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Transcript of TechPrecision
Third Quarter 2019 Earnings Call
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Participants

Brett Maas - Hayden Investor Relations
Alexander Shen - Chief Executive Officer
Thomas Sammons - Chief Financial Officer

Analysts

Ross Taylor - ARS Investment Partners
Richard Greulich - REG Capital Advisors
Howard Brous - Wunderlich Securities

Presentation

Operator
Good day, ladies and gentlemen. And welcome to the TechPrecision Third Quarter 2019 Earnings Call. All lines have been placed on a listen-only mode and the floor will be open for questions and comments following the presentation. [Operator Instructions].

At this time, it is my pleasure to turn the floor over to your host, Brett Maas of Hayden Investor Relations. Sir, the floor is yours.

Brett Maas - Hayden Investor Relations
Thank you. On the call today is Alex Shen, Chief Executive Officer and Tom Sammons, Chief Financial Officer. The call is also being simulcast on the company's website, www.techprecision.com.

Before we begin, I'd like to remind our listeners that management's remarks may contain forward-looking statements, which are subject to risks and uncertainties, and management may make additional forward-looking statements in response to your question. Therefore, the company claims the protection of the Safe Harbor for forward-looking statements as contained in the Private Securities Litigation Reform Act of 1995.

Actual results may differ from those discussed today, and therefore, we refer you to a more detailed discussion of risks and uncertainties in the company's financial filings with the SEC. In addition, projections as to the company's future performance represent management's estimates as of today, February 13, 2019. TechPrecision assumes no obligation to revise or update these forward-looking statements.

With that out of the way, I'd like to turn the call over to Alex Shen, Chief Executive Officer, to provide opening remarks. Alex?

Alex Shen - Chief Executive Officer
Thank you, Brett. Good day to everyone and thank you for joining us. Our results for the third quarter were highlighted by improved gross margins and higher overhead absorption when compared to the third quarter of fiscal 2019. Net income was $218,000 compared to a net loss of $691,000 in the year ago quarter. Our

improving results and higher overhead absorption were a direct result of better planning and better execution, enabled by projects with longer build cycles and further enabled by more timely customer approvals and releases.

As a reminder for everyone, at the beginning of our fiscal year, we adopted the new revenue recognition guidance issued by the financial accounting standards board. Under the guidance, we adopted a new revenue recognition model that allows us to recognize revenue over the project duration from most of our customer contracts. Prior period amounts have not been restated and continue to be reported in accordance with the accounting standards in effect for those periods.

Now, I'd like to turn the call over to Tom to tell us more about our third quarter financial results. Tom?

Tom Sammons - Chief Financial Officer

Thank you, Alex. Net sales for the third quarter of fiscal 2019 were $4.3 million or $0.6 million higher when compared to the same quarter a year ago. In the third quarter, net sales in our defense markets increased by $0.7 million, while net sales and our energy market decreased by $0.1 million each, when compared to the same quarter a year ago. The higher revenues during the third quarter are the result of increased production levels.

Our cost of sales for the three months ended December 31, 2018 was $3.3 million compared to $3.2 million for the three months ended December 31, 2017. For the three months ended December 31, 2018, gross profit increased to $1 million compared to $0.4 million in the three months ended December 31, 2017. Cost of sales and gross profit increased because of higher level production activity in the current year quarter. Our return to targeted levels of production boosted gross margin to 22.7% for the three months ended December 31, 2018, a significant improvement over 11.6% in same quarter a year ago.

Interest expense decreased by 16% and should continue to decrease as we amortize debt principal. Net income was $218,000 or $0.01 per share basic and diluted compared to a net loss of $691,000 in the same quarter last year. Last year's net loss included a discrete tax item of $0.5 million in the connection with the 2017 tax act. For the nine months ended December 31, 2018, net sales decreased by $2.1 million or 50% to $12 million when compared to $14.1 million for the nine months ended December 31, 2017. Our cost of sales for the nine months ended December 31, 2018 was $8.9 million compared to $10.5 million for the nine months ended December 31, 2018. Gross margin was 26% and 25.6% for the nine months ended December 31, 2018 and 2017, respectively.

