LYDALL, INC.
Second Quarter Ended June 30, 2014 Earnings Release

July 31, 2014, 11:00 a.m. Eastern
Dale Barnhart – President & CEO
David Glenn – Director of Business Development & Investor Relations
Robert Julian – Executive Vice President and Chief Financial Officer

LYDALL, INC.
Second Quarter Ended June 30, 2014 Earnings Release

July 31, 2014, 11:00 a.m. Eastern
Dale G. Barnhart – President & CEO
David Glenn – Director of Business Development & Investor Relations
Robert Julian – Executive Vice President and Chief Financial Officer

OPERATOR: Good morning and welcome to the Lydall's Second Quarter Ended June 30, 2014 Earnings Release and Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the *0.

After today's presentation there will be an opportunity to ask questions. To ask a question, you may press *1 on your telephone keypad. To withdraw your question, please press *2. Please note, this event is being recorded.

I would like to now turn the conference over to David Glenn. Please go ahead.

DAVID GLENN: Thank you, operator. Good morning, everyone, and welcome to Lydall's 2014 Second Quarter Earnings Conference Call. Joining me on today's call is Dale Barnhart, President and Chief Executive Officer and Robert Julian, Executive Vice President and Chief Financial Officer.

Dale will start the call with comments about the continued progress we're making in executing against our long-term strategy, as well as provide an overview of current business conditions. Robert will follow with a summary of our financial performance and discuss the key drivers by business segment. Once complete, we'll open up the lines for questions.

As you may be aware, our quarterly earnings press release and 10-Q Quarterly Report were released earlier today. So you can follow along with today's call, we'll be referring to the PowerPoint presentation entitled: Q2 2014 Earnings Conference Call, which can be found at lydall.com in the Investor Relations section.

As noted on slide 2 of this presentation, any comments made on this conference call that may constitute forward-looking statements are made available pursuant to the Safe Harbor provision for forward-looking statement as defined in the Securities laws. Lydall's businesses are subject to a number of risk factors that may cause actual results to differ materially from those anticipated in the forward-looking statements. For information identifying some of these important risk factors, please refer to Lydall's report on Form 10-K under Cautionary Note Concerning Forward-Looking Statements.

In addition, during this conference call we'll be making reference to non-GAAP financial measures and a reconciliation to GAAP financials can be found in the appendix of the presentation I just referenced. With that, I'd like to now turn the call over to Dale.

DALE BARNHART: Thank you, David. Good morning, everyone, and thanks for joining us today.

I am very pleased to report that we had an exceptional quarter with record results and continue to make excellent progress in executing upon our long-term strategy for profitable growth. Turning to slide 3, we recently published financial results for sales. Normalized operating income and normalized earnings per share set a new record high for Lydall. Adjusted earnings per share were $0.64, up 94% compared with adjusted results for the second quarter of 2013.

The acquisition of the Industrial Filtration business that we completed earlier this year contributed significantly to the large sales increase of 47.2% quarter-over-quarter. While the second quarter does typically tend to be our strongest from a revenue perspective, the organic growth that our pre-acquisition business segments delivered exceeded our expectations at 11.7% with all businesses contributing.

Turning to slide 4, this slide outlines our long-term strategy for profitable growth that has four value drivers: New Product Development, Lean Six Sigma, Geographic Expansion and M&A. As it relates to our most recent progress against these items, similar to our approach in previous quarters, I will start by grouping the last two items together, which are geographic expansion and M&A.

In the first quarter of this year we completed the acquisition of Industrial Filtration business. The global integration efforts associated with this transaction remain on track and the business continues to perform well. Consistent with our previous expectations, once the business is fully integrated, we expect to leverage our operating discipline and support functions to generate anticipated annual cost savings of approximately $4 million by 2016.

With respect to new product development, our ability to continue to introduce and commercialize new products is paramount. We continue to see increased activity and customer trials of our Solupor membrane filtration material for multiple applications; from air intake filtration for natural gas turbines, respirators, filtration for vacuum cleaners and super capacitors, among others. Many of these items, with the exception of the natural gas turbine application, are in earlier stages of development and may not ultimately prove to be successful, but demonstrate the variety of applications for which the Solupor membrane technology has promise. These products specifically, if commercialized, have the ability to substantially enrich the overall operating margin of Lydall if they were to become scale at some point in the future.

