

**Operator:** Greetings. Welcome to the Graham Corporation Fourth Quarter and Full Fiscal Year 2019 Financial Results Conference Call. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, Karen Howard, Investor Relations for Graham Corporation. Ms. Howard, you may begin.

**Karen Howard:** Thank you, Omer, and good morning, everyone. We appreciate you joining us today to discuss Graham's fiscal 2019 fourth quarter and full year results. You should have a copy of the news release that was distributed across the wires this morning. We also have slides associated with the commentary that we're providing here today. If you do not have the release or the slides, you can find them on the company's website at [www.graham-mfg.com](http://www.graham-mfg.com).

On the call with me today are Jim Lines, our President and Chief Executive Officer; and Jeff Glajch, our Chief Financial Officer. Jim and Jeff will review the results for the period, as well as our outlook. We will then open the lines for Q&A.

As you are aware, we may make some forward-looking statements during this discussion, as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties, as well as other factors which could cause actual results to differ materially from what is stated on the call. These risks and uncertainties and other factors are provided in the earnings release and in the slide deck, as well as with other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at [www.sec.gov](http://www.sec.gov).

I also want to point out that, during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables accompanying today's earnings release.

And with that, it's my pleasure to turn the call over to Jeff to begin. Jeff?

**Jeff Galjch:** Thank you, Karen, and good morning, everyone. Please turn to **slide 4**.

Q4 sales grew 7% to \$23.6 million. In the quarter, we had a net loss of \$4.6 million, which was primarily due to an impairment charge of \$5.3 million related to our commercial nuclear utility business which we've decided to divest. We've initiated the process and are in serious negotiations with a potential buyer. Excluding the impairment charge, we had net income of \$800,000 or \$0.08 per share.

Orders in the quarter were \$21.6 million, yielding a \$132.1 million year-end backlog which, while just below the Q3 backlog, was easily a record for a year-end backlog.

For the full year, revenue grew 18% to \$92 million. Full year net income was a small loss of \$300,000, but was \$5 million of income when excluding the aforementioned impairment charge. Orders for the year were just above \$101 million. And again, the backlog ended the year at \$132 million.

Turning to **slide 5**, Q4 earnings were similar to the same quarter last year with the 7% higher sales offset by lower gross margins, about 210 basis points below last year's Q4. The lower margin was primarily due to the commercial nuclear utility business as well as one China project. Sales in the quarter were 70% domestic, 30% international, which compares to 66%

domestic and 34% international last year. The similar EBITDA and EPS numbers are adjusted for the impairment charge.

On to **slide 6** you'll see full year sales increased to \$91.8 million from \$77.5 million. Sales were 65% domestic, 35% international compared with 67% and 33%, respectively, last year. As a side note, our commercial nuclear business which, as I mentioned we are planning to sell, represented about 9% of fiscal year 2019 sales.

Gross profit for the year was \$21.9 million, up from \$17 million primarily due to higher volume as well as a 200 basis point higher gross margin at 23.9%. SG&A was \$17.9 million, up from \$15.8 million last year as we are investing in our business for future growth. The adjusted EBITDA margin was 7.7%, up from 5.4% last year and the adjusted net income per diluted share, or EPS, was \$0.51 compared with \$0.18 last year.

Moving on to **slide 7**, our cash position increased \$1.3 million in fiscal 2019 to \$77.8 million or \$7.90 per share. We have good operating cash flow, paid \$3.8 million in dividends and spent \$2.1 million in capital spending in the year. In fiscal year 2020, we expect capital spending to be in the \$2.5 million to \$2.8 million range.

Finally, as we look at our balance sheet and our strong cash position, we continue to have our business development team, our management team and our Board focused on utilizing that balance sheet to opportunistically identify and close on acquisitions, which have both near- and long-term benefit to our shareholders. We continue to be excited about the opportunities that we're seeing in our acquisition pipeline.

Jim will now complete our presentation on fiscal year 2019 and comment on our outlook for fiscal 2020. Thank you.

