

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-20278

ENCORE WIRE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2274963

(I.R.S. Employer Identification No.)

1329 Millwood Road

McKinney Texas

(Address of principal executive offices)

75069

(Zip Code)

Registrant's telephone number, including area code: (972) 562-9473

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.01 per share	WIRE	The NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer Accelerated filer
 Non-accelerated filer Smaller reporting company
 Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Common Stock, par value \$0.01, outstanding as of October 28, 2020: 20,631,683

ENCORE WIRE CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2020

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Encore Wire Corporation
Balance Sheets
(In thousands, except share and per share data)

	September 30, 2020 (Unaudited)	December 31, 2019 (See Note)
Assets		
Current assets:		
Cash and cash equivalents	\$ 217,103	\$ 230,965
Accounts receivable, net of allowance of \$2,501 and \$1,801	257,210	223,098
Inventories, net	87,171	89,684
Income tax receivable	—	3,602
Prepaid expenses and other	3,225	1,889
Total current assets	564,709	549,238
Property, plant and equipment - at cost:		
Land and land improvements	60,662	52,354
Construction-in-progress	66,160	49,847
Buildings and improvements	152,896	152,536
Machinery and equipment	363,976	334,204
Furniture and fixtures	12,249	10,926
Total property, plant and equipment	655,943	599,867
Accumulated depreciation	(279,731)	(266,688)
Property, plant and equipment - net	376,212	333,179
Other assets	600	737
Total assets	\$ 941,521	\$ 883,154
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 58,122	\$ 40,509
Accrued liabilities	36,531	34,787
Income taxes payable	1,420	—
Total current liabilities	96,073	75,296
Deferred income taxes and other	31,798	28,762
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares – 2,000,000; none issued	—	—
Common stock, \$.01 par value:		
Authorized shares – 40,000,000;		
Issued shares – 27,025,388 and 26,939,403	270	269
Additional paid-in capital	67,494	63,009
Treasury stock, at cost – 6,468,705 and 6,027,455 shares	(111,718)	(91,056)
Retained earnings	857,604	806,874
Total stockholders' equity	813,650	779,096
Total liabilities and stockholders' equity	\$ 941,521	\$ 883,154

Note: The balance sheet at December 31, 2019, as presented, is derived from the audited financial statements at that date.

See accompanying notes.

Encore Wire Corporation
Statements of Income
(In thousands, except per share data)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Net sales	\$ 339,700	\$ 321,169	\$ 896,125	\$ 972,742
Cost of goods sold	286,241	278,181	760,393	842,518
Gross profit	53,459	42,988	135,732	130,224
Selling, general, and administrative expenses	26,350	22,672	69,394	71,515
Operating income	27,109	20,316	66,338	58,709
Net interest and other income	39	1,033	1,190	3,193
Income before income taxes	27,148	21,349	67,528	61,902
Provision for income taxes	6,136	4,948	15,561	14,308
Net income	<u>\$ 21,012</u>	<u>\$ 16,401</u>	<u>\$ 51,967</u>	<u>\$ 47,594</u>
Earnings per common and common equivalent share – basic	<u>\$ 1.02</u>	<u>\$ 0.78</u>	<u>\$ 2.52</u>	<u>\$ 2.28</u>
Earnings per common and common equivalent share – diluted	<u>\$ 1.02</u>	<u>\$ 0.78</u>	<u>\$ 2.51</u>	<u>\$ 2.27</u>
Weighted average common and common equivalent shares outstanding – basic	20,548	20,912	20,613	20,896
Weighted average common and common equivalent shares outstanding – diluted	20,602	20,991	20,664	20,985
Cash dividends declared per share	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ 0.06</u>

See accompanying notes.

Encore Wire Corporation
Statements of Stockholders' Equity
(In thousands, except per share data)

