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ESE.N - Q4 2021 ESCO Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

Christopher L. Tucker *ESCO Technologies Inc. - Senior VP & CFO*

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

Victor L. Richey *ESCO Technologies Inc. - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

John Edward Franzreb *Sidoti & Company, LLC - Senior Equity Analyst*

Jonathan E. Tanwanteng *CJS Securities, Inc. - MD*

Thomas Allen Moll *Stephens Inc., Research Division - MD & Analyst*

PRESENTATION

Operator

Good day, and welcome to the Q4 2021 ESCO Technologies Inc. Earnings Conference Call. Today's call is being recorded.

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

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

Thank you. Statements made during this call regarding the timing of recovery and growth of our end markets, the amounts and timing of 2021 and beyond revenues, impact of COVID and COVID variants and recovery expected as a result of COVID vaccine, recovery in commercial aerospace, impacts of supply chain issues and cost inflation, adjusted EPS, adjusted EBITDA, cash, shareholder value, the timing of Block V deliveries, success in completing additional acquisitions, success in integrating acquired businesses, the results of cost reduction efforts 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 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 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.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Thanks, Kate, and thanks, everybody for joining today's call. Before we jump into details of the quarter, just like to thank our employees across the company for their ongoing efforts to manage the business. There continued to be a lot of challenges to overcome on a regular basis. We're seeing some supply chain issues with delivering cost inflation, as well as the ongoing challenges from COVID. In spite of that, we continue to see great efforts and contributions from everybody across the company, and for that, I'm very appreciative. Since beginning of the pandemic, our primary goal has been the same to provide safe working environment and protect the health of our employees. We continue to do that now and we appreciate everybody's efforts to create a safe and collaborative environment at our facilities worldwide.

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Overall, we're very happy with how we finished fiscal 2021. The fourth quarter showed some stabilization in our overall business with sales growth from two of the three business platforms and good margin improvement compared to our third quarter results. Cash generation was also strong as we continue to see benefits from our ongoing focus on working capital improvement. Chris will get into some of the financial deals -- details in a few minutes, but I wanted to start off some top level commentary.

From a segment perspective, there are several positives to report. Within A&D, we're seeing signs of recovery in commercial aerospace as passenger boardings continue to solidify. More importantly, we're starting to see some order momentum from this set of businesses. As you saw in the press release, we had nearly 30% order growth compared to the prior year fourth quarter. All of our businesses that sell into the commercial aerospace sector saw a nice order improvement in the quarter. We're also seeing good order strength from the military side of the business. Sales to commercial aerospace customers were still be down in the fourth quarter, but the rate of decline was improved compared to what we saw in the first half of the year. Overall, our Navy and Space businesses remained strong and well funded, but sales there were a little weaker in the quarter, which is mostly a function of a very strong fourth quarter last year by our VACCO subsidiary.

Our Test businesses seen a nice pickup in its overall pace of business. We had double-digit sales growth there in Q4, and we also saw order growth of over 30%. Some exciting numbers. In the U.S., we have seen some sizable order growth from the Power Line Filter business. These are used in data centers to ensure clean power supply, and we've seen a lot of government activity driving the order increases. We also had a strong quarter in Asia from a top line perspective and are excited about the prospects there as we move forward.

We did experience a little margin pressure in Test during Q4, definitely seeing some impacts of inflation, that we're all very aware of these days. The team of Test is very focused on managing our overall cost profile and also price execution. So that we see margin trends turn around in fiscal 2022.

The USG business had an exciting quarter with the closing of two acquisitions, by now you've all heard a lot about Altanova and Phenix, but we were very excited to get these deals closed.

These businesses will strengthen USG for the long-term, and we're very excited to have these teams on board with ESCO. The businesses are going through the hard work of integration now through a full product and channel assessment to gain proper alignment of the businesses on a global basis. The acquisitions gave the USG business a bit of a top line boost in the quarter and we look forward to more of that next year. The underlying business did deliver growth in Q4 and that was good to see.