**Jim Lines:** Thank you, Jeff. Good morning, everyone, and thank you for joining our fourth quarter conference call. I'm picking up where Jeff left off at **slide 9**.

Refinery and petrochemical end markets showed improvement on a quarter and full year comparison basis. This principally was due to stronger activity in our domestic markets. For refinery sales, there was a good mix of domestic sales to independent and integrated refiners. In most cases, these sales were for revamp and debottlenecking projects where refiners invested to improve either throughput or conversion of crude oil to fuels.

Important to note, the full year revenue was driven by replacement and metallurgical upgrades from our installed base in the Canadian oil sands region. I highlight that because one order was rather large and not necessarily repeatable. Quarter-over-quarter, refining end market sales were up \$1.7 million. And for the full year, sales more than doubled compared to those of fiscal 2018. Likewise, chemical and petrochemical end market sales are up due to ongoing strength in our domestic markets. Low-cost natural gas in North America, which is a principal feedstock for the chemical industry, is what has spurred U.S. investment in new capacity and for revamping or debottlenecking the installed base.

Chemical industry sales more than doubled quarter-over-quarter and are up 20% on a full year basis. Sales to other markets, including defense, are down quarter-over-quarter and year-on-year. The primary cause for this, which we did address a couple of quarters back, there's a push in the fabrication schedule for certain naval orders and backlog. This impacted 2019 top line and also will impact 2020. Naval work can have that occur, especially if orders are for new vessel programs.

2019 domestic sales were 65% of total for the full year and 70% in the quarter, which is similar to 2018. If sales for the naval end market are extracted, which can overweight domestic sales, sales in 2018 and 2019 were 60% domestic and 40% international.

Please turn your attention to **slide 10**. The downward trend in trailing 12-month orders is due to customer timing. We had expected stronger order levels in the fourth quarter and also in April and May. However, refining and certain petrochemical customers pushed order decisions. We have, however, developed a large opportunity set of bids for international refining end markets that is projected to close in the coming quarters. And there are a significant set of opportunities for U.S.-based petrochemical plants.

We added to the graph the light blue trend line. It was difficult to easily understand the trend of orders from Graham's traditional end markets that exclude U.S. Navy and commercial nuclear utility end markets. This is shown with the light blue line, showing that the trailing 12-month orders are up about 100% from the low watermark ending the second quarter of fiscal 2018. While order levels have not been as strong as we anticipated, the pipeline for potential orders is strong, however, with a large number of projects planned to close in fiscal 2020, such that we anticipate that backlog will expand across fiscal 2020.

On to **slide 11**. Overall, and as Jeff has said, backlog is at a great level with \$132 million. Navy orders are approximately half of the backlog as of March 31; \$8 million of backlog is for the commercial nuclear utility business that is held-for-sale. Year-on-year, backlog expanded 12% with considerable expansion of backlog that is for chemical and petrochemical end markets. Of the 7% of backlog for power end markets, 89% of that is related to the held-for-sale commercial nuclear utility business. 55% to 60% of backlog is planned to convert into sales in fiscal 2020, 10% to 15% is planned for fiscal 2021 and 25% to 35% beyond fiscal 2021.

Please now turn your attention to **slide 12**. Revenue guidance is between \$95 million and \$100 million for fiscal 2020. This excludes the held-for-sale commercial nuclear utility business. This does represent 14% to 20% top line growth for our ongoing business. We are structured for greater top line capability, however, order timing in January through today has not yet played out. I mentioned previously that customers pushed order placement decisions. In certain cases, the push, we believe, is just a couple of months and in others a couple of quarters. Nonetheless, with the order-to-shipment cycle for large project orders being 12 months to 18 months, these order placement delays caused us to judge 2020 top line to be in the \$95 million to \$100 million range.

