S&P Capital IQ

CONTENTS

Lydall, Inc. NYSE:LDL

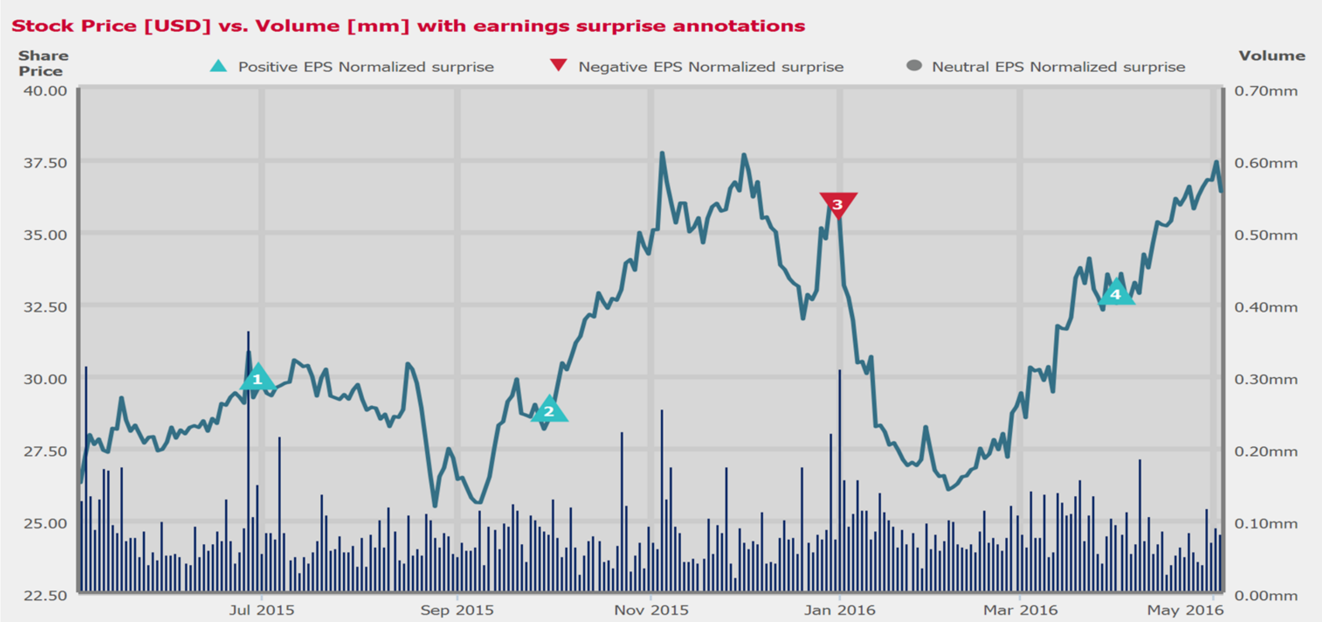
FQ2 2016 Earnings Call Transcripts

Wednesday, August 03, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.62	0.70	▲12.90	0.65	2.49	2.96
Revenue (mm)	135.29	137.24	▲1.44	137.30	553.09	633.47

Currency: USD
Consensus as of Aug-03-2016 2:34 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	0.47	0.64	▲1 36.17 %
FQ3 2015	0.49	0.59	▲2 20.41 %
FQ4 2015	0.46	0.46	▼3 (2.13 %)
FQ1 2016	0.50	0.54	▲4 5.88 %

Call Participants

EXECUTIVES

Dale G. Barnhart
Chief Executive Officer, President and Director

David D. Glenn
Vice President of Business Development and Investor Relations

Scott M. Deakin
Chief Financial Officer and Executive Vice President

ANALYSTS

Charles Murphy

Edward Marshall
Sidoti & Company, LLC

Robert S. Majek
CJS Securities, Inc.

Presentation

Operator

Good day, and welcome to the Lydall, Inc. Second Quarter 2016 Financial Results Conference Call and Webcast. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference call over to Mr. David Glenn, Vice President, Corporate Development and Investor Relations. Mr. Glenn, the floor is yours, sir.

David D. Glenn
Vice President of Business Development and Investor Relations

Thank you, Mike. Good morning, everyone, and welcome to Lydall's Second Quarter 2016 Earnings Conference Call.

Joining me on today's call are Dale Barnhart, President and Chief Executive Officer; and Scott Deakin, Executive Vice President and Chief Financial Officer.