2020 (Unaudited)	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount		
Balance at December 31, 2019	26,939	\$ 269	\$ 63,009	6,027	\$ (91,056)	\$ 806,874	\$ 779,096
Net income	—	—	—	—	—	18,607	18,607
Stock-based compensation	8	—	460	—	—	—	460
Dividend declared—\$0.02 per share	—	—	—	—	—	(411)	(411)
Purchase of treasury stock	—	—	—	439	(20,580)	—	(20,580)
Balance at March 31, 2020	26,947	\$ 269	\$ 63,469	6,466	\$(111,636)	\$ 825,070	\$ 777,172
Net income	—	—	—	—	—	12,347	12,347
Exercise of stock options	53	1	2,454	—	—	—	2,455
Stock-based compensation	5	—	631	—	—	—	631
Dividend declared—\$0.02 per share	—	—	—	—	—	(412)	(412)
Purchase of treasury stock	—	—	—	2	(82)	—	(82)
Balance at June 30, 2020	27,005	\$ 270	\$ 66,554	6,468	\$(111,718)	\$ 837,005	\$ 792,111
Net income	—	—	—	—	—	21,012	21,012
Exercise of stock options	16	—	544	—	—	—	544
Stock-based compensation	4	—	396	—	—	—	396
Dividend declared—\$0.02 per share	—	—	—	—	—	(413)	(413)
Balance at September 30, 2020	27,025	\$ 270	\$ 67,494	6,468	\$(111,718)	\$ 857,604	\$ 813,650

2019 (Unaudited)	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount		
Balance at December 31, 2018	26,907	\$ 269	\$ 60,822	6,027	\$ (91,056)	\$ 750,421	\$ 720,456
Net income	—	—	—	—	—	13,411	13,411
Exercise of stock options	15	—	431	—	—	—	431
Stock-based compensation	—	—	760	—	—	—	760
Dividend declared—\$0.02 per share	—	—	—	—	—	(418)	(418)
Balance at March 31, 2019	26,922	\$ 269	\$ 62,013	6,027	\$ (91,056)	\$ 763,414	\$ 734,640
Net income	—	—	—	—	—	17,782	17,782
Exercise of stock options	6	—	137	—	—	—	137
Stock-based compensation	5	—	502	—	—	—	502
Dividend declared—\$0.02 per share	—	—	—	—	—	(418)	(418)
Balance at June 30, 2019	26,933	\$ 269	\$ 62,652	6,027	\$ (91,056)	\$ 780,778	\$ 752,643
Net income	—	—	—	—	—	16,401	16,401
Stock-based compensation	6	—	53	—	—	—	53
Dividend declared—\$0.02 per share	—	—	—	—	—	(418)	(418)
Balance at September 30, 2019	26,939	\$ 269	\$ 62,705	6,027	\$ (91,056)	\$ 796,761	\$ 768,679

See accompanying notes.

Encore Wire Corporation
Statements of Cash Flow
(In thousands)

Nine Months Ended September 30,

2020 2019

(Unaudited)

	2020	2019
Operating Activities:		
Net income	\$ 51,967	\$ 47,594
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,314	13,254
Deferred income taxes	3,082	3,044
Stock-based compensation attributable to equity awards	1,487	1,315
Other	518	801
Changes in operating assets and liabilities:		
Accounts receivable	(34,812)	(9,516)
Inventories	2,513	12,123
Other assets	(1,333)	(878)
Trade accounts payable and accrued liabilities	11,762	1,431
Current income taxes receivable / payable	5,022	(1,722)
Net cash provided by operating activities	<u>54,520</u>	<u>67,446</u>
Investing Activities:		
Purchases of property, plant and equipment	(49,569)	(41,251)
Proceeds from sale of assets	90	22
Net cash used in investing activities	<u>(49,479)</u>	<u>(41,229)</u>
Financing Activities:		
Purchase of treasury stock	(20,662)	—
Proceeds from issuance of common stock, net	2,999	568
Dividends paid	(1,240)	(1,254)
Net cash used in financing activities	<u>(18,903)</u>	<u>(686)</u>
Net increase (decrease) in cash and cash equivalents	(13,862)	25,531
Cash and cash equivalents at beginning of period	230,965	178,405
Cash and cash equivalents at end of period	<u>\$ 217,103</u>	<u>\$ 203,936</u>

See accompanying notes.

ENCORE WIRE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
September 30, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited financial statements of Encore Wire Corporation (the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Results of operations for interim periods presented do not necessarily indicate the results that may be expected for the entire year. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

In March 2020 the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The Company is unable to predict the impact that COVID-19 will have on our financial position and operating results in future periods due to numerous uncertainties. The duration and severity of the outbreak and its long-term impact on our business remain uncertain.

Revenue Recognition

The majority of our revenue is derived by fulfilling customer orders for the purchase of our products, which include electrical building wire and cable. We recognize revenue at the point in time that control of the ordered products is transferred to the customer, which is typically upon shipment to the customer from our manufacturing facilities and based on agreed upon shipping terms on the related purchase order. Amounts billed and due from our customers are classified as accounts receivables on the balance sheet and require payment on a short-term basis through standard payment terms.