The last value driver of our strategy that I will touch upon is the continuous improvement of our operations through the use and application of Lydall Lean Six Sigma. As we've seen in the margin improvement in our business, we are always focused on the most efficient way to manufacture and better serve our customers. These principles and disciplines are being applied in Industrial Filtration and in the second quarter we began the process of rationalizing one of the industrial air bag manufacturing facilities in the UK. Doing so will enable us to produce our products more efficiently, and will reduce our footprint in this geography from four to three sites.

On slide 5, I will touch upon the business conditions that we are currently seeing in the market through the second quarter. On almost any metric, the first half of the year has exceeded our expectation and our team has done an outstanding job in delivering on our key initiatives. While we are encouraged by these results and the progress we have made, we feel the second half of this year will be less robust, mostly related to the seasonality of our businesses.

Our Automotive business is typically stronger in the first half of the year than the second half as a result of scheduled plant shutdowns and holidays, thus reducing the second half production days of our customers. In addition, we believe we have seen some volume pull-forward this year as some of our key customers prepare for platform changeovers at the end of the year and into early 2015. With that said we do still expect to deliver results at least in line with the market growth in North America and are encouraged to see signs of sustained recovery in Europe.

With respect to our Filtration business, overall this space is generally characterized as growing faster than GDP given the consumable nature and replacement cycle for products. This past quarter, our Performance Materials segment achieved 6% organic growth compared to the second quarter of 2013, primarily driven by strength in our European markets, especially in air filtration as well as life science products.

We continue to see health in the overall Filtration & Engineered Materials market, but we are anticipating slightly lower second half revenue as we work through a customer issue in the Thermal Insulation business of Performance Materials. In addition, this portion of our business is also typically weighted to the first half as many industrial plants serving the cement and asphalt industries are brought on line during the early part of the year. While we do anticipate seasonality to produce results below levels we saw in the first half, we believe the underlying fundamentals of all of our businesses remains strong.

Before I turn the call over to Robert, I would like to take a moment to touch on the investigation referenced in the 8-K filing we filed on July 9th and summarized in our 10-Q filed today regarding our German Thermal/Acoustic Metals subsidiary, Lydall Gerhardi.

In the second quarter, the German Federal Cartel office initiated an investigation relating to possible violations of German anti-trust laws by and among certain European automotive heat shield manufacturers, including Lydall Gerhardi. We take these matters very seriously and are cooperating with the German authorities. We have launched an internal investigation utilizing outside counsel, and on July 22nd disclosed our initial findings to the German Federal Cartel office in an application for leniency. We are continuing with our investigation and have taken and will continue to take remedial actions.

Lydall's values, as reflected in our Code of Ethics & Business Conduct, are critical components of how the company does business and all employees are expected to exemplify these values.

Wrapping up my comments before I turn it over to Robert to take you through our financial performance, it goes without saying that we are very pleased with the strong second quarter performance after normalizing for certain expenses. While the results speak for themselves, we continue to work diligently and remain focused on the execution of our long-term strategy for profitable growth and providing shareholders attractive returns.

With that, I will now turn the call over to Robert.

ROBERT JULIAN: Thank you, Dale, and good morning, everyone. I'll begin my comments by providing a quick recap of the key consolidated financial highlights from the quarter and first half, and will then give an overview of the business performance of each of our reportable segments.

Turning to slide 6, this quarter the company achieved record sales of $148.8 million. This strong performance includes the contribution from our Industrial Filtration segment that we acquired earlier this year. However, if we were to exclude the revenue of Industrial Filtration, the total quarterly sales from our combined pre-acquisition businesses would have also been at a record level. In all, sales for the quarter were up over 47%, which includes nearly 12% organic growth.

As Dale said earlier, all of our businesses contributed to our organic sales growth. The most significant driver to this growth was our Thermal/Acoustical Fibers business that continues to grow very profitably given the strong platforms that we are on and the cost structure we have established through the implementation of Lean manufacturing practices.

Normalized operating margin for the quarter was 10.9% versus 9.4% in Q2 2013. It's important to note that the normalized results exclude $3.6 million of one-time expenses related to two different items. The first item is a $2.9 million expense for the previously announced settlement of a longstanding commercial sales agreement in the Thermal/Acoustical Metals business. The remaining $0.7 million expense was related to purchase accounting adjustments and transaction costs to complete the acquisition closed in Q1.

'

From a tax perspective, the effective tax rate for the quarter was 31.3% compared to 36.8% in Q2 2013 due to a combination of sales mix and some global tax strategies, we have been pursuing. Looking forward to the rest of the year, we anticipate that our effective tax rate will settle somewhere in the range of the low- to mid-30s.

