Federal Signal Corporation

Second Quarter 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Ian A. Hudson, *Senior Vice President and Chief Financial Officer*

Jennifer L. Sherman, *Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Walter Liptak, *Seaport Global Securities, LLC*

Christopher Moore, *CJS Securities*

Steve Barger, *KeyBanc Capital Markets*

PRESENTATION

Operator:

Greetings. Welcome to the Federal Signal Corporation Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone today should require Operator assistance during the conference, please press star, zero from your telephone keypad. Please note that this conference is being recorded. At this time, I would like to turn the conference over to Ian Hudson, Chief Financial Officer. Mr. Hudson, you may now begin.

Ian A. Hudson:

Good morning, and welcome to Federal Signal's Second Quarter 2019 Conference Call. I am Ian Hudson, the Company's Chief Financial Officer. Also with me on the call today is Jennifer Sherman, our President and Chief Executive Officer. We will refer to some presentation slides today, as well as to the earnings news release, which we issued this morning. The slides can be followed online by going to our website, federalsignal.com, clicking on the Investor Call icon, and signing into the webcast. We've also posted the slide presentation and the earnings release under the Investor tab on our website.

Before we begin, I'd like to remind you that some of our comments made today may contain forward-looking statements that are subject to the Safe Harbor language found in today's new release and in Federal Signal's filings with the Securities and Exchange Commission. These documents are available on our website. Our presentation also contains some measures that are not in accordance with U.S. Generally Accepted Accounting Principles. In our earnings release and filings we reconcile these non-GAAP measures to GAAP measures. In addition, we will file our Form 10-Q later today.

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I'm going to start today by providing some detail on our second quarter results before turning the call over to Jennifer to provide her perspective on our performance and our outlook for the remainder of 2019. After our prepared comments, Jennifer and I will address your questions.

Before discussing our results for the quarter, you may have read in this morning's news release that we have executed a new five-year $500 million revolving credit facility. In addition to increasing capacity by $100 million, the new arrangement contains improved pricing and more favorable terms than our previous facility. It also provides us with flexibility to borrow up to an additional $250 million of permitted acquisition.

I will now turn to our second quarter financial results, which are also provided in today's release. We had an outstanding quarter, with results reflecting impressive increases in sales and income, driven by strong broad based organic growth. We delivered significant margin expansion and a 25% improvement in adjusted earnings per share. Consolidated net sales for the quarter of $324.3 million were a record for the Company. That represents year-over-year improvement of $33.3 million, or 11%. All of that growth was organic.

Consolidated operating income for the quarter was $46.3 million, up $8.2 million over 22%. On an adjusted basis, consolidated operating margin was 14.6%, up from 13.4% in Q2 last year. Consolidated Adjusted EBITDA for the quarter was $57.1 million, up $9.8 million or $0.21 from Q2 last year. That translates to a margin of 17.6%, exceeding our target range and up 130 basis points from 16.3% last year.

Net income in Q2 this year was $32.8 million, compared to $26.9 million last year. That equates to GAAP EPS of $0.54 per share, up from $0.44 per share last year. On an adjusted basis, EPS for Q2 this year was $0.55 per share, which compares to $0.44 per share last year.

Order intake in Q2 of this year continued to be strong, with total reported orders of $308 million, representing the second highest quarterly orders on record and an increase of $30 million, or 11% compared to Q2 last year.

We ended the quarter with a consolidated backlog of $348 million, which was up $25 million or 8% compared to last year.

Now turning to our group result, where each of our groups delivered significant year-over-year EBITDA margin improvement, with performance in excess of our target ranges. ESG reported second quarter sales of $267.2 million, up $33.9 million, or 15% compared to last year. The revenue growth was largely driven by increases in shipments of vacuum trucks, sewer cleaners and dump truck bodies, as well as higher after market revenues represented by increases in rental incomes, parts and service revenues, and used equipment sales. ESG's operating income in Q2 this year was $44.8 million, up $7.6 million or 20% from last year.