Revenue is measured as the amount of consideration we expect to receive in exchange for fulfilling product orders. The amount of consideration we expect to receive and revenue we recognize includes estimates for trade payment discounts and customer rebates which are estimated using historical experience and other relevant factors and is recorded within the same period that the revenue is recognized. We review and update these estimates regularly and the impact of any adjustments are recognized in the period the adjustments are identified. The adjustments resulting from updated estimates of trade payment discounts and customer rebates were not material.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) is the sole source of authoritative U.S. GAAP other than Securities and Exchange Commission (“SEC”) issued rules and regulations that apply only to SEC registrants. The FASB issues an Accounting Standard Update (“ASU”) to communicate changes to the codification. The Company considers the applicability and impact of all ASUs. The following are those ASUs that are relevant to the Company.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326),” which makes significant changes to the accounting for credit losses on financial assets and disclosures about them. This ASU requires immediate recognition of management’s estimates of current expected credit losses. Under the prior model, losses were recognized only as they were incurred, which FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The guidance affects all entities in all industries and applies to a wide variety of financial assets, including trade receivables. We adopted this new standard January 1, 2020 and applied a loss rate model to compute the expected credit loss allowance of our short-term trade receivable balances, which we concluded are representative of one collective pool. This method is based on relevant information from past events, including historical experiences, current conditions, and reasonable and supportable forecasts that affect collectability. Our evaluation of the new standard concluded that it had no material impact on our financial statements.

In December 2019, the FASB issued ASU 2019-12, “Simplifying the Accounting for Income Taxes,” which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, Income Taxes, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. This ASU is effective for annual reporting periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption is permitted in any interim or annual period. We are evaluating the effect of adopting this new accounting guidance but do not expect adoption will have a material impact on the Company's financial statements or disclosures.

NOTE 2 – INVENTORIES

Inventories are stated at the lower of cost, determined by the last-in, first-out (LIFO) method, or market.

Inventories consist of the following:

In Thousands	September 30, 2020	December 31, 2019
Raw materials	\$ 19,605	\$ 25,882
Work-in-process	32,929	25,381
Finished goods	85,082	83,222
Total Inventory at FIFO cost	137,616	134,485
Adjust to LIFO cost	(50,445)	(44,801)
Inventory, net	\$ 87,171	\$ 89,684

Inventories are stated at the lower of cost, using the last-in, first out (“LIFO”) method, or market. The Company maintains two inventory pools for LIFO purposes. As permitted by U.S. generally accepted accounting principles, the Company maintains its inventory costs and cost of goods sold on a first-in, first-out (“FIFO”) basis and makes a monthly adjustment to adjust total inventory and cost of goods sold from FIFO to LIFO. The Company applies the lower of cost or market (“LCM”) test by comparing the LIFO cost of its raw materials, work-in-process and finished goods inventories to estimated market values, which are based primarily upon the most recent quoted market price of copper and other material prices as of the end of each reporting period. The Company performs a lower of cost or market calculation quarterly. As of September 30, 2020, no LCM adjustment was required. However, decreases in copper and other material prices could necessitate establishing an LCM reserve in future periods. Additionally, future reductions in the quantity of inventory on hand could cause copper or other raw materials that are carried in inventory at costs different from the cost of copper and other raw materials in the period in which the reduction occurs to be included in costs of goods sold for that period at the different price.

In the third quarter of 2020, LIFO adjustments were recorded, increasing cost of sales by \$14.5 million, versus LIFO adjustments decreasing cost of sales by \$4.4 million in the third quarter of 2019. In the first nine months of 2020, LIFO adjustments were recorded, increasing cost of sales by \$5.6 million, versus LIFO adjustments decreasing cost of sales by \$3.9 million in the first nine months of 2019.

NOTE 3 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

In Thousands	September 30, 2020	December 31, 2019
Sales rebates payable	\$ 17,150	\$ 16,622
Property taxes payable	3,115	4,011
Accrued salaries	9,486	7,924
SAR Liability	3,336	3,087
Other accrued liabilities	3,444	3,143
Total accrued liabilities	\$ 36,531	\$ 34,787

NOTE 4 – INCOME TAXES

Income taxes were accrued at an effective rate of 22.6% in the third quarter of 2020 versus 23.2% in the third quarter of 2019, consistent with the Company’s estimated liabilities. For the nine months ended September 30, the Company’s tax rate was approximately 23.0% in 2020 and 23.1% in 2019. In all periods, the differences between the provisions for income taxes and the income taxes computed using the federal income tax statutory rate are due primarily to the incremental taxes accrued for state and local taxes.

