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PRESENTATION

Operator

Good day and welcome to the ESCO second quarter 2016 conference call. Today's call is being recorded.

With us today are Vic Richey, Chairman and CEO, Gary Muenster, Vice President and CFO. And now, to present the forward-looking statement, I would like to turn the call over to Kate Lowery, Director Investor Relations. Please go ahead.

Kate Lowrey - *ESCO Technologies, Inc. - Director, IR*

Thank you. Statements made during this call regarding 2016 and beyond, EPS, EPS as adjusted, EBIT tax rates, future growth, profitability and revenue, operating margins, cash flow, orders, success of new products, sales, acquisitions, implementation of the Company's capital allocation strategy, costs, benefits, and timing of restructuring and cost reduction activities, the results of recent acquisitions, corporate costs, and other statements which are not strictly historical are forward-looking statements within the meaning of the Safe Harbor provisions of the federal securities laws.

These statements are based on current expectations and assumptions, and actual results may differ materially from those projected in forward-looking statements. Due to risks and uncertainties that exist in the Company's operations and business environment, including, but not limited to, the risk factors referenced in the Company's press release issued today, which will be included as an exhibit to the Company's form 8-K to be filed.

We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

In addition, during this call, the Company may discuss some non-GAAP financial measures in describing the Company's operating results. A reconciliation of these measures to the most comparable GAAP measures can be found in the press release issued today and found on the Company's website at www.escotechnologies.com under the link Investor Relations.

Now I'll turn the call over to Vic.

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Thanks, Kate, and good afternoon. Before I give my perspective on the quarter, I'll turn it over to Gary for a few financial highlights.

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Thanks, Vic. As a reminder, at the start of the year we announced that certain restructuring actions were undertaken related to our lower margin international operations, primarily in the test business. We described and quantified these actions, as well as the annual cost savings anticipated once the process was completed.

The detailed restructuring costs were excluded from our FY16 guidance provided in November, and we noted that we would be presenting our quarterly and annual financial results for FY16 on an EPS-as-adjusted basis.

Our restructuring actions have been running ahead of schedule and are expected to come in below the original budgeted amount. Once these actions are completed, we will have eliminated a significant management distraction at the operating unit level, which will allow us to begin realizing the identified cost savings and operating benefits we anticipated.

As described in the Q2 release and commensurate with the recent acquisitions of Fremont and Plastique, we've expanded the presentation of our reporting segments to reflect the operating results of our Technical Packaging Group.

We feel this additional disclosure will further shareholders understanding of our underlying operations, as well as provide additional insight into our outlook.

Turning to our Q2 and year-to-date results, I'm pleased with our operating performance, which exceeded expectations from several perspectives, including EPS, cash flow, and entered orders, which each significantly exceeded expectations.

The early performance of Plastique is consistent with our acquisition forecast, and their potential growth opportunities continue to materialize.

During Q2, we reported EPS as adjusted of $0.40 a share, which was 33% higher than Q2 of last year and 11% higher, or $0.04 above the top end of our February guidance range of $0.31 to $0.36 a share.

Our six-month year-to-date EPS as adjusted was $0.87, and is above our original six-month expectations we set in November.

Compared to our February guidance, our increased earnings came from every operating unit, with the exception of VACCO, whose sales were impacted by the timing on long lead items between the first and second half of the year.

Doble, TEQ, and Test Q2 earnings each exceeded our previous expectations by a fair amount.

Our Q2 and year-to-date cash flow is running several million dollars ahead of projections, and our cumulative entered orders at the six-month point but us in a comfortable backlog position at March 31st.

The $273 million of orders year to date are supported by the continued strength of our commercial aerospace business and, in particular, the A350 program, coupled with the order strength generated in our Technical Packaging businesses.

Our multi-segment strategy and our strong operational focus are key themes that we've communicated over the past few years, and these results demonstrate that our goals remain well defined and are clearly in focus throughout the organization.

Here are a few highlights from the release to allow you to better understand the underlying results.

Q2 consolidated sales increased 8%, or $10 million, compared to Q2 of the prior year. The increase was driven by Technical Packaging, where sales doubled from prior year, reflecting the strong performance of TEQ and the contributions from Fremont and Plastique.