Total SG&A expenses for the nine months ended December 31, 2018 decreased by approximately $123,000 due primarily to a decrease in compensation expense and outside advisory fees when compared to the nine months ended December 31, 2017. Interest expense decreased by 13% for the nine months ended December 31, 2018 and should continue to decrease as we amortize debt principal.

Our tax expense is primarily non-cash expense as we continue to utilize our deferred tax assets to offset any tax liability. There has been no cash paid for income taxes during the nine months ended December 31, 2018 and the company does not expect to make any significant tax payments over the remainder of the fiscal year. For the nine months ended December 31, 2018, our net income was $563,000 or $0.02 per share basic and fully diluted compared with net income of $101,000 or $0.00 per share basic and fully diluted for the nine months ended December 31, 2017. Fully diluted earnings per share is based on average weighted share count of approximately 30.4 million and 30.2 million for the third quarter and year-to-date periods, respectively. Our backlog at December 31, 2018 was $14.1 million compared to $14 million at March 31, 2018.

Turning to the balance sheet, our working capital increased by $453,000 to $5.4 million at December 31, 2018 compared to $4.9 million at March 31, 2018. We finished the quarter with $1.8 million in cash at December 31, 2018. Cash provided by operations for the nine months ended December 31, 2018 was $121,000. The lower cash flow amount was a result of an increase in manufacturing activity with more cash expended to ramp up new projects. Net cash used in investing activities and in financing activities totaled $403,000 and $570,000, respectively, for the nine months ended December 31, 2018.

With that, I will now turn the call back over to Alex. Alex?

Alex Shen - Chief Executive Officer
Tom, thank you. Our defense and nuclear customers continue to emphasize the need for Ranor to be a stable and viable player within their supply chain, and we continue to respond with a sharp focus on tactical execution to meet customer expectations. We expect a strong pipeline of business from our primary customers in defense. Core customer confidence continues as we added $6.3 million in new orders since September 30, 2018. This enabled us to grow our backlog from $12.1 million at September 30, 2018 to $14.1 million at December 31, 2018.

Before I open up the line for questions, there are several matters that I want to discuss and clarify. First backlog, backlog consists of funded purchase orders. Second, as I have commented before, our defense clients do not want me to disclose anything about the work that we do for them, but because we are a public company, they acknowledge that we must provide some insight into our business. So, they allow us to speak in generalities, which I realize may be frustrating at times. From now on when I cannot answer because of our defense clients, I will try to say something along the lines of, our clients do not want us to talk about this. Third, along these same lines again, as I have previously said, most of our direct competitors in the defense industry are private companies who do not have these quarterly calls. Sometimes, I do not answer a question because it will or may give them a competitive edge against us. In those circumstances, I will try to answer where applicable by saying something along the lines of, because of competitive reasons, I cannot answer that.

Having said all that, management and the board, we are all committed to enhancing shareholder value and I will try to work towards giving you as much information as I can, while still staying in line with the points I just made. Our primary target is the United States defense industry, specifically, Naval submarine manufacturing. We continue to see meaningful opportunities in this sector, the size of the opportunities as I have stated previously between $75 million to $100 million has not decreased. There are two significant demand drivers that will double existing overall nuclear submarine business workload at the shipyards starting in 2019. These two demand drivers have started to come into play.

The first significant demand driver is the Virginia Payload Module, an 85-foot hull section with four centerline large diameter payload tubes, that is expected to be added to all future Virginia-class submarines starting with the second Virginia-class submarine in Block V. VPM, short for Virginia Payload Module, VPM module related components are definitely creating opportunities for us. The second significant demand driver is the Columbia program, which will build 12 new SSBNs over a period of 20 years to replace the 14 Ohio-class SSBNs. At 560 feet, 20,800 tons displacement, the Columbia-class is slightly larger than the Ohio-class that it is replacing, and represents a doubling of overall demand compared to the Virginia-class construction program.

Throughout calendar year 2018, the pace of the demand was certainly slower than what we all would've liked. We are subject to the timing of government appropriations and funding, and the time it takes as the funding makes its way through approvals, through releases, through the government, through the shipyards, through the prime contractors and finally, down to the subcontractors like us. The key point is that the demand is significant, has not decreased, and is definitely not going away.

