Twin Disc, Inc.

Fiscal 2022 First Quarter Conference Call

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CONFERENCE CALL PARTICIPANTS

Noah Kaye, *Oppenheimer*

Josh Chan, *Robert W. Baird & Co.*

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PRESENTATION

Operator

Greetings, and welcome to the Twin Disc Fiscal 2022 First Quarter Conference Call.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Stanley Berger. Please, go ahead, sir.

Stanley Berger

Thank you, Melissa. On behalf of the Management of Twin Disc, we are extremely pleased that you have taken the time to participate in our call, and thank you for joining us to discuss the Company's Fiscal 2022 first quarter financial results and business outlook.

Before introducing Management, I would like to remind everyone that certain statements made during this conference call, especially those that states Management's intentions, hopes, beliefs, expectations, or predictions for the future, are forward-looking statements. It is important to remember that the Company's actual results could differ materially from those projected in such forward-looking statements. Information concerning factors that could cause actual results to differ materially from those in the forward -looking statements are contained in the Company's annual report on Form 10-K, copies of which may be obtained by contacting either the Company or the SEC.

By now, you should have received a copy of the news release which was issued this morning before the market opened. If you have not received a copy, please call Annette Mianecki at 262-638-4000 and she will send you a copy.

Hosting the call today are John Batten, Twin Disc Chief Executive Officer, and Jeffrey Knutson, the Company's Vice President of Finance, Chief Financial Officer Treasurer, and Secretary at this time.

I will turn the call over to John Batten. John.

John Batten

Thank you, Stan, and good morning, everyone. Welcome to our Fiscal 2022 first quarter conference call. As usual, we will begin with a short summary statement and then we will be happy to take your questions. Before Jeff goes over the quarter results, I will touch on some of the operational highlights from the quarter.

As we mentioned in the press release, supply chain issues continue to cause delays due to trans-ocean—delayed trans-ocean containers, backlogged ports, trucking shortages, and general labor shortages. That easily accounted for $6 million in delayed shipments out of the quarter. This trend should continue through our second quarter and begin to ease this spring. Shipments from our new facility in Lufkin were the most impacted due to delayed containers from India.

On the bright side, orders in the first quarter continued their elevated pace and were driven by strong aftermarket demand across all product and markets with the exception of some land-based oil and gas new units, but aftermarket rebuild parts for North American oil and gas continued at an elevated pace. We are seeing more rebuilds in the North American oil and gas frack fleet.

New oil and gas unit shipments to Asia remain steady and should increase next calendar year. Projects in our global marine markets remain strong and we should see orders continuing to improve in Calendar 2022. The restructuring at our Belgian facility relates to the outsourcing of most of the machining operations not related to gear manufacturing. We have been successful in finding better value sources for shaft, machine castings, and other parts, and we will focus our labor on gear production and assembly and test.

With respect to the role of propeller manufacturing facility in Switzerland, we have been successful in outsourcing some of the five-axis machining to other sources, which has allowed us to reduce our footprint by almost 50% while increasing capacity.

Now, I’ll turn it over to Jeff to discuss the financials.

Jeffrey Knutson

Thank, John, and good morning, everyone. (Audio interference)

John Batten

Jeff, you're a little—you're garbled, jeff.

Jeffrey Knutson

(Audio interference)

John Batten

Jeff, I'll tell you what. Why don't you try—if you want to dial, I will read your script, and you can dial back in.

Jeffrey Knutson

I'll dial back in.

John Batten

Okay. While demand across our markets continues to improve, the quarter improvement in shipments from the prior year was limited by supply chain challenges across all our locations. We experienced a significant increase in lead times from our suppliers, increasingly unpredictable deliveries, and difficulty in getting shipping containers. These issues also challenged our customers, causing them to push out deliveries of our products.

Despite these challenges, industrial sales were up 13.1% and marine and propulsion sales up 1.8%, while transmission sales were essentially flat. By region, sales into North America were up 18%, and sales into Europe were up 2%, while sales in the Asia Pacific were down 9%.

Foreign currency exchange was a net positive of a $0.5 million impact to the sales in the first quarter. The first quarter margin percent was 28.2% compared to 21.0% in the prior-year first quarter. The first quarter benefited from the employee retention credit, which contributed $1.2 million to gross profit as well as a now subsidy in the Netherlands of $0.7 million.

Adjusting for these benefits, gross profit would have been 24.0%, still a significant year-over-year improvement, reflecting a more favorable sales mix driven by aftermarket activity in the North American oil and gas market and the positive impact of targeted cost reduction activities.

Spending on marketing engineering and administrative costs for the Fiscal '22 first quarter increased $600,000 or 5% compared to Fiscal '21. The increase in the quarter is primarily due to the return of a global bonus plan accrual, inflationary increases and a currency translation effect, partially offset by the favorable impact of the employee retention credit.

