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PRESENTATION

Operator

Good day, and welcome to ESCO's Q4 conference call. Today's call is being recorded.

With us today are Vic Richey, Chairman and CEO; Gary Muenster, Vice President and CFO.

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. We issued a press release earlier today that will be referenced during the prepared remarks on this call. You can find a copy of our press release and our safe harbor statement regarding forward-looking statements made during this call in the Investor Center of ESCO's website at www.escotechnologies.com.

During this call, the company may make forward-looking statements, which are inherently subject to risks and uncertainties, including, without limitation, the impact and duration of the current COVID-19 pandemic, the company's response to these evolving circumstances, future results of the company, investments, acquisitions and the recovery and strength of markets which we serve. Actual results may differ materially from those projected in the forward-looking statements, and the company does not assume any duty to update forward-looking statements. Please refer to the company's press release for risk factors, which may impact any forward-looking statements and for the reconciliation of any non-GAAP financial measures to their most comparable GAAP measures.

Now I'll turn the call over to Vic.

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

Thanks, Kate. Before we get into the financial details for the year, I'll provide a brief update on how we're working through today's COVID environment. We have maintained our detailed monitoring of the situation as things seem to change on an almost daily basis. And our goal is to stay ahead of the curve to provide a safe working environment and protect the health of our employees.

As I said on the last call, when we saw the first indication of COVID's potential economic impact on our business, we took decisive action. The actions we've taken over the past 7 or 8 months were done with a clear and precise focus, which was to protect our strong financial condition, to deliver products and services and support our customers, all while keeping our employees safe and healthy.

Our solid operating results in fiscal '20, coupled with our strong liquidity position at September 30, demonstrated that the measures we've taken to date have allowed us to hold our own through this unprecedented time. I'm confident that these actions, coupled with the remaining items we are working through over the next few months, will benefit ESCO as things begin to return to a more normal state. I'm confident that our disciplined approach to operating the business will result in our continued success as we enter 2021.

Just recapping fiscal '20. After a thorough evaluation earlier in the year, we took action across the organization to adjust our cost structure to better fit our near-term sales outlook, while still supporting our long-term strategy for profitable growth. While these decisions were not pleasant, they needed to be done as in the end, we ultimately strengthened our core.

We are fortunate to have very experienced leadership teams across the company who have demonstrated their ability to effectively manage cost to meet changing market demands. And the current situation is no different. We are actively addressing the challenges of today while continuing to direct our efforts to come out of this even stronger tomorrow. ESCO will continue to benefit from our leading positions in various niche markets where we deliver a unique set of unique and highly technical products and solutions specifically designed to meet our customers' needs. This makes it difficult for our solutions to be replaced by alternative sources.

We continue to focus on our future by continuing our investment in new products across all 3 segments. The fundamentals of our portfolio remain strong, and our goal remains the same, to create long-term shareholder value. Our employees are most important asset, and I want to say thank you for manufacturing employees, leadership teams and staff around the world for their hard work and dedication, as you've all demonstrated an extraordinary commitment to the success of ESCO.

Now I'll turn it over to Gary.

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO & Director*

Thanks, Vic. I'll briefly touch on the financial results laid out in the press release. As Vic noted, when the pandemic hit, our #1 financial priority became maintaining our liquidity position because when challenging times pop up unexpectedly, cash is king. And I'm extremely pleased with the record-setting cash flows we generated throughout the year, and I'm proud of where we stand today, having nearly $730 million of dry powder at our disposal between cash on hand and available credit capacity, while carrying a modest leverage ratio of 0.47.

Our liquidity outlook partially drove our earlier decision to fund, terminate and annuitize our previously frozen nonstrategic pension liability. In the release, we called out 3 discrete items, which are described in detail and are excluded from the calculation of adjusted EBITDA and adjusted EPS. The discrete items include the results of our Technical Packaging business, which we sold in Q1 at an impressive valuation and generated gross cash proceeds of $191 million, which resulted in an after tax gain of $2.93 a share.

The second item relates to the successful completion of our termination of the pension plan. This action removes all equity market risk and interest rate volatility that reduces ongoing costs and eliminates future variable cash payments. This resulted in a noncash charge of $1.55 a share.