Dale will start the call with comments about the continued progress we are making in executing our long-term strategy as well as provide an overview of current business conditions. Scott will follow with a review of our financial performance and discuss the key drivers by segment. At the end of our remarks, we'll open the line for questions.

As you may be aware, our quarterly earnings press release and 10-Q quarterly report were released yesterday. So that you can follow along with today's call, please reference the Q2 2016 earnings conference call presentation, 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 as defined in the securities laws. Please also refer to the cautionary note concerning forward-looking statements within Lydall's report on Form 10-K and Form 10-Q for further information.

In addition, during this conference call, we will be making reference to non-GAAP financial measures. A reconciliation to GAAP financial can be found in the appendix of the presentation I just referenced.

With that, I now like to turn the call over to Dale.

Dale G. Barnhart
Chief Executive Officer, President and Director

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

I am pleased to report another good quarter for Lydall. These results, as well as our year-to-date performance and our recent acquisition of Texel, gives me continued confidence that we remain on the right path to achieve our 2018 long-term vision for profitable growth that includes $800 million in revenue and an operating margin target of 15%.

Slide 3 outlines our recently published financial results. On a GAAP basis, second quarter 2016 net income was flat with second quarter 2015. Diluted earnings per share were $0.63, which were down $0.01 versus second quarter 2015. However, excluding discrete acquisition-related expenses, adjusted earnings per share were $0.70 or up 9.4% versus the second quarter of 2015.

Reported net sales grew 2% to $137.2 million or 0.5% organically for the quarter. The solid organic growth realized in 3 of the company's 4 segments was principally a result of share and market gains in both our Performance Materials and Thermal/Acoustical segments. This growth was offset by a substantial decline in our Industrial Filtration segment, where continued weakness in air filtration markets, most notably in global power generation applications, dampened demand for the segments filtration products.

With respect to profitability, gross margin expanded 100 basis points to 26.2%. Reported operating margin was down 140 basis points to 11.3%. But after excluding discrete acquisition-related expenses, adjusted operating margin was down 30 basis points to 12.4%.

Overall, our performance reflects the benefit from favorable product mix and lower raw material cost offset by inefficiencies in our Thermal/Acoustic Metals segment on certain platform launches.

Next, with respect to the ongoing investigation related to the possible violation of German antitrust laws, we continue to actively work with the German Federal Cartel Office. While we do expect to bring this matter to conclusion sometime in 2016, we're unfortunately still unable to fully estimate the specific timing or quantify the liability associated with the matter.

Turning to Slide 4, this is an overview of our long-term growth strategy, which includes 4 drivers: new product development, Lean Six Sigma, geographic expansion and M&A.

First, with respect to M&A. As you may be aware, we recently completed the acquisition of Texel on July 7. As I explained during the announcement of the acquisition, this business further diversifies Lydall into attractive adjacent markets focused on technical nonwovens with a leading brand. In addition, it provides Lydall with an opportunity to leverage our existing manufacturing capabilities and expertise in order to support future growth as this business uses the exact needle punch manufacturing process and capabilities we are skilled at within our Industrial Filtration segment.

We have begun the integration process of Texel. And while it is still very early, we continue to be impressed with a strong team that has joined Lydall, and I am confident that we will execute well on our integration plan. As I have mentioned before, even with this recent acquisition, both from a financial and organizational resource perspective, we have the mains, the wherewithal and desire to execute additional acquisitions. I can assure you that as these materialize, we will continue to take a disciplined approach as we demonstrated with the acquisitions of Industrial Filtration and Texel.

With respect to Lean Six Sigma, we continue to work at new ways to operate more efficiently and better to serve our customers. During the second quarter, the results of laying our evidence in the gross profit dollar drop-through of approximately 90% on the incremental revenue in our Performance Materials segment as well as the well-managed decremental seen in Industrial Filtration given the drop in their sales. At a consolidated level, the company delivered gross margins of 26.2% and an improvement of 100 basis points.

In terms of international growth, our Thermal/Acoustics Metals operation in China continues to progress. We're on a track to achieve at least breakeven in operating income for the full year of 2016. This period was the first full quarter in which operations delivered positive operating income, and we are encouraged by the outlook for the second half of the year.

