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# EDITED TRANSCRIPT

ESE - Q4 2015 ESCO Technologies Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Jim Giannakouros** *Oppenheimer & Co. - Analyst*

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

**Ben Hearnsberger** *Stephens Inc. - Analyst*

**Jon Tanwanteng** *CJS Securities - Analyst*

**Sean Hannan** *Needham & Company - Analyst*

**John Quealy** *Canaccord Genuity - Analyst*

## PRESENTATION

**Operator**

Good day ladies and gentlemen. Welcome to ESCO's 2015 year end Earnings Conference Call. Today's conference 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 statements, I would like to turn the call over to Kate Lowrey, Director of Investor Relations. Please go ahead, ma'am.

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

Thank you. Statements made during this call regarding 2016 and beyond, EPS, EPS' adjusted, EBIT, tax rates, future growth, profitability and revenue, operating margin, sales, acquisitions, implementation of the Company's capital allocation strategy, the cost benefits and timing of restructuring and cost production activities, corporate costs, and other statements which are to the 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 the 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 results 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 in the press release issued today, and found on the Company's website at www.escotechnologies.com, under the link Investor Relations. Now I will turn the call over to Vic.

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

Thank you Kate. Good afternoon. Before I provide my perspective, I will turn it over to Gary for a few financial highlights.

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

Thanks Vic. As a reminder on October 8th, we announced certain restructuring actions related to our lower margin international operations, primarily in the test business, and also provided a preliminary update of our expected FY15 results. In that announcement, we laid out the details of the 16 restructuring actions and the expected cost savings, and called out the $5.6 million of noncash charges in the test business that impacted this year's results. We also noted that we expected filtration, Doble, and corporate's year-end performance to be at or above previous expectations, and I'm pleased to report that we realized these higher expectations as we closed out the year. Our FY15 restructuring actions are well under way, and are being implemented at the cost level we anticipated, and on the schedule we projected. We expect to begin realizing the identified cost savings and operating benefits in the second half of fiscal 2016.

Turning to the release, we reported EPS of $1.59 per share from continuing operations, which was negatively impacted by the $5.6 million of noncash charges that we noted earlier. During the year sales increased $8 million at Doble, as a result of new product introductions and the contribution of Enoserv for a portion of this year. Filtration sales increased despite the previously expected sales decrease at VACCO, related to the SLS program which was re-baselined at the start of the year.

The commercial aerospace business at PTI and Crissair significantly out performed expectations, and TEQ recovered quite nicely from what was expected to be a sales decline, due to the Q1 impact of the CAS retooling. Their production requirements for their Gen2 product as described at the beginning of the year. The Test business reported a $4 million sales decrease during the year, resulting from the softness within the global shielding markets. In response to this, Test was able to partially mitigate it's impact by reducing their SG&A spending by $4 million year-over-year.

Our operating strength as recognized in FY 2015 was clearly driven by the continued up-cycle in the commercial aerospace markets at PTI and Crissair, a 24% EBIT margin at Doble, despite additional spending on sales and marking, outstanding performance at TEQ, where we delivered a solid EBIT margin, despite its Q1 CAS headwind, and rigorous cost management resulting in lower corporate spending. While the overall performance in Test was disappointing, we addressed this situation with significant and aggressive cost reduction actions, which will have a tangible and meaningful impact on Test's operating margin beginning in FY 2016 and being realized for years to come.

On the balance sheet, we continue to maintain a modest level of net debt, which stood at $11 million as of September 30th. Additionally, we remain committed to our capital allocation strategy, which includes share repurchases and dividends, and as such, we returned over $27 million to shareholders during the year. We expect to continue to opportunistically repurchase shares in the open market during 2016. A significant highlight of the year was the strength of our entered orders and our ending backlog. We booked $562 million in orders in FY 2015, which reflects a $25 million, or 8% increase in any backlog, which currently stands at $328 million as of September 30th. The current backlog and our order profile as we enter FY 2016 supports our sales outlook as described in the release.