NOTE 5 – EARNINGS PER SHARE

Earnings per common and common equivalent share are computed using the weighted average number of shares of common stock and common stock equivalents outstanding during each period. If dilutive, the effect of stock options, treated as common stock equivalents, is calculated using the treasury stock method.

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The following table sets forth the computation of basic and diluted earnings per share:

In Thousands	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income	\$ 21,012	\$ 16,401	\$ 51,967	\$ 47,594
Denominator:				
Denominator for basic earnings per share – weighted average shares	20,548	20,912	20,613	20,896
Effect of dilutive securities:				
Employee stock awards	54	79	51	89
Denominator for diluted earnings per share – weighted average shares	<u>20,602</u>	<u>20,991</u>	<u>20,664</u>	<u>20,985</u>

The weighted average of employee stock options excluded from the determination of diluted earnings per common and common equivalent share for the third quarter was 165,424 in 2020 and 121,413 in 2019. The weighted average of employee stock options excluded from the determination of diluted earnings per common and common equivalent share for the nine months ended September 30 was 214,881 in 2020 and 118,804 in 2019. Such options were anti-dilutive for their respective periods.

NOTE 6 – DEBT

The Company is party to a Credit Agreement (the “Credit Agreement”) with two banks, Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association, as syndication agent. The Credit Agreement, as amended, extends through October 1, 2021 and provides for maximum borrowings of \$150.0 million. At our request, and subject to certain conditions, the commitments under the Credit Agreement may be increased by a maximum of up to \$100.0 million as long as existing or new lenders agree to provide such additional commitments. Borrowings under the line of credit bear interest, at the Company’s option, at either (1) LIBOR plus a margin that varies from 0.875% to 1.75% depending upon the Leverage Ratio (as defined in the Credit Agreement), or (2) the base rate (which is the highest of the federal funds rate plus 0.5%, the prime rate, or LIBOR plus 1.0%) plus 0% to 0.25% (depending upon the Leverage Ratio). A commitment fee ranging from 0.15% to 0.30% (depending upon the Leverage Ratio) is payable on the unused line of credit. At September 30, 2020, there were no borrowings outstanding under the Credit Agreement, and letters of credit outstanding in the amount of \$1.6 million left \$148.4 million of credit available under the Credit Agreement. Obligations under the Credit Agreement are the only contractual borrowing obligations or commercial borrowing commitments of the Company.

Obligations under the Credit Agreement are unsecured and contain customary covenants and events of default. The Company was in compliance with the covenants as of September 30, 2020.

NOTE 7 – STOCKHOLDERS’ EQUITY

On November 10, 2006, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to an authorized number of shares of its common stock on the open market or through privately negotiated transactions at prices determined by the President of the Company during the term of the program. The Company’s Board of Directors has authorized several increases and annual extensions of this stock repurchase program, and, as of September 30, 2020, 1,000,000 shares remained authorized for repurchase through March 31, 2021. The Company repurchased 441,250 shares of its stock in the nine months ended September 30, 2020 versus no shares in the nine months ended September 30, 2019.

NOTE 8 - CONTINGENCIES

There are no material pending proceedings to which the Company is a party or to which any of its property is subject. However, the Company is from time to time involved in litigation, certain other claims and arbitration matters arising in the ordinary course of its business.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Encore believes it is a low-cost manufacturer of electrical building wire and cable. The Company is a significant supplier of building wire for interior electrical wiring in commercial and industrial buildings, homes, apartments, and manufactured housing.

As discussed in Note 1, in the notes to the financial statements, the duration and severity of the outbreak and its long-term impact on our business are uncertain at this time. Developments surrounding the COVID-19 global pandemic are continuing to change daily, and we have limited visibility into the extent to which market demand for our products as well as sector manufacturing and distribution capacity will be impacted.