Similar to what I just discussed for operating margin, the impact of the sales commission settlement as well as the purchase accounting and transaction expenses also significantly impacted net income and earnings per share, as you would expect. Normalizing earnings per share for these items: adjusted diluted EPS was $0.64 for the quarter versus $0.33 for Q2 2013, which included $0.02 of discreet tax benefit. As Dale said earlier, it was really a tremendous quarter for Lydall and it is evident that we continue to make progress on our long-term strategy for profitable growth.

Turning to slide 7, with half of the year behind us, I wanted to take a moment and walk you through the progress we have made on a year-to-date basis. Sales in the first half were also a record, up 37% year-over-year. Excluding the acquisition of the Industrial Filtration business, sales growth has been strong across all our businesses with 9.6% organic growth year-to-date.

By segment, organic growth through the first half was led by the Thermal/Acoustical Fibers segment as North American automotive demand remained strong, coupled with our view that some demand was pulled forward ahead of model year changeovers.

We have also made substantial progress on improving operating margin year-to-date with a 280 basis point improvement versus prior year. Year-to-date our operating margin is 10.0% on an adjusted basis. Reported operating margin was down 60 basis points to 7.4%, but this includes acquisition-related charges as well as the impact of the commission settlement charge mentioned earlier.

Our first half adjusted EPS also set a record at $1.04 against $0.50 in the prior year. Reported EPS was up 14.5% at $0.71. We are very proud of this performance through the first half. We believe we are executing well on our strategic initiatives and are well-positioned going into the second half of the year.

Looking forward into Q3 2014, I did want to make you aware that we will have non-cash, pretax settlement charge of $4.9 million due to the completion of a lump sum pension program we executed during the second quarter of 2014. This initiative was part of our pension de-risking strategy and the settlement charge is required to accelerate the recognition of previously unrecognized losses recorded in equity.

Moving over to the balance sheet, our liquidity continues to remain strong as we basically have zero net debt. From a leveraged perspective, the $61 million of debt at the end of second quarter puts us at 1.3 times from a debt to EBITDA ration perspective, which is less than half our allowed ratio per our credit covenants. We continue to feel that 2.0 to 2.5 debt is the maximum leverage we would be comfortable carrying at any point, but that gives us plenty of flexibility going forward.

From a free cash flow perspective the second quarter was exceptional as free cash flow came in at 160% of net income. Our free cash flow generation does tend to be a little lumpy throughout the year, but out target is to have free cash flow of at least 100% of net income on an annual basis.

From a cash conversion cycle perspective, we have seen an unfavorable impact to our receivable days in comparison to Q2 2013 as the days have increased by approximately ten. This is primarily due to the inclusion of the Industrial Filtration business and timing of collections for tooling in our automotive businesses. As we have said before, managing working capital was not a primary focus for the previous owners of the Industrial Filtration business, and we are actively working to improve these metrics as we continue to integrate the business.

Finally, as it relates to capital expenditures, we spent approximately $6 million through the first half of the year. At this point, we anticipate total capex spend in 2014 to be in the range of $17 million to $20 million, including the impact from Industrial Filtration.

That concludes my summary level financial review for the second quarter. I'll now take you through the financial highlights by reportable business segment.

Turning to slide 8, I will start with our Thermal/Acoustical Metals business. As you may know, this is one our automotive segments that has a global footprint. It specializes in providing under hood and under bodied engineered thermal solutions for vehicles. Overall, we are pleased to continue to see growth in this business as both the second quarter and the first half have increased by approximately 6% versus the prior year. From a geographical perspective, we were pleased by the parts sales growth in Europe, up approximately 10% quarter-over-quarter as this region recovers from the annual production declines we had seen since the global recession.

With respect to our startup facility in China, the ramp-up of our previously awarded programs have been slightly delayed, but we expect the business to experience higher production rates in the second half and we are very optimistic about the future of this facility. The current quarter includes start-up costs in China that negatively impact its segment margin by approximately 80 basis points.

Looking at operating margin performance, normalizing the reported results for the one-time sales commission settlement, this business achieved operating margin of 12.6%, representing a 180 basis point improvement over Q2 2013. This increase is attributable to both higher sales as well as favorable product mix as the business continues to focus on the sale of dual wall heat shield products that have higher margins.