The third item represents COVID-related cost reduction actions we implemented in our A&D and USG segments to align their operating cost structure with current demand requirements. For the year, these costs resulted in a $0.24 a share charge.

I'll now briefly touch on a few comparative highlights, which are laid out in detail in the release. Adjusted EPS was $0.90 a share in Q4 and $2.76 a share for the year, which exceeded consensus estimates. Given the backdrop of today's operating environment, I'm most pleased to report that we were able to deliver fiscal '20 adjusted EBITDA of $137 million, which is only 3% lower than 2019's adjusted EBITDA of $141 million. We were nearly able to maintain our profitability levels despite the noted sales declines at Doble and within our commercial Aerospace Group, which are our most profitable operating units historically.

Sales increased $7 million to $733 million compared to $726 million in 2019. The sales growth was led by our A&D segment, where we increased our Navy and Space sales by $41 million, partially offset by lower commercial aerospace sales due to the COVID's impact on air travel.

Commercial aerospace sales at PTI, Crissair and Mayday decreased approximately $18 million or 11% compared to prior year. The Test business sales in fiscal '20 held up and were quite -- and were flat compared to 2019, despite some timing delays on certain installation projects due to COVID. Strong Chamber sales and very solid project execution allowed the Test business to deliver an all-time high EBIT margin of 14.6%.

USG sales were down, consistent with our past commentary, as a result of the deferrals of various project deliverables as several utility customers, domestic and international, realign their short-term maintenance and spending protocols to focus on uninterrupted power delivery. Maintenance deferrals also reflect various mandates restricting on-site personnel at substations, large transformers and other customer locations. USG Q4 sales reflected a partial rebound as sales were $53 million compared to a similar number of $54 million in Q4 of 2019. USG's order bookings were $201 million and reflect an increase of additional cybersecurity-related orders, including Doble's DUCe solution, where we have seen strong renewals as well as new customer procurements.

As mentioned earlier, we took decisive action when we saw the downturn in our outlook, and our SG&A reduction of $3 million in fiscal '20 is evidence of that agility. This reduction was achieved despite having Globe included for the entire year and despite our continued spending on R&D and new product development. Entered orders were solid in fiscal '20 as we booked nearly $800 million in new business and ended the year with a backlog of $517 million, which is up $66 million or 15% from the start of the year.

Our DoD business, led by our participation on the Block V contract for additional Virginia class submarines, drives this strength. I'll remind you, as we move forward into fiscal '21, we will be delivering products on these large multiyear programs, which will mathematically reduce the optics of our A&D book to bill in fiscal '21.

On the liquidity side, we generated $109 million of cash from continuing operations or $135 million, ignoring the $26 million voluntary pension contribution we made. This resulted in the modest leverage ratio of 0.47, as I mentioned.

As we enter fiscal '21, the COVID-19 backdrop continues to bring along some uncertainty around the extent and duration of today's economic circumstances, which makes it difficult to predict how our near-term operations will be affected using our normal forecasting methodologies. And as a result of this uncertainty, we will not be providing finite EPS guidance for fiscal '21 at this time.

From a directional perspective, we can point to several areas where we see positive momentum. As we enter fiscal '21, our commercial aerospace and utility end markets are showing some degree of customer stabilization as well as notable pockets of recovery. We are seeing signs of recovery in the second half of fiscal '21 that point to a solid outlook for the back half of the year.

The near-term prospects of a viable COVID-19 vaccine will certainly benefit and accelerate the anticipated recovery in commercial air travel and with utility spending as customers begin resuming more normal buying patterns. Given how strong the first half of fiscal '20 was pre-COVID, we expect the first half of fiscal '21 to be slightly down comparatively. The current outlook for the second half of '21 is expected to be favorable in comparison to the second half of fiscal '20, given the various elements of recovery that we are seeing and anticipating.

So to summarize all of this, we currently expect to show growth in sales, adjusted EBITDA and adjusted EPS compared to fiscal '20, with adjusted EBITDA and adjusted EPS coming in reasonably consistent with fiscal 2019. Obviously, if we complete any additional acquisitions during the year, it is expected that they would contribute to these expectations.