Regarding our guidance as we noted in the release, our expected results will include the impact of the restructuring charges, and therefore, our guidance and subsequent reporting will be presented on an EPS as adjusted basis, which will exclude these defined charges. The majority of the charges and add backs will occur during the first half of the year, as we expect to be substantially complete by March 31st. Therefore, we expect FY 2016 EPS as adjusted to be in the range of $1.90 to $2.00 a share, with a quarterly EPS profile similar to FY 2015. Additionally, commenting on our longer-term view, we continue to see meaningful sales, EBIT and EPS growth across the business segments, consistent with the expectations communicated in our 2014 Analyst Day presentation. When comparing our guidance to FY 2015, we are expecting meaningful increases in both sales and EBIT at Filtration and Doble, and a lower operating cost structure at Test, along with normalized spending at corporate, which, therefore drives the favorable FY 2016 EPS comparisons. In closing when comparing our EPS as adjusted results, we are projecting a tax rate of approximately 35%. I will be happy to address any specific financial questions when we get to the Q&A, and I will turn it back over to Vic now.

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

Thanks Gary. As outlined in our release, and as Gary commented, our 2015 came in a form slightly different than originally anticipated. Our Fluid Flow and Utility Solutions businesses performed well ahead of expectations, which offset much of the softness in Test. This year reinforced one of the major benefits of maintaining our multi-segment business. As Gary mentioned, the Aerospace business performed well with results stronger than expected. The downturn on the SLS program at VACCO was not as severe as we anticipated going into the year, and SLS orders received



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during 2015 bodes well for our outlook. One of the key drivers of the continued strength in our commercial aerospace business, is we were well ahead of our near-term plan, led by orders for the A350, which have been higher than expected. This has continued into October as we received another large order on the A350 to start the year. Another bright spot is our execution which has resulted in improved operating margins over the last year. The outlook for this business remains strong as we enter 2016. TEQ performed well evidenced by nearly 18% EBIT margin delivered in Q4. TEQ as I solid business with above average industry margins, resulting from our well defined niche in medical markets. While identifying the future growth opportunities at TEQ, we saw a solid opportunity to supplement this growth by adding Fremont Plastics, which is also a niche supplier to the medical market. Fremont not only had scale and profitability at a reasonable acquisition price, it also provides additional manufacturing space, where we can add capabilities to further improve TEQ sales growth and operating margins. Doble continued strong performance in 2015, and its great to see the success they're having with the new offerings to augment what is already a market leading set of products, services, and (inaudible).

Moving on to our outlook for 2016, I'm excited about the prospects as we enter this year. While we had to take some tough actions to improve our cost structure, I'm convinced these actions will result in a meaningful improvement in our operating results as we go forward. When completed we'll have a more efficient, less complex, lower cost operating structure, which should yield significantly improved margins. Our recent planning meeting have reinforced our earlier view of FY 2016 and the next couple of years. We continue to see solid tangible growth opportunities in sales, EBIT, and EPS. Let me call a few of those out. Doble has recently awarded their first significant order for the doblePRIME product, which is their newly developed online solutions package. They also won their first full scale deployment of the Doble ARMS. The pipeline for this solution continues to be strong, as we're currently in discussion with over 50 utilities. The sales cycle can be long, given the nature of the product, but since we have been working a number of these accounts for quite some time, it's good to see tangible results. Doble also recently won it's first significant contract for the Doble Universal Controller, which is a field force automation product.

Both the Doble Universal Controller and doblePRIME, our new products developed using existing building blocks, minimizing development time and expense. Our M7 product, which is the most capable test set on the market has been commercially launched, and is gaining good customer acceptance, as we booked several new orders within the past six weeks. Bottom line Doble is looking good, and the investments we have made are paying dividends. On the Test front, our FY 2016 outlook has improved based on the cost reduction actions in progress, and the savings we see coming out of the back end of this process. I remain excited about their future as the Test backlog, overall backlog continues to grow, which bodes well for our 2016 outlook.

Regarding acquisitions we see momentum with these activities, but we do continue to be prudent. Through recent major acquisitions that have taken place in the aerospace market, have commanded very high multiples. We will continue to take a deliberate approach looking for small to medium-sized niche players, which we can acquire for a reasonable multiple, provide an EPS accretion, and acceptable return. There continues to be several opportunities out there, which we're evaluating, and we continue working hard to supplement our organic growth. So in summary, we had a solid year and have taken actions to reduce our cost structure. We're on track for a strong 2016, as we're well-positioned for profitable growth in all three segments. Our focus remains constant to improve our operational performance, and execute on our growth opportunities. Both organic and through acquisitions. So I will now be glad to answer any questions you have.