Gross margin modeling is 23% to 24%. I do wish to provide some context for why gross margin is set at this level. As I noted, we are structured for greater top line capability and additional personnel planned for fiscal 2020 will be added based on our multi-year outlook for the naval end market and the encouragement that our refining and chemical end market bid pipeline offers. I previously noted that we are anticipating year-on-year backlog expansion by fiscal 2020 year end. Thus, personnel adds now are necessary. It is not always possible to align personnel additions perfectly with corresponding revenue. I am investing now for building a bigger, better, Graham, and consequently, that will pressure margin in 2020.

Projected SG&A spend is \$17 million to \$18 million for fiscal 2020. Our effective tax rate will be approximately 20%.

Omer, please open the line now for questions. Thank you.

**Operator:** At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Theodore O'Neill, Litchfield Hills Research. Please proceed with your question.

**Theo O'Neill:** Thank you. Good morning.

**Jeff Glajch:** Good morning, Theo.

**Theo O'Neill:** Jeff, a question for you on the Energy Steel business. So, in fiscal third quarter 2018, you recorded an impairment charge of nearly \$15 million against it, and you were citing at the time that it was because of the work stoppage at the Vogtle and Summer nuclear power plants caused by the bankruptcy of Westinghouse Electric. Was that the final nail in the coffin for Energy Steel? Or has the business environment worsened?

**Jeff Glajch:** Theo, thanks for your question. As you have mentioned, we did have a write-down in the third quarter of fiscal 2018. At that point in time, things were occurring with Westinghouse and with the new builds in North America, and the market had weakened some. Over the last 15 months, for us, the market weakened further. And as the refocus of the nuclear industry has occurred, it became apparent to us that there are going to be fewer suppliers and there's going to be downward pressure on pricing in that market. We just felt that we were not well positioned, or vertically integrated enough, in that market to be successful. So, the market has worsened. Also, we've ended up in a position that was not favorable for us to continue in that market.

**Theo O'Neill:** Okay. And going forward, will that just be recorded as a single line as discontinued operations? Or is that going to be still part of the whole P&L?

**Jeff Glajch:** In the immediate term, it will be in the P&L. When you look at the balance sheet, you will see asset held-for-sale as one line and liability held-for-sale as another line. But it will be included within the P&L. It's not considered a discontinued operation from an accounting standpoint. Our expectation is to have this sale completed possibly this quarter, or hopefully not too far into the second quarter. But we're targeting having the sale completed, ideally, by the end of the first quarter.

**Theo O'Neill:** Okay. On the balance sheet, this is the fourth quarter in a row where you've had more than \$20 million in inventories. Can you talk about the genesis of this and if this is the new normal?

**Jeff Glajch:** Sure. If you were to go back and then look at the balance sheet as of the end of last fiscal year, you'd see a significantly lower amount of inventory. But you'd also see a significantly lower amount of customer deposits. One of the changes which occurred with the new revenue recognition rules was that we could no longer, on the balance sheet, net out the customer deposits which were specifically used to purchase inventory on the balance sheet itself. It used to be we would net out a portion of customer deposits against inventory.

And then, if you look in the footnotes, you would see, here's the gross inventory, here's the net inventory netted for those customer deposits. We're no longer allowed to do that. So, you would have seen in the quarter that ended in June, and in subsequent quarters a big step-up in both inventory, somewhere in the neighborhood of \$10 million, and a step-up in customer deposits of a similar amount. So, nothing has changed from an operation standpoint, it's simply how we are now required to account for it.

**Theo O'Neill:** Okay. Thanks very much.

**Jeff Glajch:** Sure.

**Operator:** Our next question comes from Joe Mondillo, Sidoti & Company. Please proceed with your question.

**Joe Mondillo:** Hi, Jim and Jeff. Good morning.

**Jeff Glajch:** Good morning, Joe.

**Jim Lines:** Good morning, Joe.

**Joe Mondillo:** I was just wanted to ask you about the chemical/petrochem order trends that you've seen and just wondering what kind of timing this has transpired. And just relative to the calendar year itself, is there any concern or worry regarding volatility in oil prices, and just the general economy overall that these projects could be backburnered for a while or continue to be pushed out?

