. However, partially offsetting this base business decline was an increase in specialty application project revenue in the first 3 months of fiscal '20 compared to the same period last year.



Sequentially, revenue in the chemical processing market declined 39.8% in the first quarter of fiscal '20 compared to the fourth quarter of fiscal '19, due in large part to seasonality issues, China tariffs and lower special project shipments. Backlog dollars in CPI decreased sequentially from Q3 to Q4 by 4%.

Sales to the industrial gas turbine market accounted for 13% of revenue at \$13.8 million in the first quarter of fiscal '20. This represents a decrease of 2.3% from the same period of last year due to a decrease of 3.9% in average selling price per pound, partially offset by a 1.7% increase in volume. The small increase in volume is primarily attributable to a slight increase in large frame turbines, which represents a favorable turnaround after the previous quarters of reported demand weakness.

However, partially offsetting this is a slight decrease in demand in the small and medium frame engines, which has slowed down mainly due to the oil and gas market. Overall, we still believe challenges remain in the industrial gas turbine market. Sequentially, revenue in this market declined 12.8% in the first quarter of fiscal '20 compared to the fourth quarter of fiscal '19. Backlog dollars in industrial gas turbines increased sequentially from Q4 to Q1 by 31.8%, coming off of very low levels. We continue to see meaningful potential opportunities here for market share growth for Haynes.

Other markets accounted for 11% of revenue at \$11.9 million in the first quarter of fiscal '20. This represents a decrease of 16.9% due to a 39.9% decrease in volume, partially offset by a 38.3% increase in average selling price compared to the same period of fiscal '19. The decrease in volume was primarily due to a decline in sales to the flue gas desulfurization market. The increase in average selling price reflects a higher-value product mix and improved pricing.

Sequentially, revenue in the other markets increased 7.6% in the first quarter of fiscal '20 compared to the fourth quarter of fiscal '19. Backlog dollars in our other markets increased sequentially from Q4 to Q1 by 1%.

Other revenue accounted for 7% of revenue at \$7.3 million in Q1. This represents an increase of 40.3% from the same period of fiscal '19. The increase was primarily due to increased toll conversion. Sequentially, other revenue increased 8% in the first quarter of fiscal '20 compared to the fourth quarter of fiscal '19.

One final item before I hand the call over to Dan. I wanted to acknowledge the important message sent by the CEO of BlackRock, our largest shareholder, in his recent letter to CEOs. Larry Fink has urged the companies in which BlackRock invests to address the issue of sustainability and risk management of climate change-related issues. We take seriously our responsibility for responsible environmental stewardship as well as being aware of the impacts we have on all stakeholders at Haynes. I intend in the coming months to work with our Board and management team to evaluate our practices and disclosures as they relate to sustainability and climate change risk, and we will report in due course on our progress in assessing and managing the risks related to these issues.

Now let me turn the call over to Dan for more details on our financials.

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**Daniel W. Maudlin** - Haynes International, Inc. - VP of Finance, Treasurer & CFO

Thank you, Mike. This quarter, we achieved a gross margin as a percentage of net sales of 17.3%. This is our highest gross margin percentage in 16 quarters going back to fiscal 2015, which was a year with many special projects. This solid gross margin percentage shows the traction we are achieving in our improvement-focused initiatives related to better pricing, lower costs and better efficiency. In addition, it has lowered our earnings breakeven point, lessening the absorption impact when volumes are lower.

This quarter, we generated \$3.3 million in earnings despite volume of only 4.2 million pounds. The gross margin headwinds that we discussed in prior year fiscal 2019 related to cobalt and our cold finishing upgrade have alleviated as expected.

As we move through fiscal 20, additional challenges exist. Three notable challenges include: number one, aerospace market uncertainty outlined in detail already by Mike; number two, tariffs that remain on product we ship into China. This has unfavorably impacted our base business chemical processing volumes and continues to be a difficult competitive environment with non-U. S. producers. And number three, property insurance. As



we mentioned last quarter, the market for property insurance has tightened dramatically. There is much less capacity available, which is resulting in an additional annual expense of \$2 million recognized primarily in cost of sales.

The specialty application projects this quarter were \$8 million compared to last year's first quarter of \$6 million and compared sequentially to Q4 of FY '19 of \$9.6 million. We achieved a better margin percentage in these special projects in Q1 than was achieved in any quarter of last year.