Finally, as pre-released, one of the best examples of progress in new product development is that our Fibers segment with our integrated one-piece molded flooring product for interior cabin of several heavy-duty pickup truck models. Production is underway, and we will start delivering at a full rate beginning in September. On an annual run rate basis, this platform is worth approximately $15 million to the Thermal/ Acoustic Fibers business. Naturally, we hope to grow this over time by winning awards on additional platforms with other OEMs.

Turning to Slide 4 with respect to the business conditions. Overall, we believe the underlying fundamentals of our business remain stable, and we are well positioned for the remainder of the year. Looking across our segments, we are seeing pockets of continued strength in certain areas offset by some pockets of softness, which we anticipate to moderate somewhat as we progress through the year.

Within our Automotive businesses, current visibility suggest that the overall global demand remains healthy for the customers and platforms we serve. While growth in light vehicle production, both -- in both North America and Europe is forecasted to be essentially flat for the remainder of 2016, we anticipate moderate growth in our Thermal/Acoustic Fibers segment and low double-digit growth on our Thermal/ Acoustic Metals segment. This growth in excess of market is being driven by new product launches and the strength of the platforms we serve.

In our Performance Materials segment, we anticipate demand for cryogenic insulation products to remain weak due to the continued softness in liquid natural gas markets. While we have lapped the decline that began last year from a reporting perspective, we are still monitoring this market very closely.

In Life Sciences filtration, the market remains healthy, but the timing of certain orders related to termination buys that benefit us in the last couple of quarters will wind down in the third quarter. On the filtration side of the business, we remain encouraged. We continue to see improvement in demand in North America air filtration market, and Europe demand continues to remain a highlight for this segment.

With respect to Performance Materials operating margin, we expect it to moderate as we go through the rest of the year given that the absorption benefit from certain Life Science filtration sales and inventory bills for the third quarter will conclude.

Finally to our Industrial Filtration segment. As a reminder, this is a segment that will be renamed Technical Nonwovens for the third quarter reporting given the recent acquisition of Texel. While we will benefit from stable demand on nonfiltration products, we are continuing to face weakness from global power generation customers and experiencing general softness in China. We are cautiously optimistic that this will begin to moderate late Q3 and into Q4. In the near term, we are focused on successful integration of Texel.

To wrap up my comments, we are pleased with our performance in both the second quarter as well as the first half of the year. We continue to look forward to turning in another exceptional year and delivering solid financial results in 2016.

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

Scott M. Deakin
Chief Financial Officer and Executive Vice President

Thank you, Dale.

Today, I'll briefly cover our consolidated results, and then provide an overview of our operating segment results.

Turning to Slide 6. In the second quarter of 2016, the company achieved net sales of $137.2 million, an increase of 2% over the second quarter of 2015.

Tooling sales, which reflect requirements for customer-funded capital associated with new platform launches, particularly in our Metals segment, were up 1.6% in Q2 2016 versus the same period last year.

Organic growth for the quarter was 1.5%. This was principally the result of continued strength in Automotive markets and growth in excess of SAR as realized through platform share gains.

Performance Materials also had continued solid growth quarter-on-quarter given continued recovery in air filtration markets, share gains and termination buys in Life Sciences.

Our only area of quarter-on-quarter softness at the segment level, as Dale noted, was seen in the Industrial Filtration segment, where weakness from global power generation customers and general softness in China contributed to a sales decline of 22.5%.

While gross margin on the quarter increased 100 basis points to 26.2% versus Q2 2015, consolidated operating margin was down 140 basis points to 11.3%. After excluding discrete acquisition-related expenses, however, operating margin on the underlying business was 12.4%, a decrease of 30 basis points over prior year. Higher accrued incentive compensation and severance costs in the European facility primarily contributed to the reduction. Overall, these results reflect the benefit from lower raw material costs, favorable product mix and further progression of the company Lean Six Sigma continuous improvement programs. This is in spite of inefficiencies on certain new platform launches in our Thermal/ Acoustical Metals segment.

The effective tax rate for the quarter was 32% compared to 33.6% in the second quarter of 2015. We continue to anticipate that our effective rate going forward will fall somewhere in the range of mid- to low 30s.

On a GAAP basis, second quarter 2016 diluted earnings per share were $0.63, which were down $0.01 versus second quarter 2015. Excluding discrete acquisition-related expenses, however, adjusted earnings per share were $0.70 or up 9.4%.

