CIRCOR International, Inc.

Third-Quarter 2014 Conference Call Prepared Remarks

Operator:

Good day, ladies and gentlemen. Welcome to CIRCOR International's third-quarter 2014 financial results conference call. Today's call will be recorded. At this time, all participants have been placed in a listen-only mode. There will be an opportunity for questions and comments after the prepared remarks. (Operator Instructions). I'll now turn the call over to Mr. David Calusdian from Sharon Merrill for opening remarks and introductions. Please go ahead, sir.

Thank you and good morning everyone. On the call today is Scott Buckhout, CIRCOR's President and CEO, and Rajeev Bhalla, the Company's Chief Financial Officer. The slides we'll be referring to today are available on CIRCOR's website at www.CIRCOR.com, on the "Webcast and Presentations" section of the "Investors" link.

Please turn to Slide 2.

Today's discussion contains forward-looking statements that identify future expectations. These expectations are subject to known and unknown risks, uncertainties and other factors.

For a full discussion of these factors, the Company advises you to review CIRCOR's Form 10-K for 2013 and other SEC filings. The Company's filings are available on its website at

CIRCOR.com. Actual results could differ materially from those anticipated or implied by today's remarks. Any forward-looking statements only represent the Company’s views as of today, October 31, 2014. While CIRCOR may choose to update these forward-looking statements at a later date, the Company specifically disclaims any duty to do so.

On today’s call, management will often refer to adjusted operating income, adjusted operating margins, adjusted net income, adjusted EPS and free cash flow. These metrics exclude any pre-tax special charges and recoveries, restructuring inventory reserves and intangible impairments.

The reconciliation of CIRCOR’s non-GAAP metrics to the comparable GAAP measures are available in the financial tables of the earnings press release on CIRCOR’s website.

I will now turn the call over to Mr. Buckhout.

Scott Buckhout:

Thank you David and good morning everyone.

Our adjusted EPS for the quarter came in strong at 95 cents versus 93 cents last year. We expanded our adjusted operating margin by 30 basis points over a strong quarter in 2013. We continue to simplify CIRCOR and reduce the cost built into our current operating structure. Our simplification actions combined with our operational excellence program are expanding margins and simultaneously improving customer service.

Our revenue for the third quarter was $204 million, with orders of $242 million, including record bookings out of our Energy segment.

We continue to focus on revenue growth through new products, and expansion into new markets. During last quarter's call I told you about our new Zero Leak Turbine Bypass Valve for the power market. I am pleased to announce that our new valves were selected for a large coal liquefaction plant in Ningbo China.

Our new offices in Malaysia and Brazil are fully functioning now: staffed with sales people and application engineers to work with the EPC's and distributors in the region. Our team in Malaysia was instrumental in winning a Canadian Oil Sands project that is being managed by an EPC based in Southeast Asia. Overall, we are pleased with the progress we are making on our growth initiatives.

The restructuring we announced in April is progressing as planned. The third facility closure and G&A headcount reductions will be completed by the end of this year.

As we continue to drive operational excellence at CIRCOR, I have prioritized improving on-time-delivery to our customers. One of our root cause issues is supplier performance. We have made significant progress here with better supplier management; and supply base rationalization.

As a result of these actions and others, we are starting to see a favorable impact on our customer delivery; as well as an improvement in net material costs.

Finally, I am pleased to report that we've realized a 50% reduction in workforce injuries year-to-date, as we increase our focus on the health and safety of our employees.

With that, I'll turn the call over to Rajeev and come back later to provide more detail on recent order trends and our guidance for the fourth quarter.

Rajeev Bhalla:

Let's move right to the segment results starting with Energy on **Slide 4**.

Energy sales of $158 million decreased 6% over the prior year. This was primarily driven by lower sales at our large international projects business due to order intake in the first three quarters of last year. In addition we continue to experience an increased level of finished product not yet required by our customers due to project delays and deferred product inspections, as well as customer change orders. This decrease was partially offset by higher volumes in our upstream North American short-cycle business, as well as our downstream instrumentation businesses.

Energy's adjusted operating margin was up a strong 170 basis points to 16.9% primarily due to higher productivity, savings from our previously announced restructuring activities, and growth in our North American short-cycle business.

For the Aerospace & Defense segment, please turn to **Slide 5**.

Aerospace & Defense revenues decreased by $1 million from the prior year to $46 million primarily due to lower sales of landing gear structures partially offset by higher actuation shipments.