Doble sales increased as a result of higher software and service revenues. Test sales decreased due to project timing. And Filtration sales were up modestly as a result of VACCO's sales timing issues, partially offsetting the increase in commercial aerospace.

Corporate costs were higher than last year, primarily due to the timing and volume of spending on professional fees primarily incurred supporting our M&A activities.

On the balance sheet, we continue to maintain a very favorable debt level with $60 million of net debt outstanding at March 31st.

We remain firmly committed to our capital allocation strategy, which includes share repurchases and dividends. And, as such, we repurchased 87,000 shares and spent $3 million during Q2.

We expect to continue to opportunistically repurchase shares in the open market over the balance of 2016.

After reviewing our sales growth and profit improvement opportunities over the balance of the year, we determined it was appropriate to raise our FY16 EPS as adjusted guidance to $1.95 to a dollar 202 (sic - $2.02 - see press release) per share from the previous range of $1.90 to $2 a share.

Getting off to a solid start over the first half of the year and considering the strength of our current backlog, coupled with the contributions from Plastique, this provides additional comfort in our ability to achieve our increased EPS goals.

Regarding our Q3 outlook, we're expecting EPS as adjusted to be in the range of $0.40 to $0.45 a share.

Finally, commenting on our longer-term view, we continue to see meaningful sales, EBIT, and EPS growth across the business segments, consistent with our previous expectations and earlier communications.

And I'll be happy to address any specific financial questions when we get to the Q&A.

And now I'll turn it back over to Vic.

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Thanks, Gary. As noted in the release and as Gary discussed, we had a solid quarter and are well-positioned to hit our increased EPS outlook for the balance of the year. I'm pleased to see that we had good performance across the Company, both in Q2 and year to date.

While I won't say we're immune from the economic headwinds many industrial markets are currently facing, I do believe the breadth and diversity of our end markets and the specific niches we operate in provide us the protection to mitigate their impact.

Gary and I visited all of our major operating locations in April, and we came away encouraged by what we saw. Again, we're not without challenges. But the issues we are facing appear manageable.

And to offset these issues, we have identified some solid upside opportunities that we can capitalize on as we head into next year.

Also in April, we visited two of Plastique's operations in Europe, their engineering and design center in the UK and their manufacturing facility in Poland.

During this trip, we had the opportunity to meet more of the management team and were able to do a deeper dive into their market opportunities.

I can say I'm even more excited about this business and its future.

Gary and I came away impressed with the strength of the management team, as everyone we met appeared very dedicated to the company and excited about their opportunities as a part of TEQ and ESCO.

The core business is very solid with some real upside as a result of their filter pack -- fiber pack capabilities.

More and more customers want the option of using a sustainable fiber-based product or a combination of fiber and plastic packaging, and the desire for more environmentally friendly packaging is driving the demand for these alternatives.

Our combined Technical Packaging Group now has scale and market leadership positions across several growth markets where we are providing highly engineered products to customers in the medical, pharmaceutical, and consumer markets.

I'm confident these opportunities we're seeing set us up nicely for the future.

Moving on to filtration, our aerospace business continues to perform above expectations, and our year-to-date earnings, cash flow, orders, and outlook for the balance of the year remain strong.

A key driver of the continued success and confidence in our commercial aerospace business is that we're well ahead of our near-term order and production plan on several platforms, led by the A350, which continues to run better than expected.

Doble reported another solid quarter with operating performance in Q2 delivering adjusted EBIT margins of 25%.

As utilities continue to rationalize their capital budgets and we better understand the potential impact in our legacy hardware sales, we continue to see additional opportunities in our service and software applications.

Additionally, to mitigate the impact of CapEx constraints, we see tangible opportunities with our new products such as the M series, doblePRIME, and our DUC-E offerings.

Overall, the combination of our offerings and the breadth of our solutions bodes well for our outlook.

I recently attended the 83rd Annual Doble Conference and was thrilled to see another year of record attendance as we hosted over 1,500 customers for the weeklong event.