## QUESTIONS AND ANSWERS

**Operator**

Thank you. (Operator Instructions).

**Operator**

Our first question comes from the line of Jim Giannakouros with Oppenheimer. Your line is now open. Please go ahead.





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**Jim Giannakouros** - *Oppenheimer & Co. - Analyst*

Good afternoon. On the Test business, if you can help me understand. I mean it's been tracking below I guess our expectations here. I think it's just broad under performance, both here and in Europe. You are still tracking below 2012 sales levels there. Are there particular end-markets to blame? I guess what I'm struggling with, is how should we be thinking about longer-term growth prospects in that business, I guess after you're done with another wave of restructuring and repositioning?

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

Well, obviously we have seen some headwinds on the sales side of that business, on the growth of it. So the approach that we're taking now is given that reality I mean some of the end-markets are more challenged than some of our businesses, but given that reality, was the primary reason we decided to take some significant cost reduction activities, because we need to get the margins up, and shorter-term we think that this is the best way to get our cost structure more in line. Longer-term I mean it is a healthy business. The markets are healthy. Some of them are developing a little bit slower than what we anticipated. For instance, the EMP market is not accelerating as much as we thought. I think that's going to happen at some point, but it just wasn't happening fast enough for us, so we had to take the action to get the margin improvement that we think is achievable.

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**Jim Giannakouros** - *Oppenheimer & Co. - Analyst*

Okay. Thanks. And if I could switch over to Doble, if my math is right on just core growth, it seems that you're anticipating accelerating growth, and I assume it's because of your healthy order book. What exactly is driving that? Is it those wins that you cited earlier? And if you can talk about expected revenue mix between hardware and software solutions, that's baked in your 2016 expectations?

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

Yes. Let me answer the last half of that first, I think that you are going to see our service revenues go up at a higher rate than what you see the hardware go up. I mean the hardware is still growing, but we are getting a lot more traction on the service side, which is good because the margins there obviously are a little better, and just having, being in front of the customer and providing services, is a positive thing, because the more you do that, the more opportunity you have to sell hardware. Really the growth that we see a couple of things. We did make an acquisition last year. We'll have that for a full year. The acquisition of Enoserv, so that gives us some immediate kind of growth with that, and going and looking for it. The other thing is really the products that we have developed, and we have been talking the last couple of years about new product developments, where it be the M7, whether it be the ARMS products, the Universal Controller, the ones I talked about today. So really the growth that we're seeing outside of kind of the baked in growth that we have with Enoserv, really are those new products, because each of those products other than the M7, are totally new products for us, and so that's given us the uptick for 2016.

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**Jim Giannakouros** - *Oppenheimer & Co. - Analyst*

Thanks, Vic.

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

You bet.

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**Operator**

Thank you. Our next question comes line of Kevin Maczka with BB&T Capital Markets. Your line is now open. Please go ahead.



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

First question I guess, just to be clear, Gary, are you calling this a $0.47 quarter, and $0.61 if you back out that charge?

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

The reason we didn't get into a lot of detail on the quarter, is because we kind of pre-announced on October 8th, and kind of set the expectation there. So the way we highlighted the $5.6 million and the $0.14 back then, was to kind of steer you in that direction at that point in time. That was the relative impact of that. So between the third quarter charges and the fourth quarter charges, we just felt it was simpler and more efficient for you guys to figure out how to look at the year. So that's why we kept the basis as the year, and ending with the nine months, you can kind of back into it. So trying to put that charge into the quarter, and how would you look at the other things, we thought was more confusing than to just say, here's the stake in the ground on the year, here's the charges that impacted it, and then you can kind of back into it. So I know it's a long roundabout answer, but that's kind of how our thinking was.

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

But is that a yes or no on the $0.47 and the $0.61?

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

I think if you, that $5.6 million hit in the fourth quarter for the most part, and the pieces that were earlier in the year, so I think if you looked at just kind of the rollup, it would be in the upper $0.40's.

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

Okay. On filtration. So we're looking at high single digit revenue growth in 2016, but flattish margins. A couple questions on that, it seems like VACCO is growing faster with the SLS program, and that's usually higher margin. So I'm wondering if that's true, why we're not getting a little bit better margin leverage on high single digit growth. Can we start with that one?