I would now like to open up the call for questions and answers.

Operator
Thank you. The floor is now open for questions. [Operator Instructions]. We have a question that came in from Ross Taylor with ARS Investment Partners. Please state your question.

Q: Thank you, Alex and particularly thank you for the comments you were making about how you are going to handle things going forward, because I think it's an important part of your job as CEO of the microcap company to work with analysts and work with shareholders, and the steps you are taking I think as executed hopefully going forward will help bridge that where it's been a problem. I know in the past a lot of investors that have gone frustrated and instead of staying the course have chosen to sell. My questions are first, you talked about $14.1 million backlog. What percentage of that backlog is from the US Navy at this point?

Alex Shen - Chief Executive Officer
Well, looking at the 80/20, it's still above the 80%, so a large majority.

Q: And the way you calculate backlog is you are looking at—if they lead contacts for a particular boat or a certain component on a particular boat, your backlog is only for those components that are currently funded at this point. So, if you are looking at doing business that or if you expect to get a contract that's not funded at this point, that's not in your backlog, correct?

Alex Shen - Chief Executive Officer
Yes, let me just really clarify this for you, for me and for everyone. For example, there are projects where there are component requirements for a 10 submarine block. The PO funding may be for less than all 10, so it could be one, it could be two, three or four, or another number. The backlog itself will consist of only the funded purchase orders. So even if there are 10 boats that require 10, if we only have a funded purchase order for two—

Q: That's all you have is the two. And if you actually don't have a complete run of something at this point in time, you might have a fractional share of what you will be doing on a boat. Have you been able, or will you be able to—

Alex Shen - Chief Executive Officer
So, to further clarify, Ross, sometimes it really depends on how it's sourced. When the incumbents have a clear advantage, so if I'm an incumbent I have a clear advantage. The customer can always change their mind on how they might source for all 10, even though it's highly unlikely. So, I don't try to, I just count the backlog as whatever the funded purchase orders are. I'm going to ask Tom to see if Tom has any more to add.

Tom Sammons - Chief Financial Officer
That's all I was going to say. It's whatever purchase orders we have in hand that's been funded, that's the only thing we count in backlog.

Q: And so you're saying at this point it's probably about 80% of that is all the Navy. On the last call, you mentioned that you were doing work or you had business on an aircraft carrier. Can you talk to us about what's [overlapping voices]? Go ahead.

Tom Sammons - Chief Financial Officer
That is correct.

Q: Could you talk to us about either what you are doing on the aircraft carrier or how the business sets up versus on a value basis versus what you are doing on a submarine? I know you can't talk about this million dollars versus that many. But the idea of how valuable is a given carrier versus a say, Virginia-class boat?

Alex Shen - Chief Executive Officer
Well, to give you as much information as I can. So, I haven't just started pursuing aircraft carrier. I have been pursuing it for quite a while. Some of the times it takes years, several years in fact before we can actually get

sourced. The other piece to consider would be the build cycle of an aircraft carrier is pretty long, for one. It's a different type of build cycle. I'm not too sure about exactly what we should consider the build cycle for an aircraft carrier, because the different components may be ordered at different times. What's in the public realm is somewhere between six to eight years an aircraft carrier gets built.

Q: And so in your backlog, you have aircraft carrier business in your backlog right now?

Alex Shen - Chief Executive Officer
Yes we do.

Q: But the majority of your backlog is submarines?

Alex Shen - Chief Executive Officer
The majority of my backlog is submarines, yes it is.

Q: And when we look forward, there is going to be one Columbia-class boat built a year basically through this cycle versus what two Virginia-class boats. Is your business, will the Virginia-class on an annual basis be more valuable to you than the Columbia-class? Are they roughly comparable? Or is the Columbia-class more valuable?

Alex Shen - Chief Executive Officer
I find it pretty hard to gauge, because sometimes it's because of timing. So, when we look at like a year, it would be a different mix, it depends on the mix. I'm not trying to evade the question. I'm just looking at, if you look at it by period. For example, an annual period of performance and what's that revenue contain, versus how much we get on Virginia-class, Columbia-class and carrier. Some of it still remains to be seen.