**Jim Lines:** Joe, this is Jim. We do not necessarily have that concern, while we are looking at the overall economy and seeing if it's slowing down and if that will impact the pace of order decisions. But what we can judge from the contacts that we've had with our customers is, it's not a near-term economic decision that was causing them to push order decisions to the right. Some of it had to do with M&A that was going on within our end markets by our customers, and then rationalizing their businesses and just waiting until they decided what assets went where. We think that's now behind a couple of customers. That should enable them to move forward with the projects that are installed base revamps, restarting some idle plants or expanding the capability of existing plants. We think those are very promising projects. There's nothing suggesting that will not go ahead. There is also some other work in the petrochemical space around new capacity that seems very solid to us, not susceptible to the backburner or being shelved, which really would be the concern. We still feel very, very optimistic that the order environment across fiscal 2020 will translate into backlog expansion in a meaningful way.

**Joe Mondillo:** Okay. And then, on the oil refining side of things, the orders have been fairly stable, if you take out the second quarter, which was a pretty big quarter. What do you see going on in that market, especially with oil prices certainly being much more volatile, knowing that a large part of your customers are the integrated companies and volatile oil prices do affect their businesses and how they manage them. So, what are you hearing within that side of the business?

**Jim Lines:** We are very excited about the amount of work we've identified and are bidding in refining on the international front around new capacity, and that we will at least participate in through the bidding process, and that we hope to secure for Asia, India, China, elsewhere in Asia. There are a very large set of opportunities projected to close in 2020. Also, on the domestic front, we really do not see a behavioral change by our end markets there. The independents will continue to invest and try to find ways to improve throughput and get more fuels out of a barrel of oil. Regarding more integrated refiners, I do not see much change there either. Really, North America appears to be stable with a step-up in pet-chem.

**Joe Mondillo:** Okay. Great. And then, on the Navy side of things, in the past couple of quarters it seems like some work has been pushed out due to the timing with how the ship-build and submarine builds have been progressing. Can you give us an update on that and how you're thinking about how work, or your shipments trend over the next several quarters or couple of years?

**Jim Lines:** With the adjustments we made and spoke about, I think it was two quarters ago, we are now looking at, across 2020, a fairly stable quarter-to-quarter revenue level, having now



adjusted how the backlog should convert. And then, it should begin to expand in 2021 and 2022. Just by way of comparison, from a rough perspective, fiscal 2020's naval revenue should be comparable to that of 2018 and 2017 and will be roughly twice what it was in 2019.

**Joe Mondillo:** Okay. Great. That does it for me for now. Thanks for taking my questions.

**Jim Lines:** You're very welcome. Thanks, Joe.

**Operator:** Our next question comes from Tate Sullivan, Maxim Group. Please proceed with your question.

**Tate Sullivan:** Hi. Thank you. Thanks for that detail on the Navy revenue progression. And it sounds like it's stable for 2020. Are there any variables to the timing of delivery to the equipment that you're making for the current aircraft and submarine schedules and what happened before versus what are the risks that something similar can happen again in 2020, please, for Navy orders?

**Jim Lines:** Sure. The primary risk around backlog conversion for our naval work is around a new vessel program, which is the design effort and going through the regulated approval process to commence the next stages of fabrication. That can be an execution risk. That represents, round numbers, maybe half of our backlog as a program. The more build-to-print work around repeat orders has a more predictable flow of backlog conversion. And then, importantly, as we look at the opportunities that are beginning to show up in the bid pipeline, we do anticipate that there will be some sizable new orders that could come into our backlog across fiscal 2020.

**Tate Sullivan:** Okay. Thank you for that. I think I saw – I think it was Huntington who recently started laying their steel for the first Columbia-class submarine. And correct me if I'm wrong, but have you given any context for potential margins on your Navy work versus your other work or – I understand if you cannot.