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

Yes. The short answer is the A350 is a great program, we are in the [all rib] phase of that. As we the next year or so it's going to carry a lower margin, because we have had to put all infrastructure in place to build and perform on that program, where we're running at a lower rate than what we will eventually do. So as we fast forward a couple of years, we get up to rate on that program, and you will see the margins expand. The other piece of it and you're right at VACCO, SLS is a better margin program, but the other thing that we run into is a level of spares that we receive, particularly from the Navy, because those are very high margins. We had a really strong year in 2015 on the spares. We're not anticipating that in 2016. Hopefully that will change, but the way that we modeled this out, is that we're going to have a lower level of spares, kind of more in line with what we have seen historically. So I would say those are the two biggest things that are having some impact on the margins in 2016.

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

Okay. Are you able to say about how big your SLS business was in 2015?



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

Yes. It was in the low 20's, so $22 million, $23 million of revenue. And a little higher on the orders, which is great news, as we go into 2016, because if you recall the rebase line at the start of the year, they were kind of flat-lining it for a couple of years, and now we're seeing acceleration, so having the orders greater than the sales certainly supports our outlook in that regard. So if you were to peg it at $22 million to $23 million in 2015, it should be incrementally higher as we go into 2016, based on the order book we have, which is over $25 million that came in this year.

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

Got it. And could I just sneak one in on Doble here. So sales were down in the quarter at Doble. I think that came in a bit shy of what we were looking for. Can you just talk about that, what happened in the quarter, because of course you're expecting much better growth next year, and since we have software growth next year, what kind of strong incrementals should we be looking at there?

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

So let me answer the first part of that the biggest issue that we had was the Saudi contract, which we got awarded very late in the year. We had anticipated getting that awarded earlier in the quarter, and the way that works we couldn't do any work on it until we got it, so we only got about two weeks worth of the Saudi contract in 2015, where we had anticipated almost a whole quarter of that contract. So that's really the biggest reason it was down, so I know it's not a systemic issue. It was really a timing of that one contract, which that's a big contract for us, and a nicely profitable contract as well.

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

And then on the second part of your question, Kevin, on the software especially as it relates to Enoserv, you have got two things in your favor. You have got the calendar, because we only had it for half a year or so, compared to a full year next year, and that pulls in EBIT margins greater than Doble's aggregate margin. So you should think of that in the kind of low 30's range, because of the software margins that you get off of that. So it's incrementally positive as you get the calendar effect and it pulls through one of the highest EBIT margins in the Company.

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

Okay. Got it. Thank you.

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

You bet.

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**Operator**

Thank you. And our next question comes from the line of Ben Hearnsberger with Stephens. Your line is now open. Please go ahead.

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**Operator**

Ben, your line could be on mute. Alright. We'll move onto our next question from Jon Tanwanteng with CJS Securities. Please go ahead.

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**Jon Tanwanteng** - *CJS Securities - Analyst*

Hi, guys. Thanks for taking my questions. Can you give us a little bit more color on Fremont? I'm assuming it has some synergies with TEQ? What was the price you paid and what kind of revenues would that generate, and that kind of stuff?

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

Yes. So we really haven't disclosed. It's a pretty small company, it's under $10 million, and we paid single digits on multiples, it's a nice business. It's all medical. The margins are even significantly higher than what we have in the core TEQ business, so it's going to be a nice add for us. The other thing it really does is a lot of larger customers are always concerned about us just having a single facility, in case, for disaster recovery type things, so this gave us a second facility, so we could allay that concern. The other thing is that the type of machines that they have are, well they're pretty comparable to what we have, they do allow you to form a larger part so it opens up some different areas for us, and what we've historically been able to do, and then as we mentioned as well, the other thing is they have excess capacity, so as we look and grow on that business, and maybe potentially doing some vertical integration. That gives us that flexibility that we simply didn't have with TEQ, and we were really out of space at the single location.

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**Jon Tanwanteng** - *CJS Securities - Analyst*

Got it. Was that $10 million the revenues or the price you paid? I'm sorry. I didn't catch that.

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

It was the revenue.

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**Jon Tanwanteng** - *CJS Securities - Analyst*

The revenue. And I would expect a little bit of corporate expense step-up from the acquisition fees, and also just on the restructuring, how much of that do you expect to hit in Q1?