The Company’s operating results in any given period are driven by several key factors, including the volume of product produced and shipped, the cost of copper and other raw materials, the competitive pricing environment in the wire industry and the resulting influence on gross margin and the efficiency with which the Company’s plants operate during the period, among others. Price competition for electrical wire and cable is intense, and the Company sells its products in accordance with prevailing market prices. Copper, a commodity product, is the principal raw material used by the Company in manufacturing its products. Copper accounted for approximately 69.9%, 73.0%, and 69.7% of the Company’s cost of goods sold during fiscal 2019, 2018 and 2017, respectively. The price of copper fluctuates depending on general economic conditions and in relation to supply and demand and other factors, which causes monthly variations in the cost of the Company’s purchased copper. Additionally, the SEC allows shares of certain physically backed copper exchange-traded funds (“ETFs”) to be listed and publicly traded. Such funds and other copper ETFs like them hold copper cathode as collateral against their shares. The acquisition of copper cathode by copper ETFs may materially decrease or interrupt the availability of copper for immediate delivery in the United States, which could materially increase the Company’s cost of copper. In addition to raising copper prices and potential supply shortages, we believe that ETFs and similar copper-backed derivative products could lead to increased price volatility for copper. The Company cannot predict copper prices or the effect of fluctuations in the cost of copper on the Company’s future operating results. Wire prices can, and frequently do, change on a daily basis. This competitive pricing market for wire does not always mirror changes in copper prices, making margins highly volatile. With the volatility of both raw material prices and wire prices in the Company’s end market, hedging raw materials can be risky. Historically, the Company has not engaged in hedging strategies for raw material purchases. The tables below highlight the range of closing prices of copper on a per pound basis on the Comex exchange for the periods shown.

COMEX COPPER CLOSING PRICE 2020

	July 2020	August 2020	September 2020	Quarter Ended September 30, 2020	Nine Months Ended September 30, 2020
High	\$ 2.94	\$ 3.04	\$ 3.11	\$ 3.11	\$ 3.11
Low	2.72	2.79	2.96	2.72	2.12
Average	2.87	2.92	3.02	2.93	2.65

COMEX COPPER CLOSING PRICE 2019

	July 2019	August 2019	September 2019	Quarter Ended September 30, 2019	Nine Months Ended September 30, 2019
High	\$ 2.74	\$ 2.66	\$ 2.68	\$ 2.74	\$ 2.98
Low	2.62	2.53	2.51	2.51	2.51
Average	2.69	2.57	2.60	2.62	2.74

The following discussion and analysis relate to factors that have affected the operating results of the Company for the quarters and nine months ended September 30, 2020 and 2019. Reference should also be made to the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Results of Operations

Quarter Ended September 30, 2020 Compared to Quarter Ended September 30, 2019

Net sales were \$339.7 million in the third quarter of 2020 compared to \$321.2 million in the third quarter of 2019. The increase in net sales dollars is the result of a 7.1% decrease in copper wire unit volume shipped offset by a 12.0% increase in the average selling price of copper wire. Unit volume is measured in pounds of copper contained in the wire shipped during the period. As stated for the previous quarter, customer buying patterns began to return to more historical levels beginning late in the second quarter and continuing in our third quarter, driven by the re-opening of many state and local economies. Fluctuations in sales prices are primarily a result of changing copper and other raw material prices and product price competition. The average cost per pound of raw copper purchased increased 9.4% in the third quarter of 2020 compared to the third quarter of 2019 and was a driver of the increased average sales price of copper wire.

Cost of goods sold was \$286.2 million, or 84.3% of net sales, in the third quarter of 2020, compared to \$278.2 million, or 86.6% of net sales, in the third quarter of 2019. Gross profit increased to \$53.5 million, or 15.7% of net sales, in the third quarter of 2020 from \$43.0 million, or 13.4% of net sales, in the third quarter of 2019.

The increase in gross profit margin was the result of two offsetting factors. Copper unit volumes decreased 7.1%, while the spread between the average price paid for a pound of raw copper and the average sales price for a pound of copper contained in finished wire increased 17.2% in the third quarter of 2020 versus the third quarter of 2019. The spread increased as a result of the average sales price per pound of copper sold increasing 12.0% while the per pound cost of raw copper purchased increased 9.4%. The percentage change on sales is on a higher nominal dollar amount than on purchases and, therefore, spreads change on a nominal dollar basis.

Total raw materials cost decreased to 72.2% of net sales in the third quarter of 2020, from 74.3% of net sales in the third quarter of 2019. Overhead costs decreased to 12.1% of net sales in the third quarter of 2020, from 12.3% of net sales in the third quarter of 2019. Overheads contain some fixed and semi-fixed components which do not fluctuate as much as sales dollars fluctuate.