**Jim Lines:** No. We really have not at a quantitative level. More directionally, we have indicated that the naval work tends to carry a lower gross margin, however, will blend in the operating margin satisfactorily. But we've not given any specifics on that for competitive reasons and logical reasons.

**Tate Sullivan:** Okay. Thank you. And the last one for me, separately, I see you're retaining some of your power plant business. I think it's the remaining 11% of your power projects in backlog. How does that differ? I mean, besides being a different type of plant, is it different types of equipment for different types of power plants? Or what are you retaining and why did you decide to retain that, please?

**Jim Lines:** Sure. Our held-for-sale components of our backlog are related to the commercial nuclear utility market. We also serve in the power market, renewable cogeneration - within renewable is geothermal, waste energy. That's the part of the power segment that we are retaining, which has a different execution, different sales model, different quality programs than would the nuclear market sales.

**Tate Sullivan:** Okay. Thank you very much. Have a good rest of the day.

**Jim Lines:** You're welcome.

**Operator:** As a reminder, we are now conducting a question-and-answer session. [Operator Instructions] Our next question comes from Bill Baldwin, Baldwin Anthony Securities. Please proceed with your question.

**Bill Baldwin:** Good morning, Jim and Jeff.

**Jeff Glajch:** Good morning, Bill.

**Jim Lines:** Good morning, Bill.

**Bill Baldwin:** Can we still work with the target gross margin looking out to mid-cycle in the 30% area? Is that still a reasonable expectation?

**Jim Lines:** We have not moved off of that vision and that expectation. What has to accompany that, though, Bill, just as a footnote or reminder, is a stronger order environment which then enables a stronger pricing environment. But that typically accompanies the gross margin lifts that....

**Bill Baldwin:** Right, right. Well, based on your commentary, if things unfold as expected, the 2020 / 2021 timeframe ought to be a pretty good environment for new order growth. Do you think that environment will be sufficient to support the kind of gross margins that you're expecting, Jim?

**Jim Lines:** We are certainly more encouraged about the size of our bid pipeline, our perceived timing of order placement and the quality of the work we expect to win. As we talked about in the past, new capacity has a different margin profile than installed base work. International refining work has a different margin profile than domestic refining work. Pet-chem has a lower margin profile than refining work. So, there's a lot of variables at play. But from a qualitative or directional perspective, we are expecting that we should see improvement in gross margin after we get through 2020.

**Bill Baldwin:** Very good. On the Navy business, you indicated about half of your backlog was new vessels, new capacity, but I didn't understand exactly where you indicated the other half emanates from what kind of work.

**Jim Lines:** I probably didn't speak very clearly. The naval programs, there are repeat builds for given vessel programs where the design is already set. And then, there's a new vessel program where they're building the first vessel and the new class of vessels.

**Bill Baldwin:** Right.

**Jim Lines:** We have some work that's for the first vessel of a new class. That has a more labored and a more staged engineering execution timeframe to build-to-print - we'll call it that for description. It has a more orderly execution flow.

**Bill Baldwin:** Right. Okay. Now, when you talk about potentially a meaningful pickup in your Navy business in 2020; is that related to new vessels or a combination of new plus your repeatable-type business?

**Jim Lines:** Just to qualify that, that was on the order front. That would be for both surface ships and submarines, principally surface ships.

**Bill Baldwin:** But would those be new designs or designs you already got on the books there?

**Jim Lines:** They would be designs that we already have completed.

**Bill Baldwin:** So, the repeatable business then?

**Jim Lines:** Right.

**Bill Baldwin:** Okay. Very good. I know, at one point, in one of the previous conference calls, you indicated that you were broadening out your exposure to potential Navy work, is that what we're potentially looking at in 2020 and beyond? Some examples of that?

**Jim Lines:** Well, we want to organically expand our supply within the programs we're currently in. Then, we're also looking at how we can structure with M&A to get more of the naval spend on the vessel programs, or related programs, that we're already in. So, one is, again, doing actions and strategic initiatives to gain more of the spend for what we organically can build, and then secondarily, because of the strength we see in the multi-decade vessel program, and the perception the Navy has with our capabilities and the quality of our organization - can we complement what we currently do with additional product through an M&A approach?