The restructuring activities in Test and at Doble are progressing ahead of schedule and below our projected cost. These activities have taken place without any negative impact on the rest of the business. And, most importantly, we're seeing a cost savings materialize as anticipated.

I feel good about the growth opportunities we see ahead of us across the business, which gives me confidence over the balance of this year and for additional growth in 2017 and beyond.

I'm pleased we were able to supplement our outlook with some non-organic growth during the past six months. As we've discussed previously, acquisitions are a key component of our ability to meet our longer-term growth targets.

We are currently reviewing some additional opportunities which we find interesting, and we will continue to work diligently to make some of these happen.

We certainly have the balance sheet capacity and management bandwidth to handle this additional growth within our current operating infrastructure.

So wrapping up, we had a strong first half of the year and our outlook for the balance of the year remains strong. Our actions to reduce our cost structure are paying off, and we're on track for bringing in a strong 2016, as we are well-positioned for profitable growth in all three segments.

Our focus remains constant, to improve our operational performance and execute on growth opportunities both organically and through acquisitions.

So now I'd be glad to answer any questions you have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) One moment while we gather questions. Jon Tanwanteng from CJS Securities.

Jon Tanwanteng - *CJS Securities - Analyst*

I'm just wondering if the margins in the USG segment are sustainable. Is that more a result of the higher mix -- excuse me -- the less hardware in the quarter? And do you expect that to normalize?

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

There's always going to be some ups and downs from quarter to quarter depending on the mix. But certainly, we see that business as being over 20% going forward.

Jon Tanwanteng - *CJS Securities - Analyst*

Okay. We've seen a number of commercial aerospace suppliers talk about weakness or slowdowns in deliveries.

I'm just wondering why you haven't seen any of that. Is that purely the mix of programs you're exposed to?

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Yes. I think it's really very much platform driven. And we get that question quite often recently because there has been a good bit of that in the news.

But quite honestly, we have not seen any of that, and I think it is just the mix of the programs that we're on. And in fact, we were just up with those guys a couple weeks ago and kind of posed that same question to them, because Gary and I'd been getting the question some. And so we did a little deeper dive looking at the programs that they're on. And the production schedules for the platforms that we're on seem very solid.

So we've not seen any indication that that's going to soften our specific airframes in the near term.

Jon Tanwanteng - *CJS Securities - Analyst*

Okay, great. And can you comment on the Technical Packaging business now that you've broken it out? What should we expect from the new segment in terms of growth and margins over time?

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Yes. So I think we're looking at kind of 12% or 13% range now. We think that we're looking at some things to improve that and to get some additional growth. And obviously, we wouldn't have to add a lot of infrastructure as we would grow that business.

The core packaging business, if you will, talk about it that way, the original business that we had, we expected some attrition in that business this year, because it's pretty typical to do that, and we've not really seen it.

So I think the guys have done a good job of going out and working the existing customers pretty hard to ensure that we maintain the business that we have.

In fact, in a number of occasions have been able to get longer term, LTAs if you will, longer-term contracts, that gives us a little more stability.

So as we add to that business, we do think we're going to get some leverage. Obviously, it's not the same level of profitability we see in our filtration or USG business. But we do think there's opportunity to continue to drive margin there.

I think the big question is how much leverage we're going to be able to get with having a European operation. We think it'll be good, but we're not really ready to commit to anything until we have a little more time with those two businesses.

But certainly, we see the longer-term opportunity there is to do more medical in Europe. I mean, a lot of our customers were really pushing saying you need to have a European operation because of shipping costs and that's where they're located. And so we think that will give us more opportunity there.

Conversely, some of the areas where they were already very strong, we think we can bring some of that to the US.

So there certainly are opportunities there, but it's very early in the process and it'll take a little time to see how much of that we can harvest.

Jon Tanwanteng - *CJS Securities - Analyst*

Okay, great. And that 12% to 13% was an EBIT margin, is that what you're talking about?

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Yes.

Jon Tanwanteng - *CJS Securities - Analyst*

Okay. I think you did a little more than that in the quarter, little bit over 14%. Do you think that's going to come down?