Adjusted EBITDA for the quarter was $54.4 million, an improvement of $8.9 million, or $0.20 from a year ago. That translates to an Adjusted EBITDA margin of 20.4% in Q2 this year, which compares to 19.5% last year. The increase was largely driven by improved operating leverage, favorable sales mix and benefits from pricing actions that were realized in spite of higher material costs compared to Q2 last year.

ESG reported total orders of $253.2 million in Q2 this year, up $35.9 million, or 17% from last year. The improvement was primarily due to increases in orders for vacuum trucks, sewer cleaners, dump truck bodies, and refuse trucks, as well as higher after market demand.

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SSG reported second quarter sales of $57.1 million, marginally lower than Q2 last year but up slightly on a constant currency basis. Despite net sales being slightly lower than Q2 last year, operating income was much improved, increasing by $1.3 million, or 16% compared to Q2 last year. The improvement was largely the result of higher gross profit associated with benefits from pricing actions and favorable sales mix, as well as lower operating expenses.

Adjusted EBITDA in Q2 this year was $10.3 million, up from $9 million a year ago. Our Adjusted EBITDA margin was 18% this year, compared to 15.6% in Q2 last year.

SSG's orders for Q2 this year were $54.8 million, compared to $60.3 million last year, with a reduction largely due to the anticipated effects of the Ford model year changeover and lower orders for warning systems, which tend to be lumpy.

Corporate operating expenses for the quarter were $8 million, up $700,000 from last year, primarily due to higher acquisition related expenses and employee costs.

On a consolidated basis, the increase in sales contributed to a $9.8 million improvement in gross profit. Consolidated gross margin improved to 27.4% for the quarter, up from 27.2% last year. As a percentage of sales are selling engineering, general, and administrative expenses, we're down 120 basis points from Q2 last year.

Other items affecting the quarterly results include a $500,000 increase in acquisition related expenses, a $500,000 reduction in other expense, and a $500,000 reduction in interest expense associated with lower average debt levels.

Tax expense for the quarter was up $3.3 million, largely due to higher pretax income levels. Our effective tax rate for the quarter was 26%, marginally higher than expected due to a nominal increase in tax reserves, and up slightly from Q2 last year, when we recognized a $500,000 excess tax benefit from (inaudible) activity.

For the full year, we continue to expect our effective tax rate to be in the range of 25% to 26%. On an overall GAAP basis, we therefore earned $0.54 per share from continuing operations in Q2 this year, compared with $0.44 per share in Q2 last year. To facilitate earnings comparisons, we typically adjust our GAAP earnings per share for unusual items recorded in the current or prior quarters. In the current year quarter, we made adjustments to GAAP earnings per share to exclude acquisition related expenses and purchase accounting expense of that.

On this basis, our adjusted earnings for Q2 this year were $0.55 per share, compared with $0.44 per share in Q2 last year.

Looking now at cash flow, where we generated $34.6 million of cash from operations in Q2 this year, up $7.1 million, or 26% from last year. So far this year, we have increased our cap ex to $9.4 million as we make strategic investments in new machinery and equipment and other organic growth initiatives like the expansion of our manufacturing facilities in Streator, Illinois and Rugby, North Dakota. With those expansion efforts gaining momentum, we are expecting cap ex to ramp up in the second half of the year. For the full year, we are currently expecting total cap ex of up to $35 million.

We are also anticipating a couple of other significant cash outflows in the third quarter. The first relates to the acquisition of MRL, which we completed at the beginning of July, for initial cash consideration of approximately $50 million, which includes a preliminary closing adjustment. In addition, during the third quarter we are expecting to pay an aggregate sum of approximately $13.5 million to settle the earn out and deferred payment associated with the acquisition of JJE. Despite these large cash outflows and as in

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any other acquisition, we are expecting that our leverage will remain at a comfortable level throughout the year.