Q: Could you comment on the total bid? I don't want to talk about specific contracts or components and the like. But it's clear the next three to six months from comments you made are offer us a tremendous opportunity to grow backlog, whether it's funded or unfunded. And I look at this more as an unfunded story that if you got components, as you said, it's your business to lose. Looking at it in that fashion, it seems like the next three to six months give us a lot of shots on goal that could be pretty powerful. Can you give us an idea of what the aggregate and bids outstanding you have are right now?

Alex Shen - Chief Executive Officer
This is one of those where I have to tell you, because of competitive reasons, I cannot answer that. And I'm sorry.

Q: I won't beat around and try to get at it in various different ways. But is it safe to assume—you have also talked in your prepared comments about—

Alex Shen - Chief Executive Officer
So, let me just characterize that answer, because the competitors are carefully monitoring who is bidding on what as well. So, it's—

Q: I'm just trying to get a dollar amount. Are you bidding on business [overlapping voices] on $10 million or $15 million? Is this an industry where if you say I'm bidding on $50 million or $100 million of revenue, so they have an idea on what you're bidding on?

Alex Shen - Chief Executive Officer
The other part is this is one part where our clients really don't want me to talk about that.

Q: Okay, I won't press on it. But you also in prepared comments talked about nuclear, you referenced to your nuclear customers. Can you tell us what you're doing in nuclear and what market opportunity that offers?

Alex Shen - Chief Executive Officer
I can tell you a bit about what we're doing in nuclear, and we are competing for this, for the bids that we do have. So, the US nuclear industry is really not so existent for new component type and repair, replacement, new component type of business that we do. Most of the industries that we support, most of the companies that we support are domestic US companies that are not manufacturing for the US, whether it's for replacement parts or if it's brand new. That’s the characterization as in whether it's outside of the country or in the country, eventually where these things are going is not in the US that I can tell you for sure. The other piece, I guess, they’re nuclear plant parts. So, if there is a need for replacement parts, we get an opportunity to bid. That’s not something that they can tell me as far as a cycle goes.

Q: Should we expect that going forward your business retains at 80/20, US Navy 80, nuclear other 20? Or does the nuclear opportunity exist as a large enough opportunity to push it into a higher percentage of overall sales?

Alex Shen - Chief Executive Officer
I think the 80/20 is a good way to characterize it going forward.

Q: Away from nuclear and the navy, what other opportunities do you look at? I get calls a lot from people who are interested in the company. I was asked about Mevion [ph] your formal role with Mevion. But what other opportunities in the industry do you see that could drive top line, bottom line in the next six to 12 months?

Alex Shen - Chief Executive Officer
I think the focus really needs to be on our defense customers, so that we can reap the rewards of sticking with them and aiming ourselves at them all these years. To take our focus off the ball would cause a deterioration in core customer confidence.

Q: And number of calls [overlapping voices].

Alex Shen - Chief Executive Officer
Having said that, Ross, opportunistically, really if an opportunity comes up, there is no reason why we can't take a look. It's just the deliberate aiming of our resources, of our focus, all that we do, there is the opportunities are overwhelmingly large with the customers that we have decided to focus on.

Q: And from comments you made earlier in this call, you would expect to see a lot of demand for your capacity moving forward as we move into the latter part of this calendar year and into 2020?

Alex Shen - Chief Executive Officer
Yes, whether or not the timing is always—we are subject to other peoples' timing. But the key point is the demand is not going away whatsoever, it's significant, has not decreased.

Q: I guess one last question and then I'll step back out. But back at the end of 2017 on a call you talked about the idea of, it was mentioned in the prepared statement about the exploring alternative, strategic alternatives with the idea of maximizing shareholder value. Given your earlier comments in this call, both about the delay and we're probably or six months or something, four to six months behind in the order letting with regard to Virginia-class boats and the like and therefore, the ramp-up and potential ramp up in backlog. Is it safe to assume that any strategic review process is on hold until we move later in this year to see the backlog and the like that so we can get to an idea what the actual value of the business is going to be going forward?

Alex Shen - Chief Executive Officer
I can tell you that we continue to actively review our strategic alternatives, that's what I can tell you. The other piece on the letting out of orders, I think to characterize it properly, it's been over a year as far as this waiting around for things to happen.