The core business -- the core Doble business was a bit up, a bit up and down in the fiscal '21, they really finished the year strong. The NRG business grew 25% for the full year and the fourth quarter was consistent with that as well. USG margins were a big part of our '21 story, because the team took actions late last year to reduce costs, and we really saw good flow-through from that throughout the year and definitely saw it in fourth quarter as well. Overall, the fundamentals of our portfolio remained strong. We're excited about the outlook for '22. You saw in the press release that we guided adjusted EPS that would get us around 20% growth next year. We feel good about that and are ready for the return of growth after two tough years in the COVID environment.

Now, I'll turn it over to Chris.

Christopher L. Tucker - *ESCO Technologies Inc. - Senior VP & CFO*

Thank you, Vic. I'll start briefly by touching on a few comparative highlights. Sales in the fourth quarter were flat to prior year Q4, with A&D down 16%, USG was up 16% and Test grew 11%. So we did see growth from two of the three businesses, but we do continue to fight some headwinds in the A&D Group. Adjusted EBIT margins were 13.7% in the quarter compared to 13.9% in the prior year quarter. The margin decline was driven primarily by deleverage within the A&D Group given the sizable revenue drop there. Below the EBIT line, we saw interest expense of approximately $800,000 in the quarter compared to nearly $1.5 million in the prior year Q4. Additionally, we saw tax rate favorability compared to prior year Q4. All these items delivered adjusted EPS of $0.85 per share above prior year's $0.80 per share.

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Segment highlights in the quarter are as follows: A&D did see sales weakness in the quarter, as previously mentioned, the Group was down 16%. In the quarter, we saw declines in all major markets with commercial aerospace down 15%, space down 10%, and the Navy business down 27%. The Space and Navy reductions are a function of timing and comparisons as our VACCO subsidiary was very strong in the prior year quarter. We did see very strong order growth by the A&D Group in Q4. Orders were up over 25% as we saw the commercial aerospace driven businesses pick up nicely during the quarter.

PTI, Crissair and Mayday led to order growth for Q4, a nice indicator as we head into fiscal '22. USG saw sales growth of 16% in the quarter. If you exclude the impact of the Q4 acquisitions, the growth was approximately 8%. The core utility business from Doble was up approximately 4% in the quarter. The renewables business at NRG delivered 29% growth in the quarter capping off a very successful 2021. The margins from USG were very good in the quarter with adjusted EBIT up to 24.3% in the quarter compared to 18.8% last year. We continue to get good flow-through from prior cost reductions and we also had favorable mix on instrument, contract and service sales. We saw good orders for USG in Q4, and including the recent acquisitions, we move into fiscal '22 with a record backlog position of $92 million. This compares to $51 million at the end of last year.

The Test business also saw strong growth in the quarter, with revenues increasing by 11% compared to prior year Q4. This growth was led by strength in China, which was up over 30%. The Americas also experienced solid growth driven by the Power Filter business Vic mentioned previously. We did see margin pressure in this business during the quarter as adjusted EBIT margins went from 16.8% in the prior year to 15.3% in the current quarter. The business is experiencing inflation driven by materials and labor as they manage increasing demand. We are very focused on driving cost containment, productivity and price increases to offset these impacts as we move forward. On the orders front, we saw continued strength in the pace of business for Test, orders were a record $74 million in the quarter, which is an increase of over 35% compared to last year's Q4.

Now a few comments on the full year performance, first, by segment. The A&D Group had a full year sales decline of 11%. The main driver of the sales drop was commercial aerospace, which was down 29% for the year. This was somewhat offset by a 4% increase from the Navy business. USG had a full year sales increase of 6%. Excluding the fourth quarter acquisitions, the growth was 4%, and this was driven by 29% growth at NRG. Test grew by 6% during fiscal '21, and for the full year, consolidated adjusted EBITDA was $131 million or 18.3% compared to $133 million and 18.3% in the prior year.

We were able to hold EBITDA margins on reduced sales. Adjusted earnings per share finished the year at $2.59 compared to $2.67 in the prior year. Overall, a 3% reduction of earnings per share which is consistent with the underlying sales decline that we experienced. Orders for the year were $767 million, before considering the impact of fourth quarter acquisitions, last year's orders were $798 million, but included very large Navy orders received by Globe during 2020. Backlog ended September '21 is at $592 million compared to $511 million at the end of September 2020. Year-to-date operating cash flow achieved a record $123 million in '21. Going back to fiscal '18, we have seen steady improvement with operating cash flow increasing at a double-digit -- double-digit compound annual growth rate.