Slide 9 shows the results of the Thermal/Acoustical Fibers business. Similar to Metals, this business serves the automotive industry and provides molded polyester acoustical solutions primarily for under body applications for vehicles in North America. We experienced very strong parts sales growth of $8.2 million or 31% compared to the same period last year. Sales growth in the quarter was attributable to strong demand in North America and some volume pulled forward ahead of model changeovers with key customers.

Operating margin continues to improve as we were able to benefit from leverage on the higher sales and the impact of our Lean Six Sigma initiatives. Reported operating margin was up 620 basis points to 25.6%.

Slide 10 details the results of our Performance Materials segment. This business provides specialty filtration and insulation to a variety of end markets globally.

Net sales in the second quarter for this business segment were up $2.3 million or 7.9% year-over-year as we experienced strong demand for our fluid power and air filtration products, primarily in Europe, as well as increased demand for our life science filtration products. Overall, we are encouraged by the growth in this business and we are excited about the new product development opportunities that this business continues to generate.

Segment operating margin for the second quarter was 11.4%, which was modestly higher than the prior year and was negatively impacted by lower sales of thermal insulation products that have some of the higher margins in this segment.

Slide 11 covers the Industrial Filtration business we acquired in February. This business focuses on providing needle [indiscernible] filtration solutions primarily for the industrial air segment globally.

For the second quarter of 2014, which was the first full quarter under Lydall's ownership, this business achieved $34.1 million in sales and an 8% normalized operating margin after excluding $0.5 million of purchase accounting expense. Demand in all regions has been strong and the business performance has exceeded our expectations to date. As Dale mentioned earlier, we are in the process of rationalizing one of our facilities in the UK and we anticipate this to be completed in the fourth quarter of 2014.

Looking forward into Q3, we anticipate flushing out the remainder of the purchase accounting adjustments, and estimate this and the amortization of acquired intangible assets to be in the range of $0.3 million to $0.5 million.

Turning to slide 12 is our Vital Fluids segment that we go to market under the name of Charter Medical. This business is focused on serving the Life Sciences market, which includes blood filtration, blood transfusion and single use solutions for the bioprocessing market. Sales for this business, quarter-over-quarter, were up 14.1% driven by demand for our blood transfusion products as we experienced increased sales to blood centers for our platelet sampling family, plasma pooling and cryogenic products. The operating margin of 5.9% did include 220 basis points of expense associated with the write-off of assets due to determination of our relationship with Solution.

That concludes my remarks on the second quarter performance for our businesses. Overall, it was a great quarter and all of our businesses had record performance. We are looking forward to continuing our success in the second half of the year. We are confident that we will continue to make great progress in improving the business and in executing against our long-term strategy for profitable growth.

With that, we will now turn the call back over to the operator to start the question and answer portion of the call.

OPERATOR: We will now begin the question and answer session. To ask a question, you may press *1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press *2.

Our first question comes from Robert Kosowsky with Sidoti.

ROBERT KOSOWSKY: Good morning, guys. How are you doing?

DALE BARNHART: Just fine. Good morning, Rob.

ROBERT KOSOWSKY: I was wondering, first off, very good quarter and I was wondering if you could quantify the pull forward impact from Ford in the quarter?

DALE BARNHART: No, we really can't. They're saying they're not really building inventory, but our business was up with them. So it's hard to quantify exactly how much of that was related to any pull forward they may be doing.

ROBERT KOSOWSKY: Okay, so it would just be, have any of you felt an impact or a fall off so far this quarter or when do you think you would feel an impact—

DALE BARNHART: We'll see it sometime—

ROBERT KOSOWSKY: …with the fuel?

DALE BARNHART: It will be sometime in the second half. And if we do feel it, we'll start seeing it in the third quarter, probably. You know, it's typically when many of the OEM's take normal plant shutdowns and for them their shutdown will go about 12 weeks in their Dearborn facility, starting in the third quarter.

ROBERT KOSOWSKY: Okay. And then obviously the margins are very good pretty much across the board and I'm just wondering if you can go segment by segment and just talk about the sustainability of the margin profile that we're seeing, because at least Performance Materials there's a big step up from 1Q, obviously you can say the same thing for Fibers, Metals, adjusting out the expenses. I'm just wondering, sustainability of the profile, maybe you can talk about unsustainable product mix lift maybe in the quarter versus last quarter? Just trying to get a sense of the stability of the margin profile.