Q: I'm trying to be kind to the government.

Alex Shen - Chief Executive Officer
I understand. I just want to give you as much information as I can.

Q: So definitely we have been pushed behind the power curve and obviously as we work forward here, we are looking at stuff we had hoped to would've happened in mid late or in '18 is going to happen in '19. The last comment I would make is obviously, it's very hard to value this company without having an understanding of the backlog potential. And since the company is looking at exploring strategic alternatives as you go forward, the more shareholders can understand the backlog, the run rates, the total addressable market potential from what you are doing over the next three, four, five years, the better the market will be I think at valuing this company. It's clear to me the market doesn't really understand what's going on with the value of the business, because we watch the way the stock trades and it's clear that the depth of knowledge in the marketplace seems to be somewhat limited. And so the more information you can put out there, I think the easier it will be for all holders to have a better understanding or true understanding of what the opportunity is here, what the value is here and what the likely endgame is here. And I think that will help all of us, you, me, other shareholders and the like. But thank you very much for your time, and I'll pass it back so you can talk to other people.

Alex Shen - Chief Executive Officer
Thank you for your support, Ross.

Operator
Our next question comes from Mark Gomez [ph] with [indiscernible]. Please state your question.

Q: As a long time shareholder over five years, I want to reiterate the last callers' kudos to management on increased communications, have complete respect obviously for what you need to keep close to the vest. But this call is a very nice accommodation to us, so thank you on that. So kicking right in, has your definition of backlog changed? You're mentioning funded purchase orders is how you define what goes in the backlog. Has that changed at any point over the last several quarters?

Alex Shen - Chief Executive Officer
No, no change in the definition.

Q: And I want some alliance, has ASC 606 changed the apples-to-apples comparison of what your backlog number is relative to what it may have been considered over the last few quarters?

Alex Shen - Chief Executive Officer
No, it has not changed the definition of what we have as backlog.

Q: Right, not the definition but the stated backlogs figure. Has ASC 606 created any change in what you're—

Alex Shen - Chief Executive Officer
Yes, the difference would be there really is no difference. 606 aside, backlog is funded POs, so you have to minus off whatever is revenue recognized.

Q: And that has been impacted by 606, right?

Alex Shen - Chief Executive Officer
The revenue recognition is impacted by 606, not the backlog.

Tom Sammons - Chief Financial Officer
Stated another way, you could say the backlog is future revenue and, in that respect, it's the same. It's what we have remaining to recognize as revenue over a period of time.

Q: And that's from a definitional standpoint. But if I want to compare the progress in backlog relative to what it was at the beginning of the fiscal year, then 606 did have an effect on revenue and therefore an effect on the comp? No?

Tom Sammons - Chief Financial Officer
Well, as we recognize revenue, we reduce our backlog.

Q: So, maybe ask this one more way, and I'll move on.

Alex Shen - Chief Executive Officer
Mark, this is Alex. So, from a more layman standpoint instead of Tom's very technical accounting standpoint. So, revenue if it doesn't get like it used to not get recognized, if it wasn't shipped, so the backlog would remain at one if the one didn't ship. Now if one ships then it becomes zero. But now with revenue recognition along the way, it's like okay, you got it half done so now revenues half and the backlog is half, because of 606, it's kind of like that. But the definition and how we count backlog has not changed whatsoever since the very beginning. It's just [overlapping voices] and what Tom was trying to say from a more layman standpoint like me, it's whatever revenue is remaining.

Q: And that was understood from the beginning completely. I guess, let's say if you were operating under 606 for the past 12 to 18 months. What would the backlog comp be relative to where we were at the beginning of this fiscal year? And I'm looking for what the adjustment has been.

Tom Sammons - Chief Financial Officer
The adjustment for this year?

Q: Yes, if 606 had been in place over the last year or so. What would have the backlog number have been entering this fiscal year?

Tom Sammons - Chief Financial Officer
That I don't know, because I would had to do a 606 calculation of the revenue back a year ago.

Q: No gut feel on that?

Tom Sammons - Chief Financial Officer
No, because it really depends on where product is in the process. So, it's really hard to say without looking at it in detail.