Moving to the balance sheet, our liquidity remains very strong. At the end of the second quarter, cash was $82.7 million with $18.2 million used in beginning of the third quarter to partially fund the acquisition of Texel. The remainder of the purchase price was financed with $85 million in borrowings for the company's amended $175 million credit facility. Post acquisition or debt-to-EBITDA leverage was 1.3x.

Finally, as it relates to capital expenditure, we spent approximately $15.6 million through the first 6 months of the year compared to $11.7 million in the prior year. For the full year 2016, we expect total capital expenditures to be in the range of $25 million to $30 million.

Turning to Slide 7. With half of the year behind us, I also wanted to take a moment and walk you through the progress we have made year-to-date. Organic sales in the first half are up 1.7% to $266.9 million. With the exception of Industrial Filtration, all segments had nearly double-digit organic sales increases. Industrial Filtration's organic sales decline offset this growth, however, with a reduction of 13.8% due to weakness from global power generation customers and general softness in China.

With respect to operating margin, we continue to make progress on improving year-to-date profitability. Adjusted operating margin increased 130 basis points to 11.7% versus the adjusted operating margin for the first half of 2015. The continued improvements at the consolidated level are driven primarily by favorable mix and lower raw material costs across the business.

Moving to Slide 8, I'll discuss our segment results. I'll start with our Thermal/Acoustical Metals business. This is our global automotive segment, which specializes and providing underhood and underbody engineered thermal solutions for vehicles. This business delivered very strong organic sales growth of 10.6% during the quarter. Net part sales increased $4.7 million to $41.1 million, or approximately 12.9% compared to the same period in the prior year. Tooling sales were down slightly in the second quarter of 2016 given the timing of product launches. Despite sales being up significantly, operating margin declined 270 basis points quarter-on-quarter to 9%. Higher labor and overhead, primarily due to operating inefficiencies on platform launches, drove the erosion in margin. While we were disappointed in the launch execution of these programs, discrete actions are being implemented, and we anticipate that the inefficiencies will be fully behind us by the end of the year.

Slide 9 refers to our Thermal/Acoustical Fibers business. This business also serve the automotive industry and provides molded polyester acoustical solutions, primarily for underbody applications for vehicles in North America. Sales in the quarter were $40.2 million, up 13.2% versus the same period in the prior year. While timing of tooling sales primarily drove the significant growth in the quarter, part sales were up 4.6% organically, which is a reflection of the health of the strong platforms we serve. Operating margin decreased 320 basis points quarter-on-quarter to 26.5%. This was primarily due to unfavorable product mix, particularly as it relates to a greater amount of lower margin tooling sales in the second quarter of 2016 compared to the same period in the prior year.

Moving to Slide 10, I'll cover our Performance Materials segment, which provides specialty filtration and insulation products to a variety of end markets globally. Net sales in the second quarter increased 15.1% quarter-on-quarter to $30 million. Building on the success experienced earlier this year, the business continued to realize strong demand and was able to increase share and benefit from market gains, primarily in filtration, which grew 13.2% in the second quarter. Life Science's filtration also experienced strong quarter-over-quarter sales, increase of 62.7%, and this was primarily related to termination buys by certain customers due to a discontinuation of certain raw materials used in the production process. Lastly, thermal insulation grew with only 2.5% as we saw continued headwinds in the energy spaces. Our cryogenic insulation products are sold into liquid natural gas infrastructure applications. However, we were able to offset some of this insulation weakness with new wins on customer -- excuse me, on commercial

HVAC applications. Segment level operating margin improved by 690 basis points to 15.6% during the quarter. This improvement was driven by leverage on the increased sales, absorption benefit from the Life Sciences buys, inventory build in advance of third quarter sales, favorable mix and the effective continuous improvement programs.

Slide 11 covers the Industrial Filtration segment, which provides needle felt filtration solutions and nonwoven rolled good media for various commercial applications. Prior to the acquisition of Texel, our legacy business primarily provided needle felt for the global industrial air filtration segment. As we have mentioned before, Texel will be integrated into the Industrial Filtration business, and beginning in the third quarter, the segment will be renamed to Technical Nonwovens, which will reflect the combined performance of both businesses.

In the second quarter of 2016, sales of $27.8 million were down organically 20.5%, primarily due to weakness from global power generation customers and general softness in China. Operating margin decreased to 110 basis points, primarily attributable to a 270 basis point percentage increase in segment, selling, product development and administrative expenses as a result of lower sales volume in the second quarter of 2016 compared to the second quarter of 2015. However, this increase in SG&A percentage was partially offset by an improvement in gross margin of approximately 160 basis points driven by favorable raw material costs and effective operational execution in management of the volume declines.