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Go ahead.

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Yes. No, that's the right number. But I guess the one thing we have to keep in mind is, is that KAZ program in what I'd call the core TEQ business, it's running at an extraordinary rate right now as they're restocking some of their inventory orders.

So that's a high margin product for us. And so when you're looking at what's going to happen with that business, it's not going to run at the rate it has been for the last quarter or two because as they convert from gen 1 to gen 2 in a backwards compatible things, you're going to see a little bit of stabilization in the revenue line, and that'll bring the margins back down to a little bit closer to historical.

So it is 14% for this quarter. But I think as you look forward, keeping it at upper 12's to mid-13s is the right way to think of that as a longer-term run rate once KAZ kind of goes back to its normal run rate versus this current extraordinary run rate.

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

And then again, I mean, I think the question's going to be, as we get more business if we're able to grow that, which we think we'll be able to, we should be able to leverage that and get a higher margin.

Jon Tanwanteng - *CJS Securities - Analyst*

Got you. That's helpful. And then just one more question. The SG&A line was actually quite a bit below what we thought it was going to be. How should we think of that run rate going forward?

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Yes. I think what you're seeing, this is the first real quarter where we're completely out of the facility in Germany and essentially out in UK, and we're also out of the facility in Brazil.

And so that's why you see the big downtick that you have there. So I think if you just carried that forward, at least for the balance of this year, we would be comfortable, again, because we're not going to be adding people back into the facilities or the relationships that we just shut down.

So this feels like, give or take, couple hundred thousand that this is the run rate that you should see going forward, kind of a net upper 32s, $32 million kind of thing, $33 million maybe. But you're not going to see it going back up to $34 million, $35 million any time soon.

Jon Tanwanteng - *CJS Securities - Analyst*

Okay, great. Thank you very much.

Operator

Kevin Maczka from BB&T Capital Markets.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Thanks. I think this maybe is more of a question for Gary. But so we know that your years are typically back-end loaded. But this one is looking incredibly Q4 loaded. And I guess I'm a little bit surprised that we didn't see a little more lift in Q3, but we're looking now at something in the low 40s in Q3 and then pushing $0.70 in Q4.

This might be very broad. But can you just talk about some of the major moving parts, how this progresses sequentially Q2 by segment -- or Q3 and then Q4? Thank you.

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Yes. I think, Kevin, if we start with the VACCO commentary that I made relative to some of these long lead items as you're transitioning the SLS-type business from development into some production hardware and you're kind of moving the Virginia class from one lot to the next as those things transition.

Just to kind of put numbers around it, in Q2 VACCO was a little less than $20 million in revenue. And obviously, there's a nice infrastructure there. So the EBIT margins that came out of VACCO this quarter were about 13%, 14%, because that's not their run rate for revenue.

And so taking VACCO up Q3 up to 26% or 27% is more rational as you're catching up on these long lead items that are converting through the calendar, is probably the best way to think about it.

And then their sales move up closer to $30 million in Q4, which might seem extraordinary going from 19 to 30 two quarters later. But again, I remind you that the revenue associated with SLS in the Virginia class, these are significant programs that come through at high-dollar and high-margin content.

So I'd say that's probably the only thing that's really unique relative to the thing relative to our past, because VACCO's generally been pretty stable on a quarterly profile basis.

And I'd say on the other side of the business, if you look at our historical Test business profile, the fourth quarter's always been their biggest revenue generator. And that's going to be the case this year as well.

And so as we, as Vic said, we spent a lot of time down with those folks. We have program-by-program specific details that support our thinking, and then we put a little assessment on top of that because it's not our goal to over commit and under perform. So I think we've dialed it to a fair amount of time.

But your math is right. I mean, if we're going to do the middle of our range in Q3, you've got to get to a 70-something thing in Q4. But when we go through the components by revenue profile and profit profile, it's not that extraordinary on a piece-by-piece basis.

Kevin Maczka - *BB&T Capital Markets - Analyst*

What kind of assumptions are you making on Doble? Because I think at one point you thought the year might be more than 10% growth top line, and it was more like four or five in the first half.