DALE BARNHART: Well if we start with the Thermal/Acoustics Metals business, we believe those over operating margins are pretty sustainable. The businesses there are more mature product. The variability that will come in there is some of the issues with the China start-up. While the China start-up is relatively small, it could have a slight impact. But bottom line, those should be pretty stable as we go forward.

Thermal/Acoustic Fibers, that was driven a lot by Lean initiatives that we continue to drive and also the exceptional volume increase we saw in the first half. As we said, we don't anticipate that volume, rate of volume increase to continue in the second half; therefore, I think you'll see some margin compression on that going forward, albeit very excellent margins even with a little bit of compression in the second half.

In Performance Materials, we had very strong favorable mix in the quarter. Not optimum, because we still have an issue with one of our thermal insulation applications, which we hope to resolve in the second quarter. But that business, more than any of our businesses, is driven by top line volume. So as we see volume drop in the second half due to seasonality, you could probably anticipate the most significant change in operating margins there.

And then in Charter, our business there, Vital Fluids, they're just on a nice trajectory and we expect improvements to continue there.

And in Industrial Filtration, we're still learning that business. This business probably has more seasonal swings than any of our other businesses in that when you think about the end application for the product, its dust collection bags for air pollution control used in various industrial sites and applications such as power plants, cement and asphalt. Typically, when they do the change out, they have to shut down the operation, so you see the change out periods usually early spring, maybe late fall depending upon the industry. The coal industry power plants, you'll see that in the spring and the fall; asphalt and cement predominantly in the spring. And if you get a real hot summer, the utilities will delay things to even later in the fall. So, it's hard for us to predict the seasonality right now in that business, but as volume drops, you could see some margin compression there.

Now one of the things that we're doing, though, that's in our integration plan and synergies is to bring in some of the base material for the automotive fibers business. And as we bring that in, that will start stabilizing and taking some of the peak seasonality we see out of that business. Right now we anticipate that coming on board sometime in the fourth quarter of this year.

ROBERT KOSOWSKY: Okay, that's helpful. Then just one other question. Could you give us an update on how Solupor is going with some of the commercial trials and if you're close to getting any incremental revenue from this product?

DALE BARNHART: There's a tipping point out there somewhere, Rob. I just wish I knew where it was.

As far as the field testing, everything is going well. In the natural gas turbine area we have several significant sites running now. Some running for close to two years. No significant performance issues. It's a matter of getting that under our belt and then ramping up. That may be the closest to the tipping point, sometime probably in 2015.

With regard to the vacuum clean application, we're going through several iterations of development and modification of the product to optimize the performance, and so far everything looks good there.

Then in the air filtration respirator, our partner there is still very enthusiastic. Right now plans to have something started in production in early 2015. So everything's promising as far as applications.

Then our core businesses are doing okay where we have material for ballistic vests, life science filtration, things are continuing to move along in that area.

ROBERT KOSOWSKY: Alright, great. Thank you very much and good luck.

DALE BARNHART: Thank you, Rob.

OPERATOR: Again, if you have a question, please press *1. Our next question comes from Michael Needleman with Fusion.

MICHAEL NEEDLEMAN: Good morning, gentlemen. How are you? A couple of questions, if I can. Can you discuss a little bit about the seasonality, if you can, of the Industrial Filtration business, especially from the standpoint of the second half? The real, I guess, underlying question is as you talked about the demand in the second half being not the same as the first half, so how should we look at the total company versus the acquired revenues as well coming into the second half? It looks like the last couple of years you've kind of averaged, I don't know, 52%-53% first half as far as revenues, and is that going to be kind of convoluted as you assume the acquisition for the second half of the year?

DALE BARNHART: I think you'll see a tendency for the Industrial Filtration business to skew more first half revenue than what we typically have seen in the past. And then the only other aspect we really can't quantify right now on first half versus second half is the pull ahead we've seen in the automotive business as it relates to some platform changes in the second half.

MICHAEL NEEDLEMAN: And is that typical that you see that kind of pull or is it just seasonality or what you're currently seeing in the environment—

DALE BARNHART: Well, no, I think we're seeing some very significant changeovers in platforms we're on where there's an extended shutdown to transform the plant, the platform. So, this year is not normal. Typically, an automotive plant shutdown is a couple weeks. On the one platform we're talking about here, we're seeing one of their major facilities down for 12 weeks in the second half of this year, and then going into the first half of 2015 the other plant will be down for that transformation. So that is not normal to see that long of an extended shut down for a platform change.