Selling expenses, consisting of commissions and freight, for the third quarter of 2020 were \$19.2 million, or 5.7% of net sales, compared to \$16.5 million, or 5.1% of net sales, in the third quarter of 2019. Commissions paid to independent manufacturers' representatives are paid as a relatively stable percentage of sales dollars and, therefore, exhibited little change in percentage terms. Freight costs increased to 3.2% of net sales in the third quarter of 2020 from 2.6% of net sales in the third quarter of 2019. General and administrative ("G&A") expenses for the third quarter of 2020 were \$7.1 million, or 2.1% of net sales, compared to \$6.1 million, or 1.9% of net sales, in the third quarter of 2019. The G&A increase was driven by increased stock compensation expense, increased insurance expenses, and increased medical costs, as claims for elective procedures put off during the pandemic started coming in after the economy re-opened.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Net sales for the first nine months of 2020 were \$896.1 million compared to net sales of \$972.7 million for the first nine months of 2019. This 7.9% decrease in net sales is primarily the result of a 9.3% decrease in copper wire sales, driven by an 8.5% decrease in copper wire unit volume shipped, caused mainly by the pandemic. Unit volume is measured in pounds of copper contained in the wire shipped during the period. Fluctuations in sales prices are primarily a result of changing copper and other raw material prices and product price competition. The average cost per pound of raw copper purchased decreased 3.3% in the first nine months of 2020 compared to the first nine months of 2019 and was the principal driver of the 0.9% decrease in the average selling price of copper wire.

Cost of goods sold decreased to \$760.4 million in the first nine months of 2020, compared to \$842.5 million in the first nine months of 2019. Gross profit increased to \$135.7 million, or 15.1% of net sales, in the first nine months of 2020 versus \$130.2 million, or 13.4% of net sales, in the first nine months of 2019.

The increase in gross profit margin was the result of two offsetting factors. Copper unit volumes decreased 8.5%, while the spread between the average price paid for a pound of raw copper and the average sales price for a pound of copper contained in finished wire increased 3.9% in the first nine months of 2020 versus the first nine months of 2019. The spread increased as a result of the average sales price per pound of copper sold decreasing 0.9% while the per pound cost of raw copper purchased decreased 3.3%. The percentage change on sales is on a higher nominal dollar amount than on purchases and, therefore, spreads change on a nominal dollar basis.

Due primarily to increases in copper costs and a decrease in copper inventory quantities on hand, aided somewhat by price and volume movements of other materials in the first nine months of 2020, LIFO adjustments were recorded, increasing cost of

sales by \$5.6 million. During the same period in 2019, LIFO adjustments were recorded, decreasing cost of sales by \$3.9 million. Based on current copper prices, there is no LCM adjustment necessary. Future reductions in the price of copper could require the Company to record an LCM adjustment against the related inventory balance, which would result in a negative impact on net income.

Selling expenses for the first nine months of 2020 decreased to \$48.0 million, or 5.4% of net sales, compared to \$50.3 million, or 5.2% of net sales, in the same period of 2019. Commissions paid to independent manufacturers' representatives are paid as a relatively stable percentage of sales dollars, and therefore, exhibited little change in percentage terms, decreasing \$2.2 million in concert with the decreased sales dollars. Freight costs for the first nine months of 2020 were 2.9% of net sales, compared to 2.7% of net sales for the first nine months of 2019. General and administrative expenses were \$20.7 million, or 2.3% of net sales, in the first nine months of 2020 compared to \$21.2 million, or 2.2% of net sales, in the first nine months of 2019. The G&A decrease was driven by decreased stock compensation expense driven by the mark to market accounting on stock appreciation rights.

Liquidity and Capital Resources

The Company maintains a substantial inventory of finished products to satisfy customers' delivery requirements promptly. As is customary in the building wire industry, the Company provides payment terms to most of its customers that exceed terms that it receives from its suppliers. Copper suppliers generally give very short payment terms (less than 15 days) while the Company and the building wire industry give customers much longer terms. In general, the Company's standard payment terms result in the collection of a significant majority of net sales within approximately 75 days of the date of invoice. As a result of this timing difference, building wire companies must have sufficient cash and access to capital resources to finance their working capital needs, thereby creating a barrier to entry for companies who do not have sufficient liquidity and capital resources. The two largest components of working capital, receivables and inventory, and to a lesser extent, capital expenditures, are the primary drivers of the Company's liquidity needs. Generally, these needs will cause the Company's cash balance to rise and fall inversely to the receivables and inventory balances. The Company's receivables and inventories will rise and fall in concert with several factors, most notably the price of copper and other raw materials and the level of unit sales. Capital expenditures have historically been necessary to expand and update the production capacity of the Company's manufacturing operations. The Company has historically satisfied its liquidity and capital expenditure needs with cash generated from operations and borrowings under its various debt arrangements. The Company historically uses its revolving credit facility to manage day to day operating cash needs as required by daily fluctuations in working capital and has the facility in place should such a need arise in the future. We believe that the Company has sufficient liquidity and do not believe COVID-19 will materially impact our liquidity, but we continue to assess the COVID-19 pandemic and its impact on our business, including on our customer base and suppliers.