Moving down the P&L, SG&A, including research and technical expense, was \$12.4 million in the first quarter of fiscal '20. This is \$400,000 higher than the same period of last year, which related primarily to foreign currency changes. We expect SG&A, including research and technical expense, in fiscal '20 to be approximately \$50 million.

With a solid gross margin percentage, operating profit improved by \$7 million in the first quarter of fiscal '20 compared to the same period last year on only slightly higher revenue.

Nonoperating retirement benefit expense on the P&L was \$1.7 million, which nearly doubled compared to last year's Q1 of \$900,000. This was due to the 9/30/2019 valuation in which the discount rate declined, which significantly increased our liability on the 9/30/2019 balance sheet and is now increasing fiscal year '20 annual expense by \$4.8 million as compared to fiscal 2019. Approximately \$3.4 million of this increase is reflected in nonoperating retirement benefit expense on the P&L or \$850,000 per quarter. And the remaining \$1.4 million or \$350,000 per quarter is an increase in cost of goods sold. And to finish off the P&L, our effective tax rate for this quarter was 26%, and net income was \$3.3 million or \$0.26 per diluted share.

Backlog increased 1% over the first quarter to \$237.6 million at December 31, 2019, and was relatively even with backlog at the end of the first quarter of last year. As Mike pointed out, the backlog increase was driven by the industrial gas turbine market.

Outlook for next quarter. We are anticipating a continuation of the reduced demand into the second quarter of fiscal 2020 due to the uncertainty in the aerospace market surrounding the Boeing 737 MAX production. As we manage through these issues, our improvement initiatives continue to positively impact our results.

We expect revenue and earnings in the second quarter of fiscal '20 to be higher than the first quarter of fiscal '20 as we move past seasonality issues that impacted the first quarter. Compared to last year's second quarter, we expect revenue in the second quarter of fiscal '20 to be lower than the prior year second quarter of fiscal 2019. However, earnings are expected to be higher than prior year.

Moving to liquidity. We continue to have 0 borrowings on our credit facility at December 31, 2019. Cash on the balance sheet was \$33.6 million, representing a \$2.6 million increase over the quarter and a \$22 million increase compared to the end of the first quarter of the last fiscal year.

Net cash provided by operating activities was \$7 million in the first 3 months of fiscal '20 in spite of cash used from increasing inventory of \$20 million. Offsetting a portion of the inventory was cash generated from accounts receivable with solid cash collections from the previous quarter's higher sales and profitability.

The inventory increase this quarter was due to a few different factors: number one, lower shipping levels left a bit more in finished goods than normal; number two, when production slows and melt shop consumes less scrap, the hard scrap in inventory typically increases; and number 3, we have placed strategic inventory and work in process, semi-finished and finished inventory stages to allow for quicker response time when demand improves, especially in the aerospace market.

Heading into Q2, we expect inventory to drop moderately as we work through excess scrap at our Kokomo mill. A more substantial reduction would be contingent on the timing of a bounce-back in orders expected once the aerospace uncertainty is resolved.

Capital spending was \$2.3 million in the first quarter of fiscal '20 as compared to our depreciation level of \$4.8 million for the quarter. The forecast for capital spending in all of fiscal '20 is \$12 million.

In conclusion, looking forward, we see short-term challenges, which are expected to impact our fiscal '20 volume levels. Our team is managing through this period of lower demand, and we believe that we will continue to show positive momentum stemming from the execution of our improvement initiatives. This, combined with our continued strategy of thoughtful capital allocation, is designed to enhance shareholder value over the long term.

Mike, with that, I will now turn the discussion back over to you.

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**Michael L. Shor** - Haynes International, Inc. - President, CEO & Director

Thanks, Dan. We've made steady progress as we first launched and then implemented a series of focus improvement initiatives designed to improve the performance of our company. As we look forward, we see short-term challenges in the aerospace market, which are expected to impact our fiscal '20 shipments. Our team is managing through this period of lower demand, and we believe that we will continue to show positive operational momentum stemming from the impact of our improvement initiatives.

Before I hand the call over to questions, one more thing. I would like to welcome our new Board member, General Larry Spencer, Retired United States Air Force 4-Star General. We look forward to working with Larry and leveraging his experience and leadership skills gained in the Air Force and through his extensive knowledge of the aerospace industry. We're fortunate to have a person of Larry's accomplishments join our Board.