I guess what -- I know there's an easy comp coming there in Q4. But what's driving that? Are you still holding that target? And what drives it? What accelerates?

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Yes. I'd say some of the things that we have in front of us where we have contracts in hand, but we obviously haven't started delivering the product yet. So we have some things related to dobleARMS that are unique revenue recognition items. And again, these aren't $5 million and $7 million things, but they are things that when they pop through in the second half of the year, they're $0.5 million and $1 million kind of things.

And some of these products that Vic alluded to, whether it's the DUC-E or the Prime, some of these new things that are coming through.

So you're going to see a sequential ramp-up from Q1, Q2, and Q3, Q4 through the year. And again, that's really just the manifestation of the order profile converting through. As we do our diligence in the utility space, we see, at least we anticipate from conversations that we've had, that the budget's going to be loosening up here a little bit in Q3 and Q4 as the utilities rationalize their CapEx.

So that's a long answer to say we have some optimism and that we've dialed that back a little bit. So we're probably not at a 10% number right now. I mean, could we do that? Yes, but we'd probably need some extraordinary budget releases. And that's what we've dialed back into our current assessment.

Kevin Maczka - *BB&T Capital Markets - Analyst*

But in terms of your optimism there, Gary, we just did $30 million, we were closer to $35 million in Q1. We're maybe back more along the lines of that Q1 run rate in the second half?

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Yes.

Kevin Maczka - *BB&T Capital Markets - Analyst*

And usually, again, the margins come through with pretty strong incrementals here, mix aside. And that's a fair assumption as well that we'll see the strong flow-through that we normally see?

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Right, especially, as Vic alluded to, the benefit of the mix working favorably. As you get more software and services through, those tend to pull through higher incremental margins. So as that mix moves forward, we get a nice, sequential dollar-for-dollar pop to the EBIT line that's higher than in the legacy hardware stuff would come through at the same revenue volumes.

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Yes. And again, you have to remember we did take some cost out of that business as well, both in Brazil and then some domestically as well.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Right. Well, to your earlier comment, Vic, I mean, it sounds like holding 20% isn't a real high hurdle when we did 28% and 25%, basically, in the first two quarters.

But you're not suggesting that there's something in the mix coming that would knock us down. But it sounds like maybe we've seen the low watermark in Doble for the year on sales and EBIT margin.

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Right. Right. I would agree with that.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Got it. Okay. Thank you.

Operator

Ben Hearnsberger from Stephens.

Ben Hearnsberger - *Stephens - Analyst*

I wanted to ask a question on the packaging, the Technical Packaging segment. I think it may have asked earlier, and if I missed it, I'm sorry.

But how should we think about growth in that business now that you've broken it out, you have critical mass there?

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Go ahead, Vic, you go first.

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

I mean, I think there's good opportunity for growth of the business. I think the underlying businesses, honestly, this year's grown a little bit better than we thought it was going to, as I mentioned earlier, because we didn't have some of the attrition we typically would encounter in that business.

And then, so the question is, with the addition of Fremont and the addition of Plastique, it's really, we're still getting our arms around how much they were going to grow organically. But having just been over there, it feels really good because they have great opportunity, particularly in the fiber pack piece of it.

And so I think the real question, how quickly we can take advantage of being in two different continents and a number of different end markets now.

So I'm not ready to commit to a long-term growth number. But I do think there's a lot of really good upside opportunity as we, again, take some of the medical product to Europe and bring some of the consumer product back here.

And we're in the process of even expanding the fiber pack capacity now because we have won some opportunities there that require us to continue to do that.

So it's going to take us a quarter or two to really understand how quickly we're going to be able to grow that business, but there's a lot of opportunity there.

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

And, Ben, I'll put some numbers around that. Just one of the nice parts of the timing of when we purchased Plastique, they do have seasonality. And their strongest period of revenue historically when we were diligencing the company, let's go back four to five years, the period where they get the majority of their revenue is our fourth quarter.

So a lot of their products get delivered to their customers in time for the fourth calendar quarter, okay. So what that means is, our quarters when we're producing and selling to those customers who then distribute it to the medical field or the consumer field or the Gillettes of the world and things like that.