MICHAEL NEEDLEMAN: Just another quick question. Although you talked a little bit about each division, can you talk a little bit about any kind of change or what you're seeing from the standpoint of visibility from your international markets that's positive and/or negative that you're currently seeing?

DALE BARNHART: Sure. In the Automotive sector, we tend to see, we're anticipating continued strength over 2013 in the second half in Europe. In the first half, in our Filtration business and Life Science business in Europe we've seen healthy improvement over prior year and that seems to be continuing into the second half. Also seeing some pickup in Asia as it relates to the Performance Materials business. Part of it is the normal filtration business we have, traditional filtration, but most importantly, there we're actually penetrating with our cryogenic products, our fluid power filtration media, so we're actually taking and expanding into other non-traditional segments for us in Asia. And with the acquisition of Industrial Filtration, we now have three large facilities in China driving growth for us in that region.

MICHAEL NEEDLEMAN: My last question is, just in terms of the new products' opportunities in, I guess China, specifically in the filtration standpoint, can you give us any updates, because you talked about that when we were together, but is there any new developments that you can discuss there that you're seeing as far as product rollouts?

DALE BARNHART: Well, we have a full suite of products that will provide excellent service as far as handling the industrial air pollution, particularly in China. The real driver will be theirs when the Chinese government really starts to enforce the regulations. There is, you know, what you read about China, and if you've ever traveled to China, it's very evident that there's an air pollution issue in that country. So the opportunities are significant. It really comes around driving, you know, the government really enforcing the regulations.

MICHAEL NEEDLEMAN: My last question, if I can, very quickly, the Industrial Filtration business I think you've talked about 8% operating margins. Do you think that that could possibly be higher over a period of time? And what type of margins do you think that business might be able to achieve?

DALE BARNHART: For sure we anticipate it to improve as we go forward. As we've talked all along, we anticipate $4 million of synergies and cost reductions by 2016, which would improve our margins.

The other key there will be as one of our four drivers for growth is new product development. So we're working actively with the team now in areas outside of the traditional industrial filtration and/or different composites we can put together with their needle [indiscernible] to enrich margins in that space.

MICHAEL NEEDLEMAN: Thank you very much.

ROBERT JULIAN: Thank you.

OPERATOR: Our next question is from Robert Kosowsky with Sidoti.

ROBERT KOSOWSKY: Just one quick question on what tax rate we should be using for the year. I don't know if you mentioned that, Robert.

ROBERT JULIAN: I'm not sure that we gave a specific rate. We're sort of in the low- to mid-30s. Going forward, I think that we should trend towards the low-30s.

ROBERT KOSOWSKY: Okay, that's helpful. And then otherwise, is any cash that you guys generate this year, is it just going to go strictly to debt reduction right now?

ROBERT JULIAN: No, I want to say necessarily would strictly go to debt reduction. We have capex and new product development, and we'll be conservative as usual. We've also considered debt reduction as one of our potential uses of cash, but we'll see how it develops. And, of course, potentially acquisitions as well.

ROBERT KOSOWSKY: Following on that, what's your appetite for doing another acquisition now given you're maybe three or four months into Andrew? Is Andrew more or less difficult to integrate than maybe you thought three or four months ago? Then also, does this kind of push forward or is the same kind of time horizon for kind of digesting that acquisition before you do another acquisition? Is that still intact? How does that stand?

DALE BARNHART: First, from a standpoint of Industrial Filtration, we are very pleased with the integration. We think it's going per our schedule if not slightly ahead. So the management team has really embraced our process, our Lean process, the initiatives we want and they're very excited about the opportunities of growing and improving that business. So, very excited about that, very pleased with that.

As far as our appetite for an acquisition, if we find the right acquisition, we clearly demonstrated we can handle a very complex one and the team here is ready to go.

ROBERT KOSOWSKY: Okay, so Andrew is going well enough that another acquisition, if it surfaced in the second half of this year, could be –

DALE BARNHART: Absolutely.

ROBERT KOSOWSKY: Alright, good to hear. Thank you very much.

DALE BARNHART: Thank you.

OPERATOR: Again, if you have a question, please press *1. This concludes our question and answer session. I would like to turn the conference back over to Dale Barnhart for any closing remarks.

DALE BARNHART: First of all, we appreciate everybody's interest in joining us on the call. As you heard today, we had an exceptional second quarter. The management team and all our associates are clearly focused on our strategy going forward, which the key element is continuous improvement, top line growth and improving margins. And we look forward to sharing with you the results of our third quarter on our next call. Thank you.

OPERATOR: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.