With that, Kat, let's open the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question comes from Edward Marshall from Sidoti & Company.

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**Edward James Marshall** - Sidoti & Company, LLC - Senior Equity Research Analyst

Very nice job on the gross margin there.

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**Michael L. Shor** - Haynes International, Inc. - President, CEO & Director

Thank you.

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**Daniel W. Maudlin** - Haynes International, Inc. - VP of Finance, Treasurer & CFO

Thank you.

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**Edward James Marshall** - Sidoti & Company, LLC - Senior Equity Research Analyst

I'm curious, you've got property insurance, pension -- higher pension costs, lower raw materials and the impact of that flow-through on the gross margin. I'm curious, as we talk about breakeven points, what do you think the new level is from a volume perspective as it runs through your mill? A lot of variables there to consider.



**Daniel W. Maudlin** - Haynes International, Inc. - VP of Finance, Treasurer & CFO

Yes, it's a good question. I mean we have previously mentioned we need to get to that 5 million per -- 5 million pounds per quarter level to really alleviate that headwind, and we were certainly below that this quarter at 4.3 million and still generating \$3.3 million in earnings. So we would expect our new breakeven point to be somewhat lower than the 4.3 million pounds. Exactly what that is, I'm not sure. You mentioned raw materials. This quarter, we had really an increase in raw materials. It's since decreased to current levels, but that increase had only really a slight tailwind to margins and helped margins but really only a moderate or slight level.

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**Michael L. Shor** - Haynes International, Inc. - President, CEO & Director

Ed, it's Mike. For us, the key -- and we've talked about this for quite a while. The key is truly finding ways to change this business by increasing our gross margin and driving, as you said, the breakeven down. The large majority of this is related to the price increases and the cost reductions, which are occurring throughout the company. So we're proud of that, and we're thrilled with where it's taken us given the 4.2 million pounds that we shipped.

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**Edward James Marshall** - Sidoti & Company, LLC - Senior Equity Research Analyst

Got it. And maybe I can ask it a different way then. Maybe you talked about best-in-class margins. And I'm curious, what are you targeting not necessarily from an overall number perspective but maybe from timing? And then, ultimately, where do you think breakeven points could go as volume -- as your business improves, your cost scenario improves?

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**Michael L. Shor** - Haynes International, Inc. - President, CEO & Director

I don't think we've seen the end of where we can go on gross margins. I think there's room to continue to improve them. Obviously, we have some headwinds related to absorption at the volume levels we have. But as I've said before, to be best-in-class, we've got to be north of where we are now at 17.3% and continue to look percentage point by percentage point increase. We are far from done in what we're trying to do related to cost reduction throughout our operations and even eke out incremental price increases even in this environment. So there's more out there. We've got to get some volume back, obviously, as the markets cooperate.

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**Edward James Marshall** - Sidoti & Company, LLC - Senior Equity Research Analyst

You have a -- talked about aero volumes this year. And I'm curious, when I think about the trajectory of aero volumes in 2020, do you have a sense as to what the impact might be for Haynes as we move through from a volume perspective?

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**Michael L. Shor** - Haynes International, Inc. - President, CEO & Director

Yes, let me give you some facts. We've obviously spent a fair amount of time on this. And honestly, as everyone says, we have also stayed very close to our customers and have tried to understand where they are. And they're still learning. They're still trying to figure this out, both on the airframe and on the engine side. But when you take a step back and look at the MAX and the impact, our estimate is the MAX is about 8% of our volume. And when we say that, obviously, we know, fundamentally, there are very good trends in the industry. You've seen them as I have with where they -- where Airbus has gone '18 to '19, where the A320 has gone, with the 777 now coming online. Even with the GE9X, which are -- with our proprietary alloy on it. So we've got good stuff going there.

But going back to the point, we've got 8% estimated volume in 737. In addition to that, and I referenced it on the call, Pratt & Whitney 1100 engine, again, to the A320 proprietary alloy, we were trying to catch up for probably a year and make sure we did a great job in supply. Well, we did a great job and now that supply -- or the supply chain there is full. But that -- as we move into this calendar year, that will drop off also. We know it's happened on a late production.