**Bill Baldwin:** Okay. Well, best of success with those programs. And I guess, just one final question. Does the SG&A guidance that we're looking at, does that have all your increased personnel expenses included in there? Or do you have additional personnel that will be coming on during 2020, and showing up in 2021?

**Jim Lines:** Right. The model that we've given in the guidance reflects the appetite that we have for adding personnel in this current environment and the projected 2021 / 2022 environment. So, we have incorporated that into our guidance.

**Bill Baldwin:** So, you're pretty well where you want to be then as far as personnel in that regard?

**Jeff Glajch:** Bill, this is Jeff. Just to interject, the guidance that Jim mentioned does have our headcount in there. What the guidance does not have is anything related to our commercial nuclear utility business. So, there will be some SG&A that has impacted the Company in previous year financials, which would not impact the Company in fiscal year 2020.

**Bill Baldwin:** Okay. So, the 2020 guidance, if I understand then, it does not include SG&A from Energy Steel?

**Jeff Glajch:** Correct.

**Jim Lines:** Right. The \$17 million to \$18 million excludes the held-for-sale element, and it incorporates our vision of adding personnel that go into the SG&A cost centers. So, you should not anticipate us to move above the \$17 million to \$18 million with the personal adds that I cited. That's already incorporated in that spend and the guidance.

**Bill Baldwin:** Very good. Thank you very much.

**Jim Lines:** You're welcome.

**Operator:** Our next question comes from Joe Mondillo, Sidoti & Company. Please proceed with your question.

**Joe Mondillo:** Hi, guys. Just a couple of follow-up questions. I'm curious, just sticking on Energy Steel, if the divestiture would be accretive to gross margin and our earnings this year? Not sure if you want to talk about that or divulge that. But I'd be curious to know.

**Jim Lines:** Accretive to 2020 or accretive had it not been in 2019? Sorry, what's the question?

**Joe Mondillo:** Either way, either way, however you want to structure it.

**Jim Lines:** Should we be able to divest Energy Steel, it will be accretive to our margins on a look-back basis.



**Joe Mondillo:** And then, I also wanted to ask a cash question, on your cash flow. It seems like you may have – in the last couple of years, you’ve actually seen working capital as a source of cash. With the ramp-up in the Navy work and maybe even in the petrochem, are you anticipating any spend in cash for working capital? And then, I was wondering what your CapEx budget will be this year.

**Jim Lines:** Joe, this is Jim. We would not anticipate consumption of cash tied to our growth strategies. As you might recall, we do try to structure progress payments in a manner in which it helps us fund procurement of long-lead materials. But we typically have had continual growth in balance sheet cash even while we’ve grown. There might be a quarter that has an odd use of cash. But over an extended period of time, we’re not envisioning our operating model changing materially where we would consume cash as we grew.

And then, on the CapEx side, Jeff, do you want to comment on that?

**Jeff Glajch:** Sure. Joe, CapEx is targeted to be between \$2.5 million and \$2.8 million in fiscal 2020. Just following on in Jim’s question, if you were to go back over the last decade, you would see that our cash position pretty much increased most every year. I think there was one year in there, and we called it out, a very large customer deposit in one year and utilized it the next year. But other than that, our cash position has pretty continually increased whether we were in a good part of the market or a weaker part of the market. As we’re coming back into a little bit of a better part of the market, we would expect the cash flow to continue to be strong and our cash position to continue to increase.

**Joe Mondillo:** Right. Yeah. I’m actually not too concerned of that. I was actually specifically asking moreso on working capital and how you see working capital trend. In the last couple of years, it’s been a source of cash. And I was just asking, as you ramp up your Navy work and maybe some of the petrochem, do you have to invest a little more in your working capital?