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

On the corporate I think you're thinking about that right, we're paying attention to a lot of other things this year, so what I call the incremental spending at corporate, that's what why you see a decrease in the corporate. So I think if you rationalize that back up to its historical level, is at the first part of your question. And then relative to the restructuring, obviously the benefits become realized the sooner that you're done with all of the churn. So of the items you identified, I would say 6-ish, $6 million to $7 million of the $9 million of cost will happen in the first quarter. We're well on our way. I think at least the German piece of that, we should be out of it probably first week of January kind of thing, so that's really helpful, because then the benefits become realized much quicker. In the UK it takes a little bit longer just because there are some live projects that we're running out of the backlog, and se can't just close the door, we're going to complete those programs. So it will dribble into Q2. And I would say from the Brazil side at Doble, it's essentially complete today, but there will be some residual costs that drag through, so if you put 80% of that cost in Q1 for GAAP reporting, that will be fair.

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**Jon Tanwanteng** - *CJS Securities - Analyst*

Okay. Great. That's helpful. And just to go back to an earlier question, the as adjusted EPS for the quarter, I mean should we think about it as the charge and then tax it at the rate that your normal tax is, and then add that back?

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

Yes. Yes.

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**Jon Tanwanteng** - *CJS Securities - Analyst*

Okay. Got you. Okay. Great. Thank you very much.

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

You bet.

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**Operator**

Thank you. And our next question comes from the line of Ben Hearnsberger with Stephens. Your line is now open. Please go ahead.

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**Ben Hearnsberger** - *Stephens Inc. - Analyst*

Hey. Thanks for taking my question.

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

Hi Ben.

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**Ben Hearnsberger** - *Stephens Inc. - Analyst*

I just have one on M&A. It sounds like multiples remain high. I guess what gives you the confidence that you can do the inorganic growth necessary to meet your stated goal?

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

Yes. I mean we're just having to take a different approach than a lot of people are, and when I talked about the multiples being high, I was referring specifically to the aerospace piece of it, and larger transactions. So again, where we have been successful historically and I think we'll continue to be successful is the work initiatives, mainly privately owned businesses, that people are concerned as much about where their business goes, as much as how much they get paid for it. If you look at the acquisitions that we have made over the past three or four years, that's where we have been successful. So it's very difficult once it gets into a bid process, because there's such a scarcity out there, and things get bid up, but I would say that as we review the list of things that we have under evaluation, or in discussions with people, it's more robust than it has been, which surprised me a little bit, just because you would think a lot of these things would have already transpired, but we have been getting not only things that we have identified, but some unsolicited incoming as well, so we're not going to rush out to do something to do something, but there does seem to be enough in the pipeline to give us some confidence we're going to be successful.

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**Ben Hearnsberger** - *Stephens Inc. - Analyst*

Okay. And then on the Doble Prime order and the Doble ARMS license, you said you're talking to 50 or so utilities. What is the revenue opportunity I guess implied in that?





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

So I think the reference to the 50 clients was on ARMS, and we're talking it depends on what single your multiple year, but it can be from 500,000 to multi-million dollars, $3 million on those types of products, and that's really a nice high-margin business. We do think that's going to accelerate, because the utilities are really looking to automate things, and this is something that gives them the capability to have much better insight into what's going on, on the grid. Historically they have done it the old-fashioned way by sending people out looking at it, and obviously, with the tightness in the people, getting the people to do that, the cost to do that, we think this product that is well-positioned to fill that void, because it does allow them to set back and have a better understanding of how the performance of their grid is.

**Ben Hearnsberger** - *Stephens Inc. - Analyst*

Okay. And then, Gary, I think you may have mentioned it, but I policed it. How much of the $0.24 is assumed in your 1Q guide?

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

I would say about 80%. 80% to 85% of that.

**Ben Hearnsberger** - *Stephens Inc. - Analyst*

Okay. Great. Thank you.

**Operator**

Thank you. And our next question comes from the line of Sean Hannan with Needham & Company. Your line is open. Please go ahead.

**Sean Hannan** - *Needham & Company - Analyst*

Hi. Good evening. Thanks for taking my question. Can you hear me?

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

Hey Sean. Yes.