What we've seen with our customers is some cautiousness and some cash conservation. So our customers are saying, beyond the 737, if they have platforms with full supply chains, we'll pull back a little on that. The offset to that, of course, is military and defense is good. MRO continues to be strong. So it's -- we certainly are going to see an impact. When we look at our business, overall, we did \$108.5 million in the quarter. And typically, rough number, 23%, plus or minus of our sales are in that Q1. So gives you a feel for where we'll be.

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**Edward James Marshall** - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Got it. Got it. One for me. You're generating earnings again. Your -- you've done that for a couple of quarters now, and that's leading to better cash. You talked about some inventory initiatives and some receivable kind of pluses and minuses around your receivables. But I'm looking out as we start to generate more cash. Some may say you're slightly under-levered from this point. Is there any change to maybe the capital allocation, what you might do from using your balance sheet a little bit to kind of spur your growth? Any thoughts there?

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**Michael L. Shor** - *Haynes International, Inc. - President, CEO & Director*

A couple of things there. I can't talk about capital allocation unless I mention the fact that we did build \$23 million of inventory in the quarter. And our -- Dan spelled out in his script the reasons why and got to continue to find ways as we get a handle on the business and the volumes that we'll be dealing with in driving that down, and I'm confident we will be able to do that as we move forward.

As from a capital allocation standpoint, #1 priority for me is to look ahead. Try to look around the corner and prepare ourselves when the aerospace business gets out of this, having flexible short-term inventory available. So we've invested some money as our volumes have dropped in putting inventory in, in what we call our supermarket. So we have short lead time, potentially higher price opportunities when this thing begins to turn around. And so that's number one.

Number two, we're always looking to make sure that we enhance what our core competency is, which is our technical strength. So bringing in the people -- and we talked about this on the last call, bringing the people we need to bring in to make sure that we continue to maintain our lead, what we are doing related to our alloy and our market development. Beyond that, obviously, we've got the pension, and we and the Board look at the pension every day. And then beyond that, obviously, we will work with the Board and try to determine whatever is best for shareholders we'll look to do.

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**Operator**

And our next question comes from Michael Leshock from KeyBanc Capital Market. (Operator Instructions)

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**Michael David Leshock** - *KeyBanc Capital Markets Inc., Research Division - Associate*

So firstly, I just wanted to ask about the magnitude of the nickel price tailwind in the first quarter to gross margins and kind of what you're forecasting there to see in 2Q, assuming prices remain around the levels they're at right now.

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**Daniel W. Maudlin** - *Haynes International, Inc. - VP of Finance, Treasurer & CFO*

Right. For us, being a mill and service centers and global service centers, generally, we're long in nickel. So an increase in nickel, which happened from the quarter we're talking about here, would be a bit of a tailwind and expansion of margins. But really, it went up for such a short time. That's a pretty small impact. For this quarter, we measured it at well under \$1 million. So since then, prices have declined. Nickel, I think, is now around the [5 75] level, at least it was yesterday. So that would likely unravel as well but still a very small, negligible amount on our earnings and earnings per share. Does that help?



**Michael David Leshock** - KeyBanc Capital Markets Inc., Research Division - Associate

Okay. Yes. And then you mentioned you're seeing some of the adjustments in the supply chain outside of the 737 MAX. Can you provide any more color around what you're alluding to there? Or if there are any specific platforms more prominently associated with the shifts that you're seeing in the supply chain?

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**Michael L. Shor** - Haynes International, Inc. - President, CEO & Director

Sure. A couple of things on our end. I mentioned this when I was responding to Ed. We are -- we have proprietary alloy in the Pratt & Whitney Engine, which is going in the A320, and that we are now in a position where the supply chain of our customer is fairly full. So that is something which is a temporary issue, which will bounce back early in this calendar year. Then the other thing, in general terms, obviously, we're not supplying directly to the engine manufacturers or to the airframe manufacturers. We're supplying to customers that have products going into various platforms. And what we've seen from them is a concern on what will be coming with the 737. So they're a bit more cautious about what else they have. Everybody, for the past 1.5 years, 2 years has been catching -- or has been running to catch up to make sure their inventory supply chains are full. They've done that. And so they're being a little more cautious across platforms, not necessarily a specific product, just starting to bleed off some of their inventory and their supply chains.