So as we move to the third quarter, and, again, this kind of goes back to Kevin's question, keep in mind we had them for two months in Q2 and now we get three months in Q3. So that inherently adds $2.5 million or $3 million of revenue in Q3, sequentially.

Then you take the commentary on our fourth quarter, which is their highest revenue quarter, it would not be unusual to see an extraordinarily high quarter at Plastique with north of $11 million or $12 million, okay.

And again, that's the restocking and pushing through things that are going to be in the ultimate end customers' hands for the October to December 31st period.

So that rationalizes this year on why we have a steep ramp. And again, I mentioned the VACCO thing in detail. And if you put the Plastique thing in there, let's call it $12 million in that quarter and you're pulling through 13%, 14% EBIT, that's an incremental add. That's net of purchase accounting.

So a short answer on the growth is, for 2017, we're going to have an unusual looking growth curve because you're going to have 12 months versus 8 months. So it's going to look extraordinary in 2017. Just the calendar works in your favor.

But if you just neutralized everything and if you had the advantage of seeing the last three years, this would be kind of a 5% to 6% grower on a normalized basis. And that's setting aside what fiber pack can add to the upside.

So relative to how we valued the company when we purchased it, we were looking at kind of a 5% or 6% normalized year-over-year growth rate with the ability to accelerate that both on the top line and the bottom line [by] the contributions that can come from this fiber pack product that's really just hitting the market here.

So looks good for the rest of this year, and we're going to have this extraordinary pop in Q4, and then, obviously, you'll see a drop down little bit in our Q1 of 2017, but then ramp back up. So 2017 will look great compared to that.

So hopefully that long answer helped answer your question.

Ben Hearnsberger - *Stephens - Analyst*

Yes. That's helpful, Gary. Thank you. And Vic, I wanted to get your comments on the Test order pipeline. It's slowed down over the last year. I'm sure that has to do with the general industrial slowdown.

Can you talk about what you're seeing there and the different pieces of that business?

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Yes. The domestic business, I would say, is kind of playing out like we anticipated. The medical business is solid. It's not up. It's not down. I mean, it's kind of hitting the numbers we've seen historically.

The acoustics business is a little soft right now, and that's not surprising.

If you look at the rest of the domestic business, I say we're seeing good opportunity, as the wireless business remains good had strong.

Moving outside of the US, Europe's tough. I mean, it's tough for everybody right now. We've got some opportunities, but it's been very competitive because a lot of our competitors are headquartered there, so that that makes that more difficult.

But the place we're really seeing great opportunities is in Asia still, and particularly in China. We won a nice job with a electric vehicle manufacturer in China. There's a number of additional opportunities in that specific space out there right now, because China came out with one of their five-year plans, and that's a specific area that they identified involving the electrical vehicles that they want to put a lot of investment in.

And so that's resulting in a lot of opportunities for us, which we're taking advantage of.

Additionally, you see a lot more, particularly in China, but throughout Asia, where historically our primary customers had been the government or government agencies. And we're seeing a lot more commercial companies in test companies, if you think -- that are increasing their activity.

So we're seeing really good opportunities there. So US is solid, Europe's a little weak, but Asia's been good and strong for us.

And again, if you think about that business, particularly on the EMC side, a lot of it goes to direct, to customers, but a lot of it does go to test facilities as well, so they're both customers for us. And the good thing about it is that maybe a customer will go to a test facility and get their products tested that what way, but then when they get enough business it makes more sense for them to have their own facility. And so they've been used to using our equipment in a large test company, and so they'll come to us and we'll build a facility for them.

So I'd say that the overall market for the Test business has been pretty solid. We've got a good position with Apple and they continue to grow significantly, and we're a preferred vendor for them.

Ben Hearnsberger - *Stephens - Analyst*

Okay. I think you're probably the only one out there saying good things about growth with Apple right now. So kudos to you guys. Thanks for taking my question.

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Well, you know they've got that new facility underway, and so that's what's driving a lot of that.

Ben Hearnsberger - *Stephens - Analyst*

Got it. Thank you.