**Sean Hannan** - *Needham & Company - Analyst*

So a high level question for you here. If I think about the challenges you guys have consistently been going through within Test, I consider the at times project nature that you see within the business, as well as the margin profile of the business, and then I think about the types of volatility that we saw as a real drag and the consistent issues that we saw that flipped on us, and started to develop with the Aclara business. At what point do we start to evaluate Test more critically, in terms of it being strategic to the portfolio here, and to what degree is that type of analysis or discussion going on internally?

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

Well, a couple of things. I mean that is Aclara business. It's much different business. I'm sure there's projects but we're talking about projects in the $1 million to $10 million, sometimes larger, but the answer to the second part of your question, I can't say that there's anything specifically going





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on with Test. I mean look, we do those types of evaluations all of the time, and so whether it be in any of our businesses, I mean whether it be an acquisition or a divestiture, I mean that's part of what our job is, and part of the what the Board does. So there's a wider scrutiny goes onto this, I would say that today the Test business, we are still confident that they have a bright future, we just had to get, we had to take action, as I mentioned earlier when we saw the markets not developing as robustly as we thought, to get the cost structure in place. Once we get the cost structure in place, I think we'll be fine. It's important to remember that we are number one in that market. I mean we are the largest, we're the best, and believe it or not the most profitable. We've had our challenges, but I think we understand what we need to do to get through those.

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**Sean Hannan** - *Needham & Company - Analyst*

Okay. That's helpful. Then switching over to the Filtration side is really a very high level conversation, or discussion. Now there's certainly been a lot of news emerging around the slowdown of orders. That's now starting to go to the Boeings and the Airbuses of the world. Just want to see if we can get your perspective, in terms of how this ultimately could impact you. Of course, some of it's going to be platform specific, and I do realize that backlog still is pretty substantial, and there can be a lag time here, but any view points from you, Vic and Gary, would certainly be helpful? Thanks.

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

I think the good thing, I mean let's say that is what we're seeing the back, or that the orders are slowing down. You have got to understand they have got eight years of backlog currently. So there's a lot can change between the point here and there, so the programs that we're on, the primary programs are doing very well, so I don't have a near-term concern about that. And even a mid-term concern about that, just because of the strength of the backlog. It is very much platform specific, and so as we look at our forecast I think we have had a great mix of legacy programs, we have been delivering for a long time, where we get the spares, where we get the aftermarket, and new programs. So I think we're pretty well-positioned. I mean I would say that the, if we weren't on some of the newer platforms like the A350, there would be a bigger concern, because the reality is, there aren't a lot of new big programs that are being awarded right now. So fortunately we're aggressive when we needed to be aggressive, and got on some of those key platforms. And just Sean, just to take that one more step and put a number behind it that people may or may not have caught in Vic's commentary about the orders in the last week. Obviously we're talking about last year, but we received an A350 order within the last couple of days for about $7 million that was expected later in the year, and so when we talk to the division folks on that, the conversation with our customer is that they're just blowing and going on that thing, and so if there's a slowdown coming on the A350, it's not anywhere in our near-term or mid-term planning horizon, based on the production rates that we're seeing and feeling, so that's comforting to us for the growth, and then the legacy platforms like the 737, and things like that, you're really not seeing a lot of headwind that high runner is facing. In fact, with the Max engine and that sort of thing, they're seeing just the opposite, and we're realizing the benefits of that, so I think to Vic's point, we're sitting in a really good spot, because we're not concentrated on one platform, and so we diversified that risk over numerous platforms, and then we have a big grower that at least for the next three years, gives us tremendous comfort and visibility.

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**Sean Hannan** - *Needham & Company - Analyst*

Sure. Understood. Okay. Thanks so much for taking my questions.

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

You bet.

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**Operator**

Thank you. (Operator Instructions). Our next question comes from the line of John Quealy with Canaccord. Your line is open. Please go ahead.

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**John Quealy** - *Canaccord Genuity - Analyst*

Hey. Good afternoon, Vic and Gary. How have you been?

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

Good.

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**John Quealy** - *Canaccord Genuity - Analyst*

So a couple of questions. First on Doble, on the movement towards more software centric business and product cycles, can you just talk to us about the relative purchase decision time frames, they're new projects, new modalities, Doble is a fantastic brand, but you're introducing somewhat of a new category for your customer. Is there a long evaluation time, or how should we think about this, as you migrate your customer base towards a little more active light?