Q: Fair enough. Last question with regard to capacity. Is it fair to say that your capacity is at least where it was let's say five years ago?

Alex Shen - Chief Executive Officer

I am really sorry to tell you, but because of competitive reasons, I cannot answer that.

Q: But it is safe to say that your definition of target production, is that below your capacity level?

Alex Shen - Chief Executive Officer
I'm not sure I understand what the question is.

Q: Well, you exited the quarter at your target level. Correct?

Alex Shen - Chief Executive Officer
Yes.

Q: But I would assume there is some cushion there for increased, for operating at a higher level than that without increasing capacity?

Alex Shen - Chief Executive Officer
Yes, right. That's a good assumption for a good operator. I'm not trying to evade the question, most of the competition of ours is—they are listening to the call.

Q: And I appreciate that as a shareholder, I again have—

Alex Shen - Chief Executive Officer
I just need to protect all of our shares.

Q: Absolutely, there is no frustration on my part at all. I'm asking questions but when you can answer, great, you can't, great. I have no problem with that. So appreciate it, thank you. I'll go back into the queue.

Operator
Our next question comes from Richard Greulich with REG Capital Advisors. Please state your question.

Q: Alex, when you look back historically, is it reasonable to say that your work on components that are related to the Virginia-class submarine missile tubes was at least 50% of your business on that submarine?

Alex Shen - Chief Executive Officer
I'm sorry, Richard, the thrust of the question is getting quite specific. And because of competitive reasons, I cannot answer that.

Q: Is it reasonable to, since there is going to be three times as many tubes when the VPM becomes inserted into the submarine. Is it reasonable to think that the revenue volume on those specific tubes should be about three times as much as it was in the past?

Alex Shen - Chief Executive Officer
Revenue for whom?

Q: Whoever is doing the components on the missile tubes that are existing now and the four additional tubes that will be part of the payload module?

Alex Shen - Chief Executive Officer
That's a difficult question, because the math isn't quite linear. If you have more of them, the taxpayers, and they are looking for a better production rate and therefore lower cost. So, I don't think it's exactly linear. Absolutely six

is more than two, so there's something there. I'm just trying to be very open and honest about looking at this. It's not super linear math, because there's gains that you get from doing more of the same and the design, just because there's it says that four tubes, they might not be the same exact part number.

Q: General Dynamics, I think said that the Columbia production would begin in 2021. Do they mean that some initial production, early production for components begins in 2020?

Alex Shen - Chief Executive Officer
I—

Q: I know I should be asking that of them.

Alex Shen - Chief Executive Officer
Right. So our clients don't want me talking about things that I know about them that are not in the public domain.

Q: Okay. And if you were to be acquired and function as a subsidiary of a larger company, would that in any way affect your ability to garner business as a small company?

Alex Shen - Chief Executive Officer
I'm not sure I know how to answer the question, because I don't think I know the answer.

Q: Does TechPrecision benefit from being a small company in terms of as a subcontractor to clients?

Alex Shen - Chief Executive Officer
Do we benefit? I believe that we benefit. We do business as Ranor. Ranor is classified as a small business.

Q: And that's why the thrust of my question was if you were to be acquired by a larger company, would that benefit go away?

Alex Shen - Chief Executive Officer
I don't know. I really don't know the answer to the question, because I think it really matters, the detail matters on how you do that. So, I don't think it's a general answer to a general question. I think really the specifics really matter a whole lot more. I think you're really asking will TechPrecision lose the small business benefit or not?

Q: Right.

Alex Shen - Chief Executive Officer
I think, overall, when we continue to actively review our strategic alternatives that certainly would be part of the review process, is to include that.

Operator
Our next question comes from Howard Brous with Wunderlich. Please state your question.

Q: Alex, just as a follow-up to Ross Taylors' question, you talked about the opportunities of $75 million to $100 million. Can you define the timeframe that you're looking at for the $75 million to $100 million without having a problem with competitors?

Alex Shen - Chief Executive Officer
I can. Overall, it's over a two-year type of period by and large.

Q: And the opportunities, it's still the 80/20 DoD versus nuclear?

Alex Shen - Chief Executive Officer
Absolutely.

Operator
Our next question comes from Ross Taylor. Please state your question.