For more information on the Company's revolving credit facility, see Note 6 to the Company's financial statements included in Item 1 to this report, which is incorporated herein by reference.

Cash provided by operating activities was \$54.5 million in the first nine months of 2020 compared to \$67.4 million in the first nine months of 2019. The following changes in components of cash flow from operations were notable. The Company had net income of \$52.0 million in the first nine months of 2020 compared to net income of \$47.6 million in the first nine months of 2019. Accounts receivable increased \$34.8 million in the first nine months of 2020 compared to increasing \$9.5 million in the first nine months of 2019, resulting in a negative impact to cash flow of \$25.3 million in the first nine months of 2020 versus the first nine months of 2019. Accounts receivable generally fluctuate in proportion to dollar sales and, to a lesser extent, are affected by the timing of when sales occur during a given quarter. With an average of 60 to 75 days of sales outstanding, quarters in which sales are more back-end loaded will have higher accounts receivable balances outstanding at quarter-end. Inventory value decreased \$2.5 million in the first nine months of 2020 compared to decreasing \$12.1 million in the first nine months of 2019 producing a negative impact to cash flow of \$9.6 million in 2020 versus 2019. Trade accounts payable and accrued liabilities provided cash of \$11.8 million in the first nine months of 2020 versus providing \$1.4 million in the first nine months of 2019. In the first nine months of 2020, changes in current and deferred taxes provided cash of \$8.1 million versus \$1.3 million of cash provided in the first nine months of 2019. These changes in cash flow were the primary drivers of the \$12.9 million decrease in cash provided by operations in the first nine months of 2020 compared to the first nine months of 2019.

Cash used in investing activities increased to \$49.5 million in the first nine months of 2020 from \$41.2 million in the first nine months of 2019 due to higher capital expenditures on plant and equipment. Cash used in financing activities in the first nine months of 2020 consisted of \$1.2 million of cash dividends paid, \$3.0 million of proceeds from exercised stock options, and \$20.7 million of purchases of treasury stock. These activities in cash flow used \$18.9 million cash in financing activities for the first nine months of 2020 compared to \$0.7 million used in the first nine months of 2019. As of September 30, 2020, the

balance on the Company's revolving line of credit remained at zero. The Company's cash balance was \$217.1 million at September 30, 2020 versus \$203.9 million at September 30, 2019.

During the remainder of 2020, the Company expects its capital expenditures will consist primarily of expenditures related to the purchases of manufacturing equipment throughout its facilities to update equipment and the previously-announced expansion plans which continue in earnest. Due to increased lead times required for certain machinery and equipment in the current environment, we have accelerated the timing of orders with manufacturers, which has shifted spending between years. We now expect capital expenditures to range from \$95 - \$100 million in 2020, \$100 - \$120 million in 2021 and \$30 - \$50 million in 2022. Our strong balance sheet and ability to consistently generate high levels of operating cash flow should provide ample allowance to fund planned capital expenditures.

Information Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements can be identified by words such as: "anticipate", "intend", "plan", "goal", "seek", "believe", "project", "estimate", "expect", "strategy", "future", "likely", "may", "should", "will" and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Therefore, you should not rely on any of these forward-looking statements. Examples of such uncertainties and risks include, but are not limited to, statements about the pricing environment of copper, aluminum and other raw materials, the duration, magnitude and impact of the ongoing COVID-19 global pandemic, our order fill rates, profitability and stockholder value, payment of future dividends, future purchases of stock, the impact of competitive pricing and other risks detailed from time to time in the Company's reports filed with the Securities and Exchange Commission (the "SEC"). Actual results may vary materially from those anticipated. Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. For more information regarding "forward-looking statements," see "Information Regarding Forward-Looking Statements" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, which is hereby incorporated by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes from the information provided in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. Controls and Procedures.