**Jeff Glajch:** A little bit. But to Jim’s point, we try to tie our progress payments to the work that we’re doing. And also, as Jim mentioned, you will see quarters where it will move, but I think if you look over fiscal years, you would not see a significant change in our working capital over any period of time.

**Jim Lines:** Also, the phenomenon that you saw is a very typical phenomenon as we go into a downturn. If you look at how Graham comes out of a downturn into an expansion, in our past, again, we have not had material working capital changes and we would not anticipate that again.

**Joe Mondillo:** Okay. And then, just lastly, you addressed it briefly. Just in terms of the cash position overall and potential acquisition targets, it sounds like – I know you’ve talked about it in the past and you just did recently, targeting certain opportunities to take advantage of this naval build-out. But any other sort of commentary? It’s obviously been a while where we have not seen much progress from the outside. But I’m sure there’s some things going on internally. I’m not sure if you can provide any more color on the M&A opportunity.

**Jeff Glajch:** Joe, I understand it can be frustrating from the outside looking in that nothing has occurred. But we have been very active over the past 18 months or so and continue to be very active, particularly the naval sector, but also looking at some aftermarket opportunities in the commercial sector. We’re very active. We’ve talked in the past year or two about opportunities that we were moving on that ultimately we peeled off of. So, again, that could be frustrating from the outside. But I assure you that the amount of effort that our business development team and myself and Jim personally are spending is significantly greater today than it’s been a couple of

years back. We just need to make sure we find that right fit for Graham and move forward. But right now, we're very active. Until something ultimately moves forward to closure, it's hard to say much beyond that.

**Joe Mondillo:** Okay. Understand. Thanks a lot. Appreciate it.

**Operator:** Our next question comes from Bill Nicklin, Circle N Advisors. Please proceed with your question.

**Bill Nicklin:** Good morning.

**Jeff Glajch:** Good morning, Bill.

**Jim Lines:** How are you, Bill?

**Bill Nicklin:** I'm good. I've got just one question. If we look at the new politics of trade, consider let's say pet-chem and refining, what kind of changes might you expect and when and where and what configuration your customers are going to be building in?

**Jim Lines:** It's a good question, a complicated question. Our view is, on pet-chem, the investments really relate to where is the low-cost feedstock? Right now, that's North America and the Middle East. We do not envision much change in where investments will accrue there. Around trade politics, and in the international markets, they still will add pet-chem capacity for their growing and emerging economies. Again, we do not see that dynamic changing materially.

On the refining front, as we cited earlier, India and China are ramping up for some very sizable new capacity adds. I do not see global politics or trade modifying that, as they invest to satisfy their local consumption. They're not export-oriented nations. The Middle East, of course, is export-oriented. They will begin their next wave of refining investment, we think, in a couple more years.

So, really, Bill, on the overall, my long-winded response is I guess I do not feel there's much change afoot for us.

**Bill Nicklin:** Okay, that's good. I was just asking because you hear chatter all the time particularly from the transportation companies that are looking about where petrochemicals are going to be sourced and where they're going to be delivered and how are the routes going to change. So, China may say, well, we do not want to buy as much or any ethylene from the U.S. It would seem to me that it would have a negative impact here, but maybe a positive impact someplace else where maybe the raw material would still be sourced from North America. But the chemical plants might be built someplace else. And therefore, you could have a pickup in your business down the road.

**Jim Lines:** Sure. That's possible, but, as we said a moment ago, it's really a race toward where the low-cost feedstock is and situating the plants there, and the emerging economies trying to address local demand with local supply with new capacity there.

**Bill Nicklin:** All right. Very good. Thank you very much.

**Jim Lines:** Thank you, Bill.

**Operator:** We have reached the end of the question-and-answer session. And I will now turn the call back over to management for closing remarks.

**Jim Lines:** Thank you, Omer, and thank you, everyone, for your questions this morning as we talked through our fourth quarter and the decision we made on Energy Steel. We appreciate the

depth of your questions and your follow-up questions. And we look forward to updating you in August. Thank you.

**Operator:** This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.