We continue to see great results from our focus on driving balance sheet improvements, operating capital turnover continues to improve, and we see overall balance sheet and cash flow management as a long-term value lever for ESCO. We have a focused program with each subsidiary and will continue driving for long-term improvement of our returns on capital. Overall, while we continue to see some challenging conditions in a few of our end markets, we were still able to deliver solid results in 2021.

Our balance sheet remains strong and gives us great flexibility moving forward. Our overall net debt position and leverage ratios leave us with the strength to invest in our core business and to expand via acquisition. We continue to aggressively look for new companies that can be added to our portfolio. You saw in the press release today that we have added Network Electronics Company or NEco in Q1. This is a small acquisition in the A&D Group, but we see nice complementary revenue streams and a clear path to synergy with our existing business. We will continue to aggressively pursue additional deals in 2022.

As we told you last quarter, our #1 focus remains the same, increasing and maximizing our liquidity to position us for future M&A growth and continued investment in new products and solutions. We still have ample capacity for further acquisitions, and we obviously continue to invest in the core business to enhance the organic growth profile. Our significant cash generation this year is a testament to this focus on liquidity. We delivered free cash flow conversion at 129% on net earnings in '21, and we'll continue to build on the momentum achieved from our working capital initiatives. In the release, we provided earnings per share guidance for fiscal '22. We have seen some good trends developing with orders

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and are excited to issue guidance that calls for earnings per share in the range of $3.10 to $3.20 or growth of 20% to 24% in fiscal '22. This earnings per share range assumes '22 sales in the range of $810 million to $830 million or growth of 13% to 16%. We expect A&D to grow sales in the range of 10% to 12%, USG to grow in the range of 28% to 32%, and Test to grow 3% to 5%.

Backlog positions for all three businesses have solidified nicely during the fourth quarter and are supportive of these growth ranges. We do have some headwinds next year with increased interest expense to $4 million and a projected tax rate of 23% to 24%, but the plan still delivers strong EPS in spite of these items. We're not breaking out guidance by quarter for '22, but we do expect the Q1 results to be lower than Q2 to Q4. The core utility based business has been up and down over the last year and we see Q1 a little weaker there. And while the Test backlogs are strong right now, we don't see that growth kicking in until after Q1.

So that's the financial summary, and I'll turn it back over to Vic.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Thanks, Chris. Since I touched on quite a few of my thoughts earlier in my commentary, I'll just offer a few more comments before we move into Q&A. As Chris mentioned, we feel good about the year we've just finished and are excited for -- for 2022 and a return to growth. We feel great about our end market exposure and our diverse portfolio allows us to manage through periods, like we've just experienced over the last few years. We've been able to continue investing in the core business and we know how important driving organic growth is, and these programs are key to achieving that.

Examples of this across our portfolio include the F8000 series of power system simulators launched by Doble in 2021, and the Red Edge power line filters that are driving growth for Test. We've also been able to strengthen the portfolio with the ATM acquisition earlier in 2021, Altanova and Phenix in the fourth quarter and now NEco in the first quarter of 2022. These acquisitions all bring a unique value to the ESCO -- to ESCO, and we're committed to delivering value to the shareholders with these transactions. We spent the last two days with our Board for our year-end meetings. We had a great set of meetings and covered a lot of important topics. I'd like to thank our Board for their ongoing support and guidance. And lastly, I'd like to again thank all our employees for their dedication through a really tough 2021. We appreciate all your hard work and are counting on you as we go into 2022.

So with that, I think we're ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tommy Moll from Stephens.