This concludes my comments regarding Lydall's financial performance, and I'll now turn the call back to Dale.

Dale G. Barnhart
Chief Executive Officer, President and Director

Thank you, Scott.

To summarize, we had another strong quarter in these results, as well as our year-to-date performance demonstrate that we remain on the right path to achieve our 2018 long-term vision for profitable growth.

Generally, our end markets are stable, and we continue to remain focused on executing new product development, implementing Lean Six Sigma and executing flawlessly on our integration of Texel.
With that, we will now open up the call for questions.

Question and Answer

Operator

[Operator Instructions] The first question we have comes from Robert Majek of CJS Securities.

Robert S. Majek
CJS Securities, Inc.

In Industrial Filtration, it's my understanding that customers can only delay the purchase of replacement filters for so long. What's the dynamic there? And should we expect sales to bounce back over the next few quarters?

Dale G. Barnhart
Chief Executive Officer, President and Director

We -- you're right. We have -- the key drop we're seeing -- a significant drop we're seeing in revenue as it relate to prior generation is twofold: one, general weakness in China, where we have a strong presence in their power generation market; and secondly, principally in North America, we have seen the end of new installs. So those backhouses were installed up through last year projects going in. Now we're going into a replacement cycle. We won't see much during the peak summer months because that's when power generation have set its highest demand. We do anticipate some recovery in the third and fourth quarter, and in fact, we're seeing some bid activity right now as it relates to that in North America.

Robert S. Majek
CJS Securities, Inc.

Great. And can you give us some more detail on the product launch inefficiencies you're facing in the Metals segment and the impact on margin that caused this quarter?

Dale G. Barnhart
Chief Executive Officer, President and Director

The inefficiencies are, one, new products and a new production line. So we have been challenged, and we're having issues with downtime on that equipment. But that's something we're good at resolving, so I have a high degree of confidence that we will get those issues behind. And we did have a kaizen a couple of weeks ago, where we took the line offline and had the team going there and address several aspects of the production equipment. That process has improved some, but we expect continued improvement there. And then the other is in our European operation, particularly our German operation. Again, they're starting to use a new type of metal, which has created some scrap issues there. Again, we have good understanding of how to operate that material from our North American experience, and we'll be transferring that. So by the end of the year, we expect to have those issues behind us. Really can't quantify the impact on margins.

Robert S. Majek
CJS Securities, Inc.

And lastly from me. In addition to the capital expenditures you disclosed, can you also give us an update on your working capital needs this year so we can kind of get a sense of potential free cash flow generation?

Scott M. Deakin
Chief Financial Officer and Executive Vice President

I would just say, generally, think about the momentum in the second quarter, it was actually improved over prior year. I think, as you know, we changed our performance metrics for management to have the fourth element more focused on that versus general free cash flow generation, and that's starting to have some benefits. So I think the same kind of momentum you saw in the second quarter will carry into the third. And hopefully, we'll see some further improvement in that, even beyond what we were able to do in the second quarter.

Operator

And next, we have Edward Marshall with Sidoti & Company.

Edward Marshall
Sidoti & Company, LLC

So I want to dig into the deep -- a little deeper into the inefficiencies within metals as it relates to the new program, a component of it. Is that learning curve issues? Or is it lower volume as you start to ramp up that program that's causing those inefficiencies?

Dale G. Barnhart
Chief Executive Officer, President and Director

No, it's learning curve. And in fact, the challenge we have as we're having downtime with the new equipment is that we're running over time on weekend. So we have ample volume as demonstrated in their organic growth in the second quarter of over 10%. So the volume is there, which is reassuring. As I've always said, it's hard to make money with an empty wagon. We don't have an empty wagon. We have a full backlog of order, and we're good at solving these type of problems. So we'll get it behind us, Ed.

Edward Marshall
Sidoti & Company, LLC

Got it. And the -- specifically in auto, I was curious just to -- if you've seen -- is it a typical summer shutdown period that will commence, I guess, in -- now? And what are you kind of seeing from -- I think you mentioned in the release about the orders being relatively strong in auto or consistent. But as it relates to kind of summer shutdowns, what should we be thinking?