We ended the quarter with $171 million of net debt, and availability under our credit facility of $180 million. Our strong financial position, which was further enhanced by a recent debt refinancing, allows us to continue to invest in organic growth initiatives for two strategic acquisitions like MRL and fund cash returns to shareholders. On that note, we've paid a dividend of $0.08 per share during the second quarter, amounting to $4.8 million. Yesterday, we announced a similar dividend for the third quarter.

That concludes my comments, and I would now like to turn the call over to Jennifer.

Jennifer L. Sherman:

Thank you, Ian. I would like to reiterate Ian's comments on the outstanding quarter. While we were anticipating a strong second quarter in what is typically a seasonally strong period for many of our businesses, our actual performance surpassed those expectations. In short, our second quarter results were the best in the Company's history. We reported double digit organic growth in both net sales, and orders and our operating income was up 22% year-over-year. Each of our groups delivered margin performance in excess of our target ranges, translating to a consolidated Adjusted EBITDA margin of 17.6% and quarterly earnings per share that were a record for the Company.

Within ESG, we benefited from operational efficiencies relating to increased production, seasonally strong performance from TBEI, increased after-market demand in certain parts of North America, as well as some earlier than expected deliveries, particularly in Canada, where our Joe Johnson Equipment business delivered an outstanding quarter.

The second quarter saw the third anniversary of the JJE acquisition. It also marked the completion of the performance period with a contingent consideration that was included in the agreement. The fact that we are preparing to pay the earn out in full is a testament to the teams successful execution against the strategic objectives in support of the acquisition. We are also thrilled that the JJE's talented management team has agreed to stay on with Federal Signal following the completion of the earn out period, with a number taking elevated roles within the Organization. These new roles include broader responsibilities over key strategic initiatives like the continued growth of ESGs aftermarket business, where we saw 14% year-over-year revenue growth in Q2.

JJE is also a great example of the successful application of our EGI principles to acquisition. Prior to the acquisition, JJE's EBITDA margin was in the high single digits. The business now consistently performs towards the upper end of our target EBITDA margin ranges.

Within SSG, despite contemporary softness and domestic public safety markets, revenues were up slightly from last year, excluding foreign currency translation effect. As we mentioned on our last earnings call, we had anticipated that a model year changeover at a major police vehicle manufacturer would cause a temporary delay in the number of vehicles available. The teams did a great job mitigating those effects by penetrating markets outside of the U.S.

In addition, higher sales of industrial signaling equipment helped to offset the impact at the group level. Following a change of leadership about 18 months ago, our signaling business has exhibited a renewed focus on expanding into new global markets, optimizing our sales channel and enhancing our marketing efforts. These efforts have played an important role in the improvement that we have seen within SSG over the last several quarters and position us well for the future.

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As in the first quarter, SSG also significantly expanded its margins in the second quarter. The 240 basis point improvement was largely the result of our pricing actions, improved sales makes an ongoing execution of our ETI initiative. With its performance in recent quarters, we are increasing the upper end of our EBITDA margin target range for SSG to a new range of 15% to 18%.

Orders in the second quarter this year were our second highest on record, with the 11% organic growth reflecting continued strength in our end market and ongoing momentum with our strategic initiatives like Safe Digging.

So far this year, our vacuum truck orders are up $14 million, or 17% from the first half of last year, with most of that growth resulting from heightened awareness of the safety and efficiency benefits of our range of vacuum excavation offering. In addition, rental demand for vacuum excavation equipment, the largest component of our rental fleet, remains high. Over the last 12 months, we have seen both time and financial utilization levels well in excess of our target levels.

With current lead times for vacuum trucks and sewer cleaners continuing to be extended, orders received in the second quarter and beyond may not translate to revenue and income during 2019. In response to the extended lead time, we are focused on reducing our current backlog, particularly for sewer cleaners and vacuum trucks.