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

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

So since fiscal '20 is behind us, and I think we're all grateful that it is, I won't spend much time recapping the year as my commentary in the release captures from my perspective. But I will offer some qualitative comments about our end markets, and I will emphasize the situation continues to be very fluid.

I want to provide you with a sense of our thinking and planning for '21. In September, we completed a thorough review of our individual businesses to update our current expectations and the near-term impact of COVID-19 across our various operating units.

Starting with the A&D segment. While we're seeing signs of recovery in commercial aerospace, we expect some continued softness over the next 4 to 6 months. We're seeing some stabilization in OEM build rates and increasing airline passenger traffic and flight miles. There are several signs of recovery emerging as quite a few air carriers are bringing some of their idle fleet back into service and the daily TSA passenger boarding numbers are increasing over 1 million per day. The defense portion of our A&D business is and will remain strong for the foreseeable future, given our backlog and the platforms in which we participate.

We also see the current situation in the aerospace market as an opportunity for ESCO, as we did with the purchase of ATM in October. We will continue to look at suppliers or competitors who may be experiencing financial or operational stress, where we may be able to provide assistance via partnering or through an acquisition at a reasonable price.

Our Test business is expected to remain solid, given the strength of its served markets, including 5G and related communication technologies and increasing need for RF Shielding in general, as more electronic and electromagnetic noise is created as a result of emerging technologies.

We expect USG's customer spending softness to continue for the next few quarters before returning to more normal levels. Once a credible vaccine is in the market, we expect the USG market to come back online more quickly as they can relax some of today's social distancing guidelines, and utility service personnel can return to their normal site visit routines. Utilities do have money to spend and I'm certain that spending on test equipment will return in the near future, as maintenance spending cannot be delayed indefinitely without creating significant risk to grid safety, efficiency or regulatory compliance. We have worked hard to communicate with and support our customers remotely. Our client service engineers and their relationships with their utility counterparts are a key differentiator for Doble. This has been accomplished with a lot of creative means and positions Doble for success when previously mentioned restrictions are eased.

COVID does not change the fundamentals of the global utility industry as society needs reliable, safe and secure power. The critical need to maintain, repair and improve the utilities' aging infrastructure is not reduced by this pandemic. I'm really pleased with USG's pipeline of new products and solutions, especially related to cybersecurity and related asset hardening solutions. We have several new solutions that have been introduced recently and based on customer feedback, these products would be enthusiastically received.

With regards to NRG and our renewable energy offerings, their end markets are recovering more quickly as investments in renewable energy are increasing in both wind and solar, and we expect that growth to continue.

Moving on to M&A. We continue to have several opportunities under consideration. We will continue taking a prudent and deliberate approach, and we expect to take action on certain opportunities to grow our business as we have in the past. Our Board is supportive of our M&A strategy, and our current balance sheet obviously provides us with plenty of liquidity, which will allow us to add to our portfolio.

As described in the Subsequent Event section of the release, in October, we acquired a small, nicely profitable aerospace and defense supplier, located in Valencia, California, very close to our Crissair operation. Advanced Technology Machining and its affiliate, TECC Grinding, which we collectively refer to as ATM, produces precision machine metal parts, which are custom-designed and are widely used on defense and commercial aircraft as well as on missile and tank programs. Our plan is to consolidate ATM into Crissair's facility sometime within the next 12 months, which will further improve their contribution margin.

So to wrap up, I think we delivered a solid 2020. And as we enter '21, our plan is to continue to focus on the fundamentals and look for opportunities to leverage our infrastructure through M&A, to create additional operating efficiencies and ensure we're well positioned for long-term success.

So I'll be glad to answer your questions you have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Tommy Moll with Stephens.

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

So I wanted to start with the directional commentary you gave for next year, particularly in the second half where it sounds like things, at least as you sit today, look like they ought to be up versus 2020. What end markets or businesses or segments could you call out as drivers of that, let's call it, optimistic outlook? And what are some things you can point to that give you sufficient visibility to go ahead and make a call in the back half?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO & Director*

Okay. Yes, I'll start with that -- with the commentary, Tommy, on the numbers, and then Vic can add some qualitative comments. Let's start with the Test business. That was the least impacted in '20 so therefore, going into '21, we anticipate it will be the least impacted. So that one really isn't a contributing factor to the growth we see. So let's just set that one aside.