Dale G. Barnhart
Chief Executive Officer, President and Director

Well, July is the typical month, and we have seen that some of our OEMs have taken 2 weeks down. We're also experiencing, again, some more change outs of models, which are particularly in some of the larger pickup trucks that are in process right now. So we're seeing some of that, but if we look at our -- so yes, we have seen the shutdowns. But as we look at our EDI and releases from our OEMs and our platforms, we're seeing stable revenue for the balance of the year, and it will be complemented a little bit by the flooring project that kicks in at the end of the year in fibers. So we're a little -- and everything we're seeing on the automotive industry is saying that overall sales in production are going to be pretty much on par with 2015. I think the concern from the OEMs is the discounting they have to give to maintain that level, and so their profitability may be impacted. But it should have very little impact on our overall volume for the balance of the year.

Edward Marshall
Sidoti & Company, LLC

Got it. And if I asked about Performance Materials can you tell me what the plus up in the margin was due to the mix? Can you quantify that?

Scott M. Deakin
Chief Financial Officer and Executive Vice President

Just trying to think. Relative to the other components, I would say probably about a point relative to some of the other drivers. The Life Sciences piece of business was the principal component of that. Air filtration is solid margins there. But if you look overall at that termination but, that's about $2 million over the course of 3 quarters. The majority -- or the half of which is in the second quarter, and the drop through of that was in the ballpark of 50%. So that -- just that piece of it was about $1 million impact to the business over the second, third and fourth quarters -- excuse me, first, second and third quarters.

Edward Marshall
Sidoti & Company, LLC

So you're still within double-digit margins in that business despite the ship down and mix?

Dale G. Barnhart
Chief Executive Officer, President and Director

And I would say, we'd be right around the 10% give or take a little bit. We also benefited from -- typically, we have our plant shutdowns in July and August. So we had inventory built ahead to support demand we have in July and August, and we benefited from that in the second quarter, the absorption of that additional volume.

Edward Marshall
Sidoti & Company, LLC

Got it. And then if I look at industrial filtration, I thought it was a pretty good margin given the despite the revenue drop, and I know that you've been doing a lot of work there. And was there anything specific that kept the margin in the double-digit category? In other words, do you anticipate you can stay in this level with the kind of the run rate that we are now? And secondly, when sales recovered to maybe last year's level, what do you think the incremental margin in that business will be at the improved, I guess, operations?

Dale G. Barnhart
Chief Executive Officer, President and Director

Well, there's several things that have enabled us to maintain the margins as well that we have with the drop in revenue. First of all, the revenue drop for the power generation product line is one of our lowest margin product lines. So one, we -- while the sales went down, we had favorable product mix because the rest of our filtration products are at better gross margin, so that benefited us. Secondly, raw material prices. We've been taking advantage of good commodity pricing for the base products that we supply. Thirdly, one of the key synergies in that business was picking up our automotive rolled goods, and that continues to be very robust for us directly to our Thermal/Acoustic Fibers business. And then fourthly and insignificant is our continue lean and productive drives we have in the business. So as we see revenue come back, if it's in the power generation, we'll see growth in operating income. But you could see a little unfavorable mix as it relates to gross margin.

Edward Marshall
Sidoti & Company, LLC

Got it, got it. And one last attempt at this. Do you guys have a accretion estimate for Texel?

Dale G. Barnhart
Chief Executive Officer, President and Director

Yes.

Scott M. Deakin
Chief Financial Officer and Executive Vice President

Unfortunately, same answer. We are right in the middle of it. Obviously, know that there's a thirst for it. As you know, there's 2 kind of components to the line as we have to finalize the closing balance sheet, and then we have to do our valuation work on it. We are in the midst of that and expect to be able to give you better clarity of that in our third quarter release. As we've talked about in the past, the biggest percentage of the writeup is going to be associated with the inventory. That's probably on a ballpark of 2/3 of it. Now the next biggest component is going to be in the intangibles in that piece of the writeup and a very small piece in terms of the PPE writeup. So as I said, we'll be able to get you some better clarity on that with the third quarter release.

Edward Marshall
Sidoti & Company, LLC

Even though I think inventory writeups are x'd from the pro forma numbers, I'm just curious, do you have a sense as to what the ballpark range for that number?

Scott M. Deakin
Chief Financial Officer and Executive Vice President

Not just yet, and so we'd finalize the closing balance sheet, but we'll be able to get it to you soon enough.

Operator

[Operator Instructions] Next we have Chuck Murphy with Liberty Park Capital Management.