Thomas Allen Moll - *Stephens Inc., Research Division - MD & Analyst*

I wanted to start on gross margins today. It looks like company-wide, you were up over 100 basis points year-over-year in the quarter and up roughly 50 basis points for the full year. You called out some cost reduction actions. It wasn't the first time you'd mentioned those, but I wondered if you could talk more about these, what some of the components are and embedded in your outlook for 2022, what wood is left to chop on the gross margin side?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

So I'll mention a few things and then Chris may want to jump in. I'd say the biggest area really was the things that we did at commercial aerospace kind of rightsized the business, both from a direct force count perspective and overhead perspective. And then Doble, we saw a really nice pickup

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in the margin in the fourth quarter, and that's really because we did take a lot of costs out, unfortunately, we had to do that. As we went into the year, we -- and it's not only force count reduction, but we did shut down one facility, a small facility we acquired and moved all that production into a contract manufacturer. So all of those things, and then we had some normal things like with travel still being down, we really thought travel probably picked up more by now, but some of those SG&A costs remain lower, which help our margins as well.

Christopher L. Tucker - *ESCO Technologies Inc. - Senior VP & CFO*

Yes. I think those were the main things with kind of the contract manufacturing under Doble, we had the ATM acquisition earlier, we were able to take some costs out there as we move that into our existing facilities, so that helped us sequentially as we move through the year. We also -- as part of the overall working capital programs, Tommy, we're also doing some cost-focused activities as part of that group as well. We've been doing things there that impact GP for sure, renegotiating freight contracts, looking at some common purchasing of kind of common MRO type supplies and materials. So we've seen some good results on that kind of activity as well. So there's been pretty broad activity, I think across the spectrum there.

Thomas Allen Moll - *Stephens Inc., Research Division - MD & Analyst*

Sticking on the gross margin topic, but shifting more to a price cost kind of conversation in terms of just any inputs where you're seeing inflationary pressures. Is there any business or units where you feel like you're ahead of things here in terms of pricing actions you've taken? And then at the other end of the spectrum, are there any components of your backlog where there's some risk there with maybe a fixed price contract or a delayed pricing reopener, where there may be a headwind at least for some period of time?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

So as you know, I mean, a lot of our contracts are fairly quick turn, and so we do have an opportunity in most cases, not all cases, in most cases to be able to kind of reset the price as we go forward. I think we've been a lot more aggressive on price increases than maybe we have in the past because I mean the reality is people want product, right, and we're kind of in the same position unfortunately. And if we have to pay a premium and if our customers have to pay a premium, sometimes to be able to get product and the price increases are sticking a lot better than what they have historically, if you will.

And not -- but I'm just trying to think, I don't think that we've got much in our backlog that we're concerned about, we have some longer term projects in the Test business, but this year, we didn't really have any really, really big projects. So even there, I think that's going to be fairly muted. But I -- don't mistake me, I mean, we're fighting it every day. I mean, it's -- it is really an issue across the economy. We are continually looking for pull things in and look for new vendors because it's really tough out there right now.

Thomas Allen Moll - *Stephens Inc., Research Division - MD & Analyst*

Appreciate -- sorry, go ahead.

Christopher L. Tucker - *ESCO Technologies Inc. - Senior VP & CFO*

I'm sorry, it's Chris, I would just add a little more. I think we did kind of mention specifically Test a little bit in Q4, where the -- as they execute their backlogs in kind of real time, we saw a little pressure there with inflation, but we've worked very hard there with that team to try to get the pricing going. So I think that that's a place where we've got to kind of keep focusing on it, and again, the team is working and doing a lot of great stuff. So we know we'll get -- it's kind of a timing thing, it's a little bit transitory as you kind of work through the backlogs here over a couple of quarter period, but we feel good about where we're heading there.

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I think Doble is another place where we've been out in front with price increases in Q4 to kind of keep us in front of the curve there on price cost. So overall, we -- it's definitely a thing that we're talking to all the subs about and working very hard because we know it's a huge deal as we move through 2022, because as Vic said, it's -- you're seeing it on the material side and certainly on the labor side and other areas, so price is going to be an important lever there, and we really are driving it in all parts of the company.

Operator

John Franzreb from Sidoti.