At our Streator facility, the teams hit record quarterly production levels, increasing the number of units produced by 19% from Q2 last year. We also made great progress in the quarter, increasing the number of builds at our solutions center in Leeds, Alabama. Our efforts to reduce lead times for these product lines by building more trucks through our flexible manufacturing model will continue to be an area of focus while the Streator expansion is ongoing. The construction work is underway, but with the state of Illinois experiencing historically high levels of rainfall in the first half of this year, we have lost several days. The teams are exploring options to recover this lost time, but at this time, while we expect the building to be complete by the end of the year, we do not expect the facility to be fully operational until later in the first quarter of next year.

I would like now to give a quick update on the MRL acquisition, which we completed at the beginning of July. As a reminder, MRL is a leading U.S. manufacturer of truck mounted and ride on road marking equipment. The acquisition also included the operations of HighMark Traffic Services, a wholly owned subsidiary of MRL, which provides road marking application and line removal services, predominantly in the state of Montana.

Since announcing the transaction in May, our collective teams have been focused on integration efforts. While we recognize that there's more work ahead, we are pleased with the progress made so far. As part of the application of our ETI principles, the teams have begun on working on implementing potential operational improvements and evaluating options for investing in machinery and equipment to gain efficiencies.

In addition, during the coming weeks, several members of the MRL team will be attending one of our training sessions on ETI principles. As part of our efforts to integrate MRL into a public company environment, we are also planning to make some nominal short-term investments in the form of adding resources or reporting tools, which should provide benefits down the road. MRL's current backlog of equipment orders gives good visibility into the fourth quarter. However, because of weather-related factors, the fourth quarter tends to be seasonally soft for the HighMark business, which represented approximately 15% of the total revenues during 2018.

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After factoring in a preliminary estimate of the amortization expense resulting from the acquisition-related accounting impact, and after considering investments we plan to make as part of our ongoing integration efforts, we currently expect that MRL will be modestly accretive to our adjusted EPS in 2019.

We continue to believe that acquisitions will play an important part of our growth. As Ian mentioned earlier today, we announced that we have upsized and extended our credit facility. This new credit facility provides us with further financial flexibility to invest in organic growth initiatives and pursue strategic acquisitions.

The terms of the new facility are more favorable to the Company, reflecting the strength of our performance, cash flow, and balance sheet. This marks another important milestone in our path to discipline strategic growth.

I would now like to move on to our earnings outlook. Seasonal strength and deliveries of our equipment to customers in colder climate, the timing of TBI shipments, and higher rental and after market demands were among the factors which lead to this year's second quarter earnings being stronger than other quarters, as we saw in 2018. We have had an excellent first half of 2019, and we expect growth momentum to continue. We feel good about the remainder of the year, and we are expecting year-over-year earnings growth compared to the second half of last year.

With our record second quarter results, the strength of our backlog, and a modest earnings contribution from the recently completed MRL acquisition, we are raising our 2019 adjusted EPS outlook to a new range of $1.64 to $1.72, from a previous range of $1.50 to $1.60. The new range equates to a year-over-year improvement of between 16% and 22%.

In summary, we had an outstanding quarter. Our talented and dedicated teams and their business have positioned the Company for another year of growth. At this time, I think we're ready for questions. Operator.

Operator:

Thank you. If you would like to ask a question today, please press star, one on your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Thank you. The first question is coming from the line of Walter Liptak of Seaport Global. Please proceed with your question.

Walter Liptak:

Hey, good morning, guys.

Jennifer L. Sherman:

Good morning, Walt.

Walter Liptak:

Congratulations on a nice quarter.

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Jennifer L. Sherman:

Thank you.

Walter Liptak:

I wanted to start out with the SSG business, and just thinking about the order rates and just what's going on in market. I think we understand the Ford issue, but I think you made a comment about systems, and I wonder if you could give us a little view on what's going on in those markets, and what the back half might look like.