The Company maintains controls and procedures designed to ensure that information required to be disclosed by it in the reports it files with or submits to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive and Chief Financial Officers, as appropriate, to allow timely decisions regarding required disclosure. Based on an evaluation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report conducted by the Company's management, with the participation of the Chief Executive and Chief Financial Officers, the Chief Executive and Chief Financial Officers concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files with or submits to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive and Chief Financial Officers, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the period covered by this report.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

For information on the Company’s legal proceedings, see Note 8 to the Company’s financial statements included in Item 1 to this report and incorporated herein by reference.

Item 1A. Risk Factors.

This section supplements and updates certain risk factors disclosed in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2019 (the “Annual Report”). The following risk factors supersede the corresponding risks described in the Annual Report and should be read together with the other risk factors disclosed in the Annual Report. In addition to the other information in this Quarterly Report on Form 10-Q, all of these risk factors should be carefully considered in evaluating us and our common stock. Any of these risks, many of which are beyond our control, could materially and adversely affect our financial condition, results of operations or cash flows, or cause our actual results to differ materially from those projected in any forward-looking statements. We may also face other risks and uncertainties that are not presently known, are not currently believed to be material, or are not identified below because they are common to all businesses. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. For more information, see “Information Regarding Forward-Looking Statements” in Item 2 of Part I of this report.

Outbreak of Contagious Disease

Our business and the businesses of our suppliers, distributors and customers could be adversely affected by the effects of a widespread outbreak of contagious diseases, including the recent ongoing outbreak of COVID-19. Any outbreak of contagious diseases, and other adverse public health developments, could cause a disruption in our supply chain, distribution and demand for our products. The duration of any such disruption and the related financial impact from COVID-19 and other epidemics and pandemics cannot be reasonably estimated at this time. The occurrence or continuation of any of these events could lead to decreased revenues and limit our ability to execute on our business plan, which could adversely affect our business, financial condition and results of operations.

Industry Conditions and Cyclical

The residential, commercial and industrial construction industry, which is the end user of the Company’s products, is cyclical and is affected by a number of factors, including the general condition of the economy, market demand and changes in interest rates. Industry sales of electrical wire and cable products tend to parallel general construction activity, which includes remodeling. Construction activity is affected by the ability of our end users to finance projects, which may be severely reduced due to a widespread outbreak of contagious disease, including an epidemic or pandemic such as the current COVID-19 pandemic. Residential, commercial and industrial construction could decline if companies and consumers are unable to finance construction projects or if the economy precipitously declines or stalls, which could result in delays or cancellations of capital projects.

Deterioration in the financial condition of the Company’s customers due to industry and economic conditions may result in reduced sales, an inability to collect receivables and payment delays or losses due to a customer’s bankruptcy or insolvency. Although the Company’s bad debt experience has been low in recent years, the Company’s inability to collect receivables may increase the amounts the Company must expense against its bad debt reserve, decreasing the Company’s profitability. A downturn in the residential, commercial or industrial construction industries and general economic conditions may have a material adverse effect on the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Note 7 to the Company’s financial statements included in Item 1 to this report is hereby incorporated herein by reference.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Incorporation of Encore Wire Corporation and all amendments thereto (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, and incorporated herein by reference).
3.2	Third Amended and Restated Bylaws of Encore Wire Corporation, as amended through February 27, 2012 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference).
4.1	Form of certificate for Common Stock (filed as Exhibit 1 to the Company's registration statement on Form 8-A, filed with the SEC on June 4, 1992, and incorporated herein by reference).
31.1	Certification by Daniel L. Jones, Chairman, President and Chief Executive Officer of the Company, dated October 29, 2020 and submitted pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Bret J. Eckert, Vice President – Finance, Treasurer, Secretary and Chief Financial Officer of the Company, dated October 29, 2020 and submitted pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Daniel L. Jones, Chairman, President and Chief Executive Officer of the Company, dated October 29, 2020 as required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Bret J. Eckert, Vice President – Finance, Treasurer, Secretary and Chief Financial Officer of the Company, dated October 29, 2020 as required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENCORE WIRE CORPORATION

(Registrant)

Dated: October 29, 2020

/s/ DANIEL L. JONES

Daniel L. Jones
Chairman, President and Chief Executive Officer

Dated: October 29, 2020

/s/ BRET J. ECKERT

Bret J. Eckert
Vice President-Finance, Treasurer,
Secretary and Chief Financial Officer