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

Yes. Sure. As I mentioned in my comments I mean it is a longer cycle. We have been working the ARMS product. I mean it being in front of customers at one level or another for 18 months to two years. So it is a much longer sales cycle. Now having said that, we're kind of through that, so right now we're getting some acceptance, people are starting to get very serious about this, so I think we will start so see that. The other thing I would say, why that is probably one reason you like long sales cycles is everybody else has it as well, and so as far as I know, we're the only people that have a product that we can put in the field today that the customer can really go and work with. So there's not a comparable product. So I would say we're well ahead of any competition out there, and people have to run really fast to catch up, and they're going to have to go through that same cycle. But certainly with software particularly, and enterprise type thing, there are other people that get involved. One of the great things about Doble, particularly with the core products, is that maintenance engineer can make the decision. He gets the money, he makes the decision. You start talking about putting software in place, and you're getting a lot more people involved. I mean this is more of an IT and C Suite decision, but the great thing is, once you get into that level then those guys can make a decision. But as you know working through these larger utilization can be a little bureaucratic, so you have kind of got to go through the steps to get there, but fortunately we have been at this a while, and I think we're there.

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

One thing.

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**John Quealy** - *Canaccord Genuity - Analyst*

Go ahead.

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

John, let me add one more thing to that if I could interrupt for a second. Just the other thing that is important, is understanding the utility mindset, and who our first couple of customers are, as referenced customers are highly respected, large utilities out on the West Coast, so I think the fact that people will look at that. It will make a big difference into how they look at that stuff.

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**John Quealy** - *Canaccord Genuity - Analyst*

Yes. To that point, Gary, so you guys are, you have done real big jobs in the utility space in the past, and this whole concept of multi-dimensional interchangeable systems, can you just break it down, as utilities become more digitized, that the Doble system isn't stranded, and it plugs and plays in different ERP systems. Just talk about that, how it fits into the broader ecosystem, with so many things going on at the systemic level at utilities?

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

Well, that's one of the real benefits of this system. I mean it was built, designed so that it's kind of an agnostic to the hardware. So we don't care what kind of relays you have, we don't care what kind of testers they have, it can really go in any substation. It's pretty openly coded, so that it's agnostic to the hardware that we see out there, and one of the reasons we bought Enoserv, was they really brought a lot of that along with themselves, and added to that. So we don't see this as something that's going to get put in and stranded. It's a very open architecture.

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**John Quealy** - *Canaccord Genuity - Analyst*

And in terms of your target market to Gary's point about some of the big Californian guys that you know quite well, are you targeting big IOUs that have done smart at the end point for the residential, and then want to backfill infrastructure, and get some value out of that network, or is it a mixture of folks that you're targeting for this?

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

It's really across-the-board. I mean I would say that today it is a larger investor in utilities, for what we're doing it doesn't matter if they have AMI in place or not, because it's really more of a residential commercial endpoints, and what this system does is really more looking at the substations, and the products around that. So it would not be driven by, or limited by somebody having an AMI system or not.

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**John Quealy** - *Canaccord Genuity - Analyst*

Yes. My last question. So in the AMI smart grid world you have had a lot of multiple and value deconstruction, and you guys exited at a good time. Are there properties out there in software or services that you find multiples a little bit better than maybe filter or test? Can you comment on the relative attractiveness of some of the properties in that space? Thanks again, guys.

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

Sure. You bet, John. Yes. Absolutely. There are some things out there. It's a matter of making sure do we do exactly what you alluded to. There's a lot of software out there, but what we have to make sure, is we evaluate those and those are things that can be dropped into what we have, into our ARMS system, rather than being have a one-off system, because there are so many pieces of software out there addressing these types of things, and if you don't have something that fits into our overall system, like an ARMS system, then I think you really do run the risk of having a product that you sell to a couple of different utilities, but then that's it. And the other thing I would say, is you can get some of these things at a decent price. I mean Enoserv we paid a single digit multiple for that. So a lot of it is just finding the right properties and getting them at the right time.

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**Operator**

Thank you. And I'm showing no further questions at this time, I would like to turn the conference back over to Vic Richey for any closing remarks.

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

Okay. Well, thanks to everyone for your interest today. I look forward to talking to you on the next call.

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**Operator**

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

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