Jennifer L. Sherman:

Sure. First of all, as we mentioned, we had talked about the Ford model year changeover, and we expected that to impact orders during Q2. We really applaud the teams, as they did a super job in terms of additional orders outside of North America. We saw some good international business. I would remind you that orders and backlog tend to be a less relevant measure, because they typically ship within a quarter, within eight to 12 weeks.

Where we saw strength in Q2 was in our signaling business. We have a new leader that's been running that business for the last year, is a number of organic growth initiatives, very focused in terms of increasing our market share, and we're really starting to see the benefits in the first half of this year, particularly in Q2, and we expect that to continue in the second half of the year.

Walter Liptak:

Okay, great, and with the raise in long-term targets for SSG, is it—do you feel like this business is now going to be able to operate at kind of the first half operating margins going forward, or is there something that will change regarding mix that could make that profit margin volatile?

Jennifer L. Sherman:

I think, as we mentioned, we raised the target to 15% to 18% for SSG, and it was really a result of the continuing application of our ETI principles. The teams have really embraced that, and we're going to have our third formal training session just this year, and the response is so encouraging to see how that training applies to businesses. We're also seeing the benefit of our efforts on the new product development side, not only in our signaling businesses, but also in our public safety system business. We're encouraged by what we're seeing. We saw consistent performance, and that's what really drove the decision to increase those EBITDA margin targets for SSG.

Walter Liptak:

Okay, sounds great. I'll just switch gears to the trends going on in orders for the ESG division, and in the prepared remarks, you guys called out vacuum trucks, sewer cleaners, dump trucks, after market for the reason that you had the double-digit order growth. Is that in order of growth rates? Were some product groups growing faster than others? I wonder if you can give us some color on that.

Ian A. Hudson:

It's really in the order of the magnitude of the dollar increase as opposed to the percentage increase. Particularly, I think we've talked in the past about the traction that we're seeing on Safe Digging, and Jennifer made in her comment, she talked about the growth that we've seen in the orders for the vacuum

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trucks. I think they're up year-to-date. For the first half of the year, they were up 70% year-over-year. We're really continuing to be encouraged with the growth that we're seeing for the Safe Digging equipment.

Walter Liptak:

Okay, great.

Jennifer L. Sherman:

I guess I'd add there, one of the other things I'm encouraged about is we're continuing to invest in new product development in that area. I mentioned on the last call, we kicked off a project in the first quarter looking at our mid-level vacuum trucks, and we're continuing to work on that. It's an area of focus for the Company. We believe that we have the best products in the market, and we've identified some strong distribution partners, and we continue to be encouraged by what we saw in the first half of this year.

Walter Liptak:

Okay, great. Sounds good. The last one for me, the TBI continues to be pretty strong. I wonder if you could just provide us with some thoughts on why TBI is still growing. What does the growth rate look like? I guess, any changes that might be in front of us with the slowing in the industrial environment?

Ian A. Hudson:

There's a portion of that business that is correlated with construction and housing starts, so we've been monitoring that closely. Up to this point, we haven't seen any impact in the orders. I think, in fact, as we talked about the dump truck orders that we saw in Q2 were up $8 million year-over-year. We've seen very strong growth in that particular business in Q2. I would remind you that Q2 and Q3 for that business are typically the strongest because of a lot of the construction work is taking place during the summer months, so it tends to be a little softer in the fourth quarter. It was a much improved second quarter for that business, and the teams did an outstanding job. We're very encouraged.

Walter Liptak:

Okay, sounds good. Thank you.

Operator:

As a reminder, to ask a question today, you may press star, one from you telephone keypad.

The next question is coming from the line of Chris Moore with CJS Securities. Please proceed with your question.

Jennifer L. Sherman:

Good morning, Chris.

Ian A. Hudson:

Good morning.