On the A&D side, we see 2 things. One, the daily passenger boardings, the stabilization of the build rates. When we were in the back half of '20, there was so much uncertainty. Boeing and Airbus were freezing lines, shutting things down, this and that. So it was a crapshoot trying to guess what build rates were and passenger miles were in the tank. And so now there's a lot more visibility because, obviously, for them to maintain a supply chain with some level of substance, they have to give some guidance. So we have a pretty good level or deep level of guidance on build rates. So that helps a portion of it.

And then the anticipation of passenger miles, we just kind of formed an opinion based on the trends that we've seen over the last 6 to 8 weeks and kind of extrapolated as we go forward. And that's consistent with a lot of the things that we see in the consulting literature, whether it's Airline Monitor and the Teal report and things like that.

But I'd say that on the utility side -- one more thing on the defense side. So the orders that we booked into the Virginia Class, their percentage of completion or -- it's cost to cost and as we ramp up in the first half on the Block V, you really gain all the momentum in the second half of the year. So the correlation of the back half compared to the front half of '21 has a lot more Navy business that's really easy to predict within that scenario.

So on A&D, I'd say that most visible is the submarine business, next is the stabilization of the build rates, and third is a reasonably conservative extrapolation going forward of TSA boardings.

On the utility side, as we look at Q4, we almost fought to a tie. And so if you look sequentially from Q3 to Q4 in fiscal '20, you see a nice rebound. We're not declaring victory on that part, but we think that based on RFPs we have in front of us based on things that Vic mentioned on new products, those will be coming into the market sometime in February, March, so they'll benefit the back half of the year. And the most critical point on the service side is you can't defer this maintenance forever.

So they're pushing themselves around the compliance structure such that they have to get something done in the field, or they going to be out of compliance with some of the things and the risk factors, increase of outages and things like that. So the visibility across the utility side is coming from new products, site visits increasing and the mere fact that they have to spend money. The utilities make money by spending money, and we're seeing that through the evidence of RFPs.

The other thing that's important from an EPS side is these cost actions that we took, especially in the USG side to restructure the footprint, if you will. We, unfortunately, had to take some people out. That will benefit the bottom line faster than the top line because those fixed costs are gone and the variable costs are better aligned with the revenue. And so that's what gives us confidence.

And then I think stylistically, we tend to be reasonably conservative. So we're not stretching ourselves outside the realm of reasonableness. So that was a relatively short answer for you.

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

And all very helpful. Maybe just a follow-up on the utility commentary you offered and really specific to your Doble business where there's been some softness, and it sounds like you've got an outlook for some continued softness in coming quarters. What kind of anecdotes can you share about how disruptive the pandemic has been for your customer base there? And you kind of already touched on how that can't go on forever, but it can be helpful, I think just any anecdotes you can offer about the disruption.

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

Yes. It's really fascinating. If you look at the utilities across the country, I would say, and basing this on people that I've talked to and Doble people talk to and one of our directors who retired recently from the utility industry, I'd say 95% of their employees are working from home still. And that makes it difficult. I mean, it's difficult because they're not able to work together to put RFPs together. They're not able to get out in the field. And so I would say that the conservative nature of the utilities and utilities are just conservative by nature, and that's good because you need to be conservative to generate electricity and deliver that. But I would say it for all of our customers, they're probably the ones that are working from the home the most.

And again, as Gary mentioned, a lot of our work is really getting out and interfacing with those people in the field. And there's been very, very little of that that's happened. I mean, we've been able to be in some of the nuclear operations because, obviously, reliability is even more important there. We've had some limited site visits, but it's significantly different than what we've done before.

As I mentioned in my prepared comments just talking about our field service engineers interfacing with the people, I mean that really has been key. And we had already prior to this, started doing like an online for Doble university, if you will, and providing a lot of training and the type of thing to the customers. So we were well positioned to do that. And I think that's going to help us in the future.

But I think it's -- I personally think it's going to be a while before the utilities really get back to normal. I have anecdotally talked to a few people here in town that I know they work at a large utility here, and they're not sure they're ever going to go back into the office, and that's obviously not the whole business, but the specific individuals. So it has had a pretty significant impact on these customers.