Q: Alex, without getting into too granular detail. Can you tell us, I'm assuming that you are winning, and you've referenced in the past that you're winning new components on the Virginia Block V boats that you did not necessarily have on prior Virginia-class boats or predecessor boats. Is that correct?

Alex Shen - Chief Executive Officer
I'm trying to make sure that I answer yes correctly. Yes. The reason why I say that is because throughout the calendar year 2018, it's been really an abysmal pace of letting contracts. So, I was trying to count the contracts in my mind on Block V related stuff.

Q: And looking at these new components. Could you give us an idea of just what kind of win rate or what kind of success rate you guys are seeing and getting new business? And additionally, from talking to people at times, it looks like or sounds like they really are trying to get a lot of business pushed out, things that they used to do internally pushed out of their yards and their facilities, because of limitation of resources and therefore, pushing those to third-party manufacturers such as Ranor. Are you finding that getting business directly from Electric Boat or directly from Newport News that they used to do is also a growth opportunity, and the growth driver for you guys going forward? Where you're not displacing a prior outside supplier but rather replacing an inside supplier for a component.

Alex Shen - Chief Executive Officer
Well, maybe I should answer the questions in reverse order. The opportunities are pretty large when both shipyards, Newport News and Electrical Boat runs out of capacity or decides to really outsource what they've always traditionally done. There's lots of opportunity there, absolutely.

Q: And they are in that position now, correct?

Alex Shen - Chief Executive Officer
They are in that position of looking around looking and seeing who can do what they used to do.

Q: Or say manage their resources and focus their resources most effectively for their interest. Okay. And so that's an area that we're seeing, that you're seeing revenue growth come from, backlog growth come from at this point in time?

Alex Shen - Chief Executive Officer
Sure.

Q: And so as I said, just looking at all the setting up, obviously, you are seeing a tremendous amount of opportunity going forward. At the end of the quarter, what was your long-term debt amount?

Alex Shen - Chief Executive Officer
I'm going to let Tom field that question.

Tom Sammons - Chief Financial Officer

Our long-term debt was $3.6 million.

Q: Okay, so basically, you're down about $1.8 million net debt. And I would assume that one of the things that as you go forward you would expect this your business model as you start to ramp-up production should become a pretty significant free cash flow generator?

Tom Sammons - Chief Financial Officer
Yes, I'm now looking at the—we expect it to be able to cash flow, is that your question?

Q: Yes, you have done a lot of your capex and things of that nature leading into this. And you had things you basically put into place probably I would assume because your customers requested that you increase capacity. So that you could produce to the levels they wish you to produce to and the quality they want you to produce to. So, I would assume that a lot of business going forward isn't going to require new capex for when you win contracts?

Tom Sammons - Chief Financial Officer
Ross, just let me clarify. Our total debt is $4.5 million. So, I have given you just a long-term portion at this point, there is current—

Q: Yes. That's what I was just looking at. But as I said, we are looking at a situation where going forward your capex as you win new business, a lot of the capital expenditure needs you will have, have already been expended. Correct?

Tom Sammons - Chief Financial Officer
I wouldn't characterize it as already done and expect zero capex, Ross, [overlapping voices].

Q: But I think from my experience in the defense industry, no one is giving you contracts that they hope that you might maybe possibly be able to execute. And you have a good idea of what you are supposed to be building, what they want you to build, so they've probably gone to you and said to build on this we need you to be able to reduce the run rate of X over a period of Y, at least that's my experience, because they are not going to give you the contract if they don't know that you can execute, particularly in something like a submarine where you tend to build things and move past them, it's still hard to go back and reset some and say, you can't go back and it's not like Boeing building an airliner where they can leave a part off and then come back later and put that part back on. I would assume that you have a good idea of what you're bidding for, your customers do as well, and that they made it pretty clear of what your capacity needed to be in order for you to be considered to win the business.

Tom Sammons - Chief Financial Officer
Yes.

Operator
Okay. And it doesn't look like we have any further questions.

Alex Shen - Chief Executive Officer
Okay, thank you very much everyone. Have a great day.

Operator
Thank you. This concludes today's conference call. We thank you for your participation. You may disconnect your lines at this time and have a great day.