Christopher Moore:

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Good morning. Great quarters. Let me just—bigger picture, maybe we can look at the second half of '19 versus the second half of '18, and just, you started to do this, but remind us, things that we should be keeping in mind, positive or negative, when kind of looking at the relative performance of the second half of '19 versus '18. Steel, sounds like there was some (inaudible) orders that got pulled forward into Q2. Things like that that would be impacting '19 versus '18.

Jennifer L. Sherman:

A couple of things. One, we're expecting earnings growth in the second half of this year, and if you look at our revised guidance, it implies strong margin performance for the Company in the upper half of the range. Typically, a couple things to consider is that Q2 and Q3 are typically stronger quarters for our aftermarket business and for TBI, just due to the types of equipment they provide. MRL, their quarters typically would be the second and third quarter. Q4 tends to be a softer quarter for them. We're continuing to see traction on our Safe Digging, and we're encouraged right now as we spend time with customers end users, dealers. We're encouraged to—our markets continue to be strong. That was really part of the drivers of our revised guidance for the second half of the year.

Christopher Moore:

I know you had talked previously about locking in steel pricing earlier in the year. Are you seeing—looking at that as from where you sit today as a slight tailwind for the second half of '19?

Ian A. Hudson:

I think, Chris, when you compare to the second half of last year, we had—that was where we saw some effects of the increase in the material costs.

Christopher Moore:

Right.

Ian A. Hudson:

Those have somewhat normalized now, I think, and so we've also seen some of the benefits from the pricing—the pricing actions that we took. We saw some of those benefits in Q2. We will continue to expect that will be favorable from a price-cost standpoint in the second half of the year, and that's all been —that's all been factored into the updated outlook that we've given.

Christopher Moore:

Got it. Thank you.

Just on SSG. Jennifer, you talked about expanding into new global markets. Are these—is it new products, new markets that you're talking about? Maybe just give a little bit of color in terms of some of the things coming on the SSG front?

Jennifer L. Sherman:

Sure, absolutely. It's really a combination of both. We have, on the signaling side of the business, we have some new distributors in Europe, and we're starting to see traction on that initiative. Our (inaudible) business continues as one of our most aggressive businesses with respect to new product development,

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and they've seen success on that side, and we've also seen some activity in South America. It is a true combination of both increased distribution and new product development.

Christopher Moore:

Got it, and last question, on the SSG side, we haven't heard much on the hearing law suits over the last few quarters. Is anything even worth discussing at this point in time on that front?

Jennifer L. Sherman:

We have a very lengthy description in our 10-Q, which I encourage you to take a look at, but overall, where we are right now is we are in an outstanding position. The plaintiff's lawyers have basically walked away from the litigation, and we're pursuing nominal settlement.

Christopher Moore:

Got it. I appreciate it, guys. Thank you.

Ian A. Hudson:

Thanks, Chris.

Operator:

Thank you. The next question is from the line of Steve Barger with Keybanc, Please proceed with your question.

Steve Barger:

Hey, good morning, guys.

Jennifer L. Sherman:

Good morning, Steve.

Ian A. Hudson:

Good morning.

Steve Barger:

Really good revenue performance in the first half, $600 million. When you consider all the factors around backlog and capacity, do you expect second half revenue comes in above that or below or just kind of how do you think about that cadence?

Ian A. Hudson:

We don't typically guide to the revenue, Steve, but I think what we would say is with the outlook that we've given, Jennifer talked about the margin improvement, and we would be expecting growth—top line growth in each of Q3 and Q4. I think that's how we would respond to that.

Steve Barger:

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Top line, okay. I'm just trying to get to the margin kind of conversation, because if I just go to the midpoint of your guide, it looks like you expect consolidated margin to be flatter, maybe just slightly down in the back half versus the first. Am I thinking about that correctly?

Jennifer L. Sherman:

I think right now we're expecting the teams to continue to perform, and we expect the margin for performance for the companies to be towards the higher end of the range.

Steve Barger:

Okay. You talked about some ongoing, and I think some new investment. Can you update us on how you see operating cash flow and cap ex this year?