Having said that, as Gary said, you can only do that for so long. I mean you have to do this testing, whether it be just for reliability or compliance. So it's going to get back to normal.

I would say, just to add to the first question you asked, we're making assumptions based on the information we have now. Could it move a couple of months in one direction or another? Absolutely. And so we're going to have to keep a very close eye on that.

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

That's all helpful. If I could pivot to M&A, you made -- which you referenced several times in the release and in your remarks this afternoon. It sounds like the pipeline is pretty robust. I guess my questions would be, any indications you'd be willing to share on end markets or -- yes, really, end markets that you're interested in currently. And then just on timing and execution of deals, I could think through some factors that might accelerate a close, just year-end, potential change in the tax regime with the outcome of the election. On the flip side, if you're looking at trailing or recent earnings power of a potential acquisition candidate, there could probably be some messiness in those numbers and maybe you want to wait a little bit and see kind of where things settle out. But anything you could do to help us frame up timing would be helpful as well.

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

Yes, it's very difficult. And I mean, obviously, it's played out differently than I thought it was going to, honestly. I mean I really thought that a lot of people would be hitting the eject button quicker than they are. I mean we've been involved in a couple of opportunities. We're still involved in them, where we thought people would be more reasonable about getting things done more quickly and paying multiples that we thought were appropriate, and some of that's not happened. A lot of these, as you know, the businesses that we buy up primarily are privately owned businesses, and that's just a whole different deal. I mean you have personalities there, and they have their own way of doing things.

I think at this point, getting anything done before the end of the year is difficult, just because we're heading into the holidays, and unless you're on the 90-yard line with something that is probably not going to get done. I did think that people might be more concerned about this tax rate than what we're seeing at least. But I feel good about the opportunities we have out there. We've just got to get them closed. And as I said initially, it's playing out a little bit differently than I thought it would. I thought there would be more people wanting to move more quickly to get this behind them.

Operator

(Operator Instructions) Our next question comes from the line of Jon Tanwanteng with CJ Securities.

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

A really nice quarter. I think you actually had a record quarter in A&D despite the COVID headwinds, which is really impressive. You've talked before about commercial being more stable and now -- being more stable than maybe most people would have expected given where production rates are. Defense was great, I get that. Was there anything else in there that maybe helped the quarter, maybe share gain of parts you hadn't made before, which you've spoken about or pull-ins from the next quarter?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO & Director*

Well, I'll address the last step there, Jon. On the pull-in side, it's the normal step. There's nothing extraordinary. I'd call it a rounding kind of number because, again, there's not a whole lot of -- using Boeing and Airbus as an example, they weren't in any big hurry to take things. So it's really a challenge to try to pull things in on the commercial side.

I'd say, on the Navy side, in particular, there is some additional spending coming across in the way of Globe, for instance, in particular, there's 3 or 4 projects that are in the $200,000, $300,000, $400,000 range apiece, that we had been negotiating RFPs on, and we thought they were going to be a little bit later in the year. And all of a sudden, funding opened up and those came through. And the beauty of those is they were noncompetitive, so therefore, you get a little better margin on it. So from our expectations, going into Q4, Globe exceeded their own numbers, somewhere in the neighborhood of 10% or 15% on the top line, and it pulled through a really nice margin. So everything that helps here.

But I'll concur with your assessment that Q4 out of the A&D group was extraordinary. I mean it -- relative to our own expectations, we beat the top line in the EBIT line and the cash line because not only when you deal with the Navy, they're paying literally day 1 when you send the invoice. So we hit on all 3 cylinders of that regard. But I wouldn't characterize anything as pull-ins.

We had some past due things, obviously, earlier in the year when COVID hit. You can work from home, if you're an engineer or a finance guy or woman, but you can't build Navy products in your basement, at least you shouldn't be. And so we had some delays and disruptions, if you will, from absence of staff and obviously, for the most part, everybody's back at work on the production floor. So you had some cumulative catch up that was previously deferred, if you will, because of a lack of people on the floor, but that was backwards pulling forward instead of pulling things from the front. So that kind of came together.

So I would say that the catch-up on past due things from earlier in the year came to completion in Q4. And those kind of things also provide meaningful contribution margins as they come across.