Operator

John Quealy from Canaccord.

John Quealy - *Canaccord - Analyst*

I'm sorry if I missed this. On the ETS in Doble restructuring, you said you're mostly done with it, below budget. Did you quantify how much is the delta and when it will come back to the P&L? Or how should we think about that, Gary?

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Yes. What we said in the release is we've spent, or at least expensed about $5.5 million, and then we have about $2 million yet to spend. So let's call that $7.5'ish million, and round it to $8 million. And so that's kind of how the math is laid out in the press release.

So it feels like it's running about $1 million under budget at the pretax line.

John Quealy - *Canaccord - Analyst*

Okay. So that might be --

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Again, remind you it's a zero-sum [game]. So whatever happens to the positive and negative goes in and out. So we're reporting on as-adjusted.

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So I don't want to give you the impression that that means that's why we raised earnings, because it's whatever hits the P&L gets backed out dollar-for-dollar to net to zero. So by under running it, it's great from an economic perspective of cash, but from a reporting-as-adjusted basis, it's neutral.

John Quealy - *Canaccord - Analyst*

Yes, right. So it doesn't matter how it winds up to your point, Q4, Q1, it's as-adjusted-out.

The second question I have is, as we get, I guess acquainted with Technical Packaging, book-to-bill was very strong. And I think, Gary, your point about it lines up with deliveries, perhaps, in your FY Q4, should we think that book-to-bill sort of moderates towards one in that Q4 period? Or how should we just think about the booking forward look side of Technical?

Gary Muenster - *ESCO Technologies, Inc. - EVP, CFO*

Yes. I think because the sales are going to be so extraordinary relative to the monthly average if you just took their year divided by 12, I don't think it'd be fair to anticipate a high book-to-bill in Q4 because of the sales impact.

But I think if you look at it on a year-over-year basis, carrying a one-to-one relationship probably is okay. But again, then you'd keep the KAZ business in mind because you get a big order and then you run it off for two years, then you get another big order.

So those are really the only two things I think you have to kind of keep set aside in your model is quarterly seasonality and then the one-off big things. It's not unusual to get an $8 million or $9 million KAZ order and then burn through it over the next 12 months.

So obviously, you have an awkward book-to-bill in that program as you go over three quarters. But I think you'll be pleased with, on an annual basis, what the book-to-bill looks like. It's not one of these things where because these production runs are so long, you get the order on Monday and ship it on Tuesday so backlog flips real quick. It's not something like that.

So I think you'll be able to model out three and six months of comfort relative to how the order book lays in front of that, which is what you see now when you look at what the order book for Q2 was in Technical Packaging, and then that kind of supports the commentary I made on what's going to happen over the next two quarters here relative to the sales as that converts itself to revenue.

John Quealy - *Canaccord - Analyst*

Yes. That's helpful. Thank you, Gary. And lastly, Vic, for you. So now, four distinct sub-segments for ESCO. Can you comment on any potential one-off dispositions, or is there another little sleeve of business that you could bolt on here without much managerial oversight on the ESCO portfolio? Thanks, guys.

Vic Richey - *ESCO Technologies, Inc. - Chairman, CEO, President*

Yes, you bet. Well, I certainly don't see us strapping on another leg, if you will, if that was the second half of your question.

And the other thing is, very happy with the four businesses we have now. I think they're performing well. We've made some changes this year to get our cost structure in place.

And as we've talked about before, selling a business that's making good money to pay off debt at 1% just doesn't make sense. And so we're happy with where we're at now. You know we're always open-minded about looking at the business. We were just with our Board last week and spent a day and a half talking about strategic planning, those type of things.

And so, obviously, our job is to look at all the options, and we always do that.

[But I would say] today, as I mentioned at the end of my prepared remarks, what we're really focused on is performing on the business that we have and looking for good growth opportunities both organically and through acquisition.

So we're pretty happy with where we're at now. We think we've done the things we needed to to get the cost structure in place, and now ready to leverage that as we grow the business.

Okay. I think we're done. So appreciate everybody's attention today, and we'll talk to you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone have a great day.