John Edward Franzreb - *Sidoti & Company, LLC - Senior Equity Analyst*

Got a quick question on the commercial aerospace side of the business. Given the uptick in orders you saw in A&D, does that suggest your customers are getting closer to unwinding their excess inventory levels, any kind of update on what you're seeing in commercial would be great?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Yes. I mean, that's -- we've -- obviously as they're increasing their orders that is because you're getting some of this behind them and -- and the flight rates are picking up some. So it's very encouraging to see this kind of an order pickup in the fourth quarter. Our anticipation is we should continue to have some level of improvement, as we talked about on calls before, a good bit of our products goes on -- go on to twin-aisle aircraft as well. And so now that the travel restrictions between U.S. and a lot of other places have eased up, we hope that that's now going to start kicking off with some of those wide-bodies like we've seen on the narrow-bodies to-date.

John Edward Franzreb - *Sidoti & Company, LLC - Senior Equity Analyst*

Okay. And in Test, was there any impact for either your company or your customers on the chips, lack of chip supply or any other product supply that might have hurt you on Test in particular?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

No. That's one area where we haven't seen a lot of that, a lot of what we do is more structural type work. So we're making the chambers, we're making the foam absorber, I mean, the amount of electronics we do are really pretty small. So it's just not something that would impact us. As far as our -- the customers, I mean, it seems like the consumer products are doing a better job of getting the chips and maybe some of the cars and some of the other places like that. So we've not seen any impact. As you saw from our orders, I mean, our orders were really strong in 2021, and I think we're off to a good start in this year as well. So if there's an impact, it's not showing up in the order rates, for sure.

John Edward Franzreb - *Sidoti & Company, LLC - Senior Equity Analyst*

Okay. And in the utility side of the business, I know some of the increase in the orders was -- is acquired orders, but can you talk a little bit about -- even if you pull that out, looks like it's still a good quarter as far as the order side. How Doble is doing, has that business playing out compared to your expectations, what are your thoughts about and how that plays out in 2022 at Doble in particular?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Sure. Well, we did have growth, I mean, just setting the acquisitions aside, we did have growth in the core business and had a really, really strong September. So the question, how is that -- is that a trend or anomaly, and I'm hoping for a trend honestly. It seems like with the business, we had thought it was going to recover a little faster than it did. But as we go into this next year, I mean, I think some of these acquisitions can only be

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delayed for so long, and so we are looking for some growth at Doble in that core business, just setting aside the acquisitions, we're looking for growth in the core business this year as well.

Operator

Jon Tanwanteng from CJS Securities.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

I just wanted to dig into the Doble commentary a little bit more and just the USG segment in particular. The organic growth rate that you highlighted in the press release of 3% to 5%, I would have thought the utilities would be picking up their spending a little bit more next year, and especially if there's infrastructure, grid and renewable money coming in, maybe the timing of that's a little bit off, but you mentioned price increases as well. I was just wondering what are the other components of the underlying growth expectation going in there?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

So just a couple of general comments about the utility industry, and one of our directors is a recently retired, senior executive at a large utility, and so, I mean, he still maintains contact with a lot of people, and has insight into the industry, I think at a pretty high level. And the thing we're seeing it is, is making a little more difficult. The utilities are still very conservative. Their work-from-home is probably a higher level than a lot of places. They're limiting travel, they are limiting people coming into their facilities. And so I think that's kind of muted what we would have expected to be a little more robust growth as well.

Now I think they are going to be getting obviously a lot of infrastructure money. Now the infrastructure money won't be spent directly on our products, so it's not really infrastructure, but as they improve the infrastructure, expand the infrastructure that will require additional testing. And so we think that there may be some delay on that, but we think that it will benefit the business over the longer term. But just as we look into 2022, we think we're going to get some organic growth. And then the other thing, which I think we're trying to take a measured approach on is what we're going to see from these acquisitions and the synergies may -- we may realize not cost synergies, but our ability to be able to sell some of the Doble products, more Doble products internationally and vice versa. So we've not baked a lot of that into our core forecast, but I think there's an opportunity there that we should be able to exploit. And that integration is going exceptionally well, I would say. So if we're going to get that, I think we're well positioned to execute on it.