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

Got it. And then looking forward, you've talked about passenger miles or TSA numbers still going up, are you afraid that might come back down, just given the amount of COVID cases here in the U.S. that are just ramping? And also globally, is there another shoot or drop on the commercial side as we go into the next quarter and into the January quarter as well?

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

Yes. That's an impossible question to answer, honestly. We've not baked that in. I mean we're making the assumption that things are going to continue to improve slowly. I mean they're only going up a couple of percentages a week. And so our assumption is that's going to happen. And so it's really hard to tell if that's going to happen or not. I mean if the cases continue to go up, then obviously, things could come back down.

It seems like people or -- the number of people that are out there trying to travel are doing so, and I think the airlines -- I mean for people who have been an airplane like me -- I mean airlines are doing a great job. Airlines -- the airplanes have never been cleaner. I think they have really been strict about people wearing mask. And so I think once people travel, once you're probably more comfortable traveling than they were the first time. And so we've not baked that in, and it's really hard to say what's going to happen. I mean I was on a call this morning about it, and there is some concern about the holidays about Thanksgiving and holidays in December and more people will probably get together. And so there's always that risk of the numbers popping back up.

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

Okay. That makes sense. And that's nice to see the NRG business continue to pick up. I was wondering how much better are the wind and solar business is performing relative to where you thought they were going to be as you entered the year?

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

Well, as we entered the year, they're down just because COVID. But I would say, over the past 2 quarters, they have performed better than they thought they were going to and we thought they were going to. So we obviously took a dip but -- with COVID, and so we re-forecast everything, and they've outperformed over the past 6 months what their revised forecast was.

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

Got it. But not in line with their original forecast?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO & Director*

You want to add anything about ebbing in the solar contribution?

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

No. I mean, I think they're still somewhat below where they were going into the year, but it's better than what we anticipated in the second half.

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

Okay. Got it. And then just last one for me. Gary, you mentioned the restructuring actions. I was wondering, did you mention how much you expect to save on a run rate basis going forward?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO & Director*

Yes. I would say in the A&D segment, it was primarily severance, okay? So it wasn't structural things. We didn't close a facility or anything like that. And so in that aspect, dub it, it's an immediate savings because the volume is going to go forward, and it's -- we're taking out a variable cost. So across the A&D segment, I'd say the savings benefit going forward is somewhere between $1.5 million and $2 million. And then on the USG side, it was a lot more structural.

So as you guys are building your model, it includes shutting down some product lines. So there's about $4 million to $6 million of sales that happened in 2020 that will not go forward because we either divested the business or shut it down or realigned it, how you want to define it. And so the absence of that, you're going to get an inherent uptick because there was a -- they weren't making -- those businesses weren't very profitable. That's why we refocused.

So I'd say the go-forward basis across the USG side is somewhere between 5 and 6 on the -- $5 million and $6 million on the cost side, but I want to caution that by saying we really stood on cost this year and -- the discretionary costs, things like travel and trade shows and things like that. We know they're still going to be mitigated, but at a point in time, you're going to see increases in our SG&A compared to the back half of '20 because we do have to travel. We do have to continue to get out new installations at ETS.

So I'd say, if you take that all together, it's somewhere between $7 million and $9 million of savings, then offset by $3 million or $4 million of additional costs that were stood on in '20 like travel, obviously, discretionary spending, we deferred compensation for people into '21 so we could get through whatever. So net-net, I'd put it into $3 million to $5 million savings.

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

Got it. And just to squeeze one more based on something you said that you expect to attend conferences and do travel, but I know your Doble Conference is a pretty big expense, and you kind of lose a week of sales every year when you do it. Are you planning to do that again this year? Is going to be all virtual? And does that actually save you anything?

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

It will definitely be virtual. And as far as the savings, we'll have a virtual conference. So there'll be some costs associated with it, and we don't have our arms fully around what that saving is going to be, but certainly not renting a hotel out and bringing those people in.

Having said that, I mean, we're still working with the hotel, that is a big cost, and see if that's savings for this year or something that get pushed out to the end of the contract. So we're still working through that.

Operator

Our next question comes from the line of John Franzreb with Sidoti & Company.