Ian A. Hudson:

Operating cash flow, Steve, I think we've talked about, and cap ex, we talked about on the call the—we're expecting that to be up to $35 million this year with the expansions that we have at both the Streator and Rugby facilities. Cap ex will be higher than it would typically be in a usual year, just with those investments going on. Operating cash flow, it would be a similar cash conversion. We would be expecting to what we saw last year. The one—new one there might be, and this is more of a technical accounting point is that when we pay the Joe Johnson earn out and dispersed payment, there is going to be a portion of that that will likely be reflected within our operating cash flows. There may be a drag on our operating cash flows of about somewhere between $3 million and $4 million. That's something that we would need to factor in.

Steve Barger:

Okay, and I think the acquisition strategy has obviously been very successful over the last few years. I'm just curious now that you're paying the final earn out for JJE, if you account for that, how has return on capital been for that acquisition?

Ian A. Hudson:

It's been an outstanding acquisition, and it's been successful on many levels, and the earn out was tied to four strategic objectives, and I think as Jennifer mentioned that the fact that we're paying it out in full is really a testament to the team and the traction that they've seen on hitting all of those objectives. It's been a tremendous acquisition for us.

Steve Barger:

I think you said that it had been operating at the higher end of the EBITDA range for the various business units. Is that correct?

Jennifer L. Sherman:

Correct.

Steve Barger:

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Is that true on a free cash flow basis as well? Is it accretive to free cash flow versus the other business unit?

Ian A. Hudson:

Yes, it is. The rental is a factor in that in terms of the cash flow. All of the cash flows associated with the rental fleet are reflected in our free (phon) cash flows, but it's more—we don't really look at it as stand-alone business, because it's part of the overall Federal Signal rental fleet. It was a stand-alone acquisition, but since then, we've worked on integrating it across the year's key business. We don't really necessarily look at it on a stand-alone basis.

Steve Barger:

Okay. Thanks for the time.

Jennifer L. Sherman:

Thank you.

Ian A. Hudson:

Thank you.

Operator:

The next question is a follow up from the line of Walter Liptak with Seaport Global. Please proceed with your question.

Walter Liptak:

Thanks. I just wanted to do a quick follow up on Steve's question, just on the cash outflows in the second half. I wonder if we could talk a little bit about corporate expenses, and given some of these incremental cash flow items, are any of those flowing through the corporate expense? I guess the question is what are you expecting for corporate expenses in the back half?

Ian A. Hudson:

They won't really impact corporate expenses, Walt, so the investments that we're making are a factor that's largely in PP&E, and so those investments would be a cash outflow that would be depreciated over a number of years. That wouldn't really hit corporate expenses. The earn out also doesn't really hit corporate expenses either. I don't think any of the significant cash outflows that we've spoken about would impact corporate expenses, with the one exception probably being that there will be some acquisition related expenses, transaction related expenses associated with MRL. We saw some of that in the second quarter, but there may be more in Q3, but those are not expected to be overly significant.

Walter Liptak:

Okay, what do you expect in corporate expenses for the year?

Ian A. Hudson:

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It's a little difficult to predict, because corporate expenses also include a number of variable components based on it has incentive compensation costs and stock compensation costs. It really is dependent on the performance of the companies, but overall we're not expecting it as a percentage of sales to be very different to what we saw in 2018. I think we range in the low 2s in terms of spend and sales. We wouldn't expect a significant diversion from that.

Walter Liptak:

Okay. Fair enough. Okay. Thank you.

Operator:

Thank you. At this time, I will turn the floor back to Jennifer Sherman for closing remarks.

Jennifer L. Sherman:

In closing, I would like to reiterate that we are confident in the long-term prospect for our businesses in our markets. We would like to express our sincere thanks to our stockholders, employees, distributors, dealers, and customers for their continued support in achieving a record quarter for the Company. Thank you for joining us today, and we'll talk to you next quarter.

Operator:

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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