Aerospace & Defense adjusted operating margin decreased to 5.0% compared with 12% in the third quarter of last year primarily due to operational inefficiencies in exiting certain landing gear structures and the incremental costs associated with eliminating critical customer past due shipments in California.

Turn to **Slide 6** for selected P/L items.

Our all-in tax rate for Q3 was 22.8%. Excluding the impact of special and restructuring charges, the comparable tax rate was 24.7%. We expect our fourth-quarter adjusted rate to be between 26% and 27%.

Adjusted earnings per diluted share were 95 cents compared with 93 cents in the prior year. Restructuring savings, productivity and lower interest and tax expense more than offset the impact from lower volumes.

Slide 7 shows the special adjustments that we recorded during the third quarter. These include special charges of half a million dollars, primarily related to restructuring actions announced earlier in 2014. We benefited from the fact that we were able to sell one of the European facilities in lieu of shutting it down. In addition, we recorded a $2.9M restructuring charge related to the exit of certain structural landing gear product lines.

So overall, for Q4, we anticipate special charges related to restructuring actions, to be in the range of $3.0 million to $3.3 million, or $0.11 to $0.12 per share.

Turning to our cash flow and debt position on **Slide 8**.

We continue to generate solid cash flow and ended the first nine months of the year with $36 million of free cash flow.

With that, I'll turn it back over to Scott to provide an update on our orders and guidance for the fourth quarter of 2014.

Scott:

Thank you, Rajeev.

Let me start by providing an overview of our third-quarter order intake as well as current market trends.

Let's start with Energy.

As a reminder, approximately half of our Energy revenue is project related, which can lead to significant variations in order intake and revenue from one quarter to the next.

For Q3, Energy bookings were $198 million, up a strong 18% versus last year, and a record high for our Energy business. Bookings at our large international project business more than doubled versus last year with strong quoting activity and a higher win rate in the quarter.

Our upstream North American short-cycle business reported double digit orders growth year over year, driven largely by an increase in rig counts.

Power project quoting activity in emerging markets, especially Asia, remains strong. Our win rate has been gradually improving through the course of this year. On the other hand, demand in the North American and European Power segments has been weak.

In Aerospace & Defense, third quarter orders were down 21% year-over-year to $45 million driven by the exit of certain landing gear product lines, and a tough compare with large platform orders received last year.

Looking ahead to Q4.

At our large international project business, we expect the recent strength in orders to moderate due to the lumpy nature of our business; but, we do not currently expect any major shift in global CAPEX spend in the near term. While quoting activity overall is still good, we expect a moderate decline from recent quarters. Pricing remains positive.

In our upstream short cycle business, we expect the order run-rate to be up high single digits due to higher rig counts. Downstream short cycle is expected to remain positive globally, driving solid growth in our instrumentation and sampling businesses. We expect Power orders to grow moderately with strength in Asia projects partially offset by a flat market in North America and Europe.

As a final note on Q4, we are closely monitoring our customers' reactions to the recent oil price volatility as well as the timing of large project delivery dates, which has proven difficult to predict. At this stage we are not expecting a meaningful change in the trends we are currently seeing in our customer base, but we are prepared to react if it becomes necessary.

We expect that revenue from our Energy business will be up nicely in Q4 as we deliver on our backlog. In addition, we expect Energy margins will improve sequentially as a result of increased volume, as well as continued savings from restructuring and higher productivity.

In Aerospace & Defense, revenue should be in line with last year, with lower sales of landing gear offset by growth in our defense businesses. We expect margins to be in the mid-single digit range. Restructuring actions and the exit of landing gear structures are expected to improve margins next year.

That brings us to our guidance. We expect fourth-quarter revenue to be in the range of $210 to $225 million, with adjusted EPS in the range of $1.02 to $1.12.

I'd like to close by thanking all of you who attended our Investor Day in New York, where we discussed our overall strategy and financial goals. The slides and audio webcast from the day are up on our investor relations website.

As we discussed, CIRCOR is at an inflection point in its evolution from a holding company to a world-class operating company. We are in good end markets, with good products, good brands, and a global footprint.   We have a strong and experienced team that is committed to delivering on our objectives. We remain focused on growth, margin expansion, cash flow and disciplined capital deployment.

With that, Rajeev and I are available to take your questions.

After Q&A

Scott:

Thank you for your joining us this morning.