Charles Murphy

So Ed kind of already asked my question about auto, but maybe if I could take it from a slightly different angle. I mean, your largest customer, Ford, sounded a little bit more cautious. And I was just sort of wondering if you could kind of talk through how you're thinking about the market. Is it -- the other guys are not as cautious? And we also have some share gains? How are you sort of thinking about it?

Dale G. Barnhart
Chief Executive Officer, President and Director

Well, again, as I stated earlier, even if you go through and look at all the detail on Fords, what they're predicting, they're still projecting $17.5 million or slightly higher than that SAR this year. So again, they are projecting a flat market -- on the worst case, flat to last year. What they're concerned about is they've seen more discounting going on, so therefore, their margin [indiscernible]. So from a volume standpoint, which really drives our revenue, frankly, production, we feel relatively positive about the balance of the year. And you also have to -- in both of our segments, both of the fibers and the metals business, we've gained new platforms that are launching this year. So we're benefiting from incremental growth as it relates to those new platforms coming onboard that we want. So we should be -- our revenues in the second half should be slightly higher than what you're going to see factory production in both North America and Europe.

Charles Murphy

Okay. And I knew it's pretty early, but I mean, how would you think about 2017 with that backdrop?

Dale G. Barnhart
Chief Executive Officer, President and Director

Well, everything we're seeing, again, from the industry forecast, I just -- and everybody that's putting on what the OEMs are telling us, is that '17 should be maybe another replay of 2016. So slight growth. The one area that's been the decline year-over-year is China, in fact, reproduction. But there, again, we're just ramping up. So we should see incremental growth there.

Operator

Next, we have a follow-up from Edward Marshall, Sidoti & Company.

Edward Marshall
Sidoti & Company, LLC

Just a quick question on capital deployment. I know you have a pretty clear acquisition strategy and commend you for the multiples paid. But as I look at your business, and I think about maybe debt reduction and obviously the German overhang, you're generating a decent amount of cash now. And I'm just thinking longer term when we think about maybe a capital deployment, whether it's from buying back stock or even potentially a dividend, what's the thought process from the Board level that you can kind of talk about either returning capital to shareholders?

Scott M. Deakin
Chief Financial Officer and Executive Vice President

Good question. In all options we think about all the time, I think we've been pretty clear in the near term, call it, at least the next 18 months to 2 years. You're not going to see a big change on our capital structure either in terms of taking on debt or buying back shares. But over time as we get bigger, certainly, that may be something we would consider. I think in the near term, our plan is to start to pay down the debt. We've taken on some more to we did in the Andrew acquisition and really started to use that powder for additional deal activity that we're pursuing as a part of our pipeline. But over sometime, I think the sort of tenuring mix of that may start to change. But we talk about it all the time, and we'll see how it looks a couple of years out.

Edward Marshall
Sidoti & Company, LLC

And I guess asked another way. In the event of a downturn or a market pullback, I mean, I know the acquisition strategy is relatively laid out, but let's say the stock is cheaper here. Is there a better investment out there than buying Lydall's in the form of the Board's eyes? I mean, will you turn to a different strategy maybe towards share repurchases as opposed to a pretty well laid out acquisition strategy?

Dale G. Barnhart
Chief Executive Officer, President and Director

I mean, during a -- yes, that's a possibility. There's subtle improvement plans to do that. But I can say if we put -- initiated the share purchase -- repurchase program, it would be structured 2 ways: One, so take away the dilution of our executive stock program; and secondly, to buy should the stock go down. We don't believe -- we believe a lot of shareholder value is eroded when companies blindly throw cash at share repurchases when their stocks are very high valued. So right now, we're valued appropriately. If we drop significantly, that's something we would consider. But we do not have an active program in place right now. We'd have to initiate another one because we closed out our prior share repurchase program.

Operator

Well, at this time, we're showing no further questions. We'll go ahead and conclude the question-and-answer session. I would now like to turn the conference back over to Mr. Glenn and the management team for any possible closing remarks. Gentlemen?

David D. Glenn
Vice President of Business Development and Investor Relations

I just want to thank everybody for participating on the call. Another great quarter. We look forward to speaking with you again on our Q3 results. Thank you.

Operator
And we thank you, sir, and to the rest of your team for your time also today. The conference call has now concluded. At this time, you may now disconnect your lines. Thank you. Take care, and have a great day, everyone.