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**Michael David Leshock** - KeyBanc Capital Markets Inc., Research Division - Associate

Okay. And then looking at your other market segment, there was very strong pricing you realized there in the quarter. Could you talk a little bit about what products drove that increase in pricing and if you view that sustainable going forward?

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**Daniel W. Maudlin** - Haynes International, Inc. - VP of Finance, Treasurer & CFO

Yes. That market, obviously, other markets category have many different and diverse submarkets to it. So really, when you see changes in average selling price there, it's likely more related to product mix than it is pricing. I mean, certainly, we're always pushing pricing on our high-value differentiated products. And certainly, anything with a contract, not so much in other markets, but a lot of annual contracts come due here in January, so we'll certainly be pushing it there as well. But in other markets, it's really a mix issue more than price increases.

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**Michael David Leshock** - KeyBanc Capital Markets Inc., Research Division - Associate

Got it. And then just lastly for me, any long-term aerospace contracts -- or contracts that are on the radar that might be coming up for renewal or in the negotiation process?

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**Michael L. Shor** - Haynes International, Inc. - President, CEO & Director

We have contracts that come up throughout the year for us. Typically, January is the heaviest period for us. We've negotiated those contracts. We feel good about where we've ended up related to pricing on those. But this is an ongoing process for us and nothing out of the ordinary. So we'll just keep pushing along and working very hard not to make sure -- to make sure our pricing momentum continues.

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**Operator**

And we have Ed Marshall again from Sidoti & Company.

**Edward James Marshall** - *Sidoti & Company, LLC - Senior Equity Research Analyst*

In quarters past, you've provided kind of some color or some granularity around the backlog dollars. I'm curious if you can kind of talk about, so I can get a gauge on the order book, mainly between the 3 different segments and how the components may have grown or slowed in backlog in the fourth -- in the first quarter, if you have that detail.

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**Daniel W. Maudlin** - *Haynes International, Inc. - VP of Finance, Treasurer & CFO*

Yes. I mean we kind of outlined it a bit in Mike's script. You -- as I mentioned as well, the big increase that we saw was in the industrial gas turbine market. So that had a pretty substantial increase in the backlog and that is really a market that's coming off the bottom. So we're seeing some signs of life there, especially in the larger frame engines, which, in our past calls, we've been pretty pessimistic on the large frame power generation. And that seems to be having a little more improvement than we've seen and some of the small frame, medium frame is slowing down a bit, but of course, offsetting that is the large frame. So that went up pretty dramatically.

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**Michael L. Shor** - *Haynes International, Inc. - President, CEO & Director*

Before you go on, just a point of color I met yesterday with one of our sales guys. And obviously, we go through the markets and what's going on. And for the first time in, well, since I've been here, when I brought up large frame IGT, his eyes lit up and talked about some potential opportunities. So we're at the bottom. We're bouncing off the bottom, but it's good to hear some positive comments. Sorry, Dan, go ahead.

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**Daniel W. Maudlin** - *Haynes International, Inc. - VP of Finance, Treasurer & CFO*

That's fine. And aerospace went down slightly, 1.4% backlog in dollars, kind of offset by other markets, went up 1% and CPI, down 4%. And I think that's related to what we've been speaking here about the China retaliatory tariffs and all that. And we certainly have our eyes open to the coronavirus and what that may do to the markets. Obviously, we're not really pulling that much product from China. We're more shipping into China. But if the overall economy of China slows, that would be a headwind to us, but we're keeping our eyes on that as well.

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**Edward James Marshall** - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Got it. And to Mike's previous question about the other markets, would the (inaudible) be represented -- would that represent less flue gas desulfurization? I mean would that improve the mix dollars per pound that's being shipped in that business? You said -- I think you said in the press release that you saw less of that content.

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**Michael L. Shor** - *Haynes International, Inc. - President, CEO & Director*

Yes. FGD for us has potential to have some volume, but very, very low margin. So we continue to look at that market to understand if we can continue to find ways to reduce our costs. But that is a -- when it's in here, it's higher volume and it's very low margin.

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**Operator**

And there appear to be no questions in the queue. I'd now like to turn the floor back to Mike Shor.

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**Michael L. Shor** - *Haynes International, Inc. - President, CEO & Director*

Thanks, Kat. Thank you, everyone, for your time today, and thank you for your interest and support of Haynes. We look forward to updating you again next quarter. Take care.

## Operator

Thank you. This does conclude today's conference. We thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.

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