Christopher L. Tucker - *ESCO Technologies Inc. - Senior VP & CFO*

Yes, Jon, and this is Chris. A few things I would add. I mean, I think if you think about the '22 and the organic growth profile there, I mean, last year in Q1, we had a decent quarter for Doble. They saw some year-end monies released that kind of gave them a little bit of a tailwind a year ago. We're not really seeing that happen right now. That's kind of why I mentioned some of the Q1 guidance of a little bit lighter in Q1 for Doble. We've just kind of seen kind of one up quarter, one down quarter kind of a trend there. And we -- so we feel good about the markets long-term, but we're just not seeing great guns ahead, if you will, on kind of the steady growth. So a little softer Q1, but then Q2 last year was quite weak. So we would expect pretty good performance relative to that, and then it kind of flattens out a little bit in the back half of the year. So that's kind of how we see it right now. And the infrastructure, as Vic mentioned, we think that's great long term, but we don't really see that as a '22 impact, we see that a little longer term.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Got it. That's helpful color. And then I was just wondering like you've done three acquisitions in the last quarter. So I know they're not quite as big as some of the other ones you've done, but I was just wondering, you mentioned that your programs in each of the segments to lift more assets,

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but I was just wondering what your actual appetite and bandwidth is in the near-term for something and kind of that you can close it quickly or is it going to take until the next calendar year or something?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

I think we're working on some things, I think it will be next calendar year before we get anything else done. As far as bandwidth, I mean, obviously, the financial bandwidth is not issue. I think the people bandwidth is pretty solid. Fortunately, with the businesses that we've bought, the two in the utility space may come with really strong management teams, and so it's not like we're trying to go and fix anything. We're trying to take advantage of the strong management team and the products that they have. And so that integration is going very well. I was in Italy a month or so ago and visited both facilities, quite impressed with really the products, facilities, the people, the management team.

And so I think that's going to be a pretty easy acquisition. I think everybody gets it. They understand why this was a good thing for the acquired companies and they're going to play a big role in the future of the business. The last one we mentioned is a relatively small business, and it's going to be part of PTI longer term, and so that's going to be a pretty straightforward integration. Again, the two senior people there are really strong, and prepared to really help us pull those businesses together.

Operator

(Operator Instructions) Jon Tanwanteng from CJS Securities.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Hi, yes. Just one follow-up from me. I don't know if you said this earlier in the call, but Chris, just in the $3.20 of EPS and the margin guidance for next year, how much inflation are you baking into that? Is it just over the next two quarters or so and then a recovery or is it the full year? I'm just trying to get a sense of how conservative you're trying to be and what's your expectations for the actual environment are?

Christopher L. Tucker - *ESCO Technologies Inc. - Senior VP & CFO*

Yes. I mean, I would say that we've seen that inflation kick in pretty hard here in the second half of the year. We expect it to be pretty hot and heavy for the first half of the year, then you kind of start to anniversary in some of that. And then your price increases kind of hang in for the back half of the year where you can get a little more favorable on that price cost ratio. So that's kind of how we have it dialed in right now.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Okay. Great. And then are there any parts of your business where you can't take up price to match the inflation? Is there like a percentage of revenue that you can raise it on or can't raise on, what do you think of it?

Christopher L. Tucker - *ESCO Technologies Inc. - Senior VP & CFO*

I mean, I think I would say that we don't feel like we can't get price anywhere. We've worked again with all the subs as we went through the financial plans for '22, I mean that was kind of a key topic of what's the inflation expectation and what are the levers we have to offset that. And so again, you do have some longer term contracts that you can't open up in the short-term windows. I don't have that quantified off the top of my head, but I would say it's not a huge part of the business, in general, we're able to get price as we operate.

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Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Yes. I'd say the one place to maybe the one exception is with our Globe business, that's a long-term contract we have for surface hull treatments, and it's a multi bulk deal. Having said that, we've kind of locked in the material price, and so the material is not going to be an issue. I'd say if we have any issues, it would just be people availability. And it's not a -- I mean, it's not a labor or a heavily labor-intensive business. It is more for the material business. I mean, obviously, the manufacturing piece of it is very, very important, but it's really a material-driven business, we've kind of got that locked in on.

Operator

(Operator Instructions)

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Okay, I think that's it for the questions. So we'll end the call now, and thank you, everybody for dialing in. I look forward to talking to you on the next call.

Operator

Thank you, presenters. Ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may all disconnect.

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