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

I'd actually like to go back to the guidance and the first half of '21 relative to the first half of '20, but really in relationship to how the September quarter finished. Because it sounds like to me, if I understand you properly, that the Test business seems to have come back and stabilize. Looking at, maybe utility relative to the September quarter to kind of bounce around, call it, the $50 million threshold, which kind of suggests a sizable step down in A&D versus what you posted in September, and it didn't seem like there was a lot of pull forward from your earlier comments. So if you kind of walk me through how you get such a sizeable drop down on the revenue profile or I'm missing something that you are telling us?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO & Director*

No. Let me start with the submarine part of it. Again, just -- those Block V orders were booked in fiscal '20. As you start working on those programs, it's a percentage-of-completion revenue model, and so you're not getting a whole lot of revenue at Globe, for instance, in a Q1 and a Q2 because you're just incurring the cost and you're not really crossing over milestones that trigger the appropriate revenue.

Then when you get into midyear and your kind of -- the momentum is going full bore there, you're crossing over the first milestone and the second and third milestones are a lot quicker than the first one. So just from an optics perspective, the manufacturing is going at the same level, but the revenue recognition on these milestones is more back-half weighted. And obviously, from across that back half, it's meaningfully different, meaningfully -- Globe, just to size it, is about $40 million, $44 million. So we're not talking $50 million moving one way or another, but the concentration of their back half versus their first half makes a meaningful contribution.

The same with VACCO. There's 2 pieces there. We work on the submarines there, but we also have space programs. And we're kind of in a transition point on the biggest program we have, which is called the SLS, the Space Launch System, the large vertical lift vehicle. And so we're transitioning from a development phase into a hardware production phase. And so there's a little bit of a timing gap in the first half of the year as you wind down the development and then you wind up the production hardware. So there's a delta first half to second half at VACCO as well. And so those 2 things, in particular, steer or push a lot of the things to the back half.

And then that's the stuff that I say is more predictable because we already have it in backlog, and we understand the cadence of the cost and the milestone thresholds. Then you take the aerospace stuff, it's going to look similar to the back half. We're not expecting a big uptick in Q1. So that's kind of stable in the first half, and then the momentum we talked about picks up a little bit. So when you take all of those elements, you get a meaningful delta in the back half versus the first half -- compared to fiscal '20.

And then on the utility side, it's very similar, a lot of the things. When you look at these DUCe, the cybersecurity or transient security things we have, there's a big chunk of software in there. So you might sell them the hardware and some of these ruggedized laptops are thousands of dollars, not tens of thousands, but the software that drives those systems is where the value is at. And you really don't recognize the revenue on the software elements of that until you actually get the system put in or sold or subscribed at the customer. So that software element hits later in the year and the hardware pieces, like I said $3,000, $4,000, $5,000 apiece. So that also skews the utility side to back half weighting, plus the the margin contribution on software is meaningfully higher than it is on hardware.

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

But John, I think the simplest way to think about it, and if you go back and look at our history, just go back to the last 3 years and look at first, second, third, fourth quarter, we always have a significant drop-off in the first quarter. And it's just -- we've been trying to figure it out for 15 years why that's the case, but it's always been that way. So if you go back and look at the profile for the last couple of years, I think it would be very consistent with what you're seeing here. And I think the point we're really trying to make is we were off to such a strong start in the first half of last year. So that when you compare that to the first half of this year, it's going to be not a good comparison, but that we think we'll return to more normal in the second half.

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

What about your thoughts about the Test segment? Because it seemed like you were suggesting a sustainable revenue profile there. Is that not the case? Or is this something that would cause a sizable step down in that business also in the December and or March quarter?

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

Yes. It's still -- if you go back and look at the segment, Dave (sic) [John], you're going to see the same thing. I mean they still have a ramp from first quarter to fourth quarter. And I don't know if it's -- because it's the holidays that happen in the first quarter is probably a good bit of it. The customers aren't accessible -- as accessible in the first quarter. But I would just encourage you to go back and look at that profile, and I think you'll find it to be very consistent.

Operator

And this does conclude today's question-and-answer session. I would now like to turn the call back to Vic Richey for any closing remarks.

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

Okay. Well, thanks to everybody, and looking forward to talking to you in the next call.

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO & Director*

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