As a percentage of revenue for the first quarter, M&A expenses were 27.4% compared to 27.0% in the prior-year first quarter. While restructuring charges recorded in the quarter were minimal, we did complete the negotiations with our Belgian operation to finalize the cost for the restructuring project announced last quarter. We will book an additional charge of approximately $1 million in our second fiscal quarter bringing the total charge to $3.3 million. This restructuring program will result in the elimination of 23 positions and drive annual savings of approximately $1.6 million.

During the first quarter, we completed a sale-leaseback of our Swiss production facility for net proceeds of $9.1 million, resulting in a gain of $2.9 million recorded as other operating income. Including the gain on the sale of the facility, operating income for the quarter was a positive $3.2 million compared to an operating loss of $3.1 million in the prior first quarter. The effective tax rate for the quarter of Fiscal 2022 was 16.2% compared to 19.1% in the prior first quarter. The current year rate was impacted by the domestic full valuation allowance resulting in limited recognition of tax expense.

The net profit for the first quarter of Fiscal 22 is $1.9 million or $0.14 per diluted share compared to a loss of $4 million or $0.30 per diluted share in the prior-year first quarter. EBITDA of $5.4 million for the quarter was improved from a loss of $1.6 million in the prior first quarter.

Turning to the balance sheet, inventory was up $6.1 million in the quarter, driven by supply chain imbalances. With continued focus on liquidity and cash flow we were able to generate $2.4 million of operating cash in the quarter bringing free cash flow to positive $1.5 million. Capital spending at $800,000 for the quarter is off to a slow start for the fiscal year but should increase in Calendar 2022.

As we worked through a very challenging 12 to 18 months, we focused on preserving liquidity and deferred all known non-essential capital spending. This will result in some catch-up spending in Fiscal 2022, where we expect to invest $9 million to $11 million while monitoring the ongoing market recovery for any pauses or setbacks.

Now, I'll just go over just some final comments. With COVID cases and COVID spread remaining a concern, at least in our subset of the universe, we see the severity of the pandemic waning significantly; people are testing positive with the variants, but they are not getting as sick. Despite the current supply chain issues, we feel that Fiscal 2022 will be a much-improved year. Demand in our market should continue to improve for several quarters to come. Our concerns are no different than everyone else's, supply of parts and labor, and we are managing these issues daily.

A final thought is a big thank you to our employees, customers, and suppliers. This quarter is very much a continuation of the previous quarters with respect to stress levels, managing new issues every day, and doing the best you can for our end customers while managing scarce resources. Thank you for continuing to show up every day and make things happen.

That concludes our prepared remarks. Now Jeff and I will be happy to take your questions. Melissa, please open the line for questions

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Operator

Thank you. Our first question comes from the line of Noah Kaye with Oppenheimer. Please proceed with your question.

Noah Kaye

All right, good morning. Thanks for taking the questions, and Jeff, it's good to have you back. Just to start out with around the supply chain, talking to a lot of companies, they say what they're doing right now is basically whack-a-mole, right, where if it's not containers, it's components. If it's not components, it's something else. Can you talk a little bit how you're managing through the supply chain pressures right now? Some of the strategies that you're employing, whether it's dual sourcing or any other color you can provide.

What I think, with that respect, is some confidence that (inaudible) may be easing as we look out for the back half of the year.

John Batten

Noah, yes, it's John. It is very much whack-a-mole. At the end of the day, it's all labor hours related. Your suppliers not having enough people to get as much product as the demand, and their suppliers and then the shipping issues, very much labor-related at foreign ports, domestic ports, staffs on in the global merchant marine fleet, and then just the number of available drivers here in the U.S to move stuff around. I think what we've seen in our is that the issues still exist but that it's stabilized.

You saw an average time for a container to get from India to the U.S. It used to be six weeks, but it basically has doubled over the last couple quarters, but it's stabilized, and it's actually starting to get a little bit better. In general, I would say that it all comes down to whatever supplier it is or who's moving the product. All labor-related. All seems to be getting better. COVID seems to be stabilizing.

Your question on dual sourcing, absolutely doing that. For a lot of our key components, at one time, they were all sourced in the U.S. We have offshore sources, so you have one foot in each canoe. We can go back and forth. In general, the cost from some of the components coming from India is less expensive, but we can still get it in the U.S. There are very real, I would say, capacity constraints. If you're going to a bearing house for bearings, you can't get 100% of what you want. Maybe you can get 80%, 85%.

The big thing that we're focusing on, though, is making sure that we're all on the same page so that the 80% that we're asking for for the bearings, that we've prioritized those products, completing those units so that the same 80% at a Timken or SKF is going to be the same 80% that we're giving as a priority list to a foundry or a casting supplier.

Right now, it's very much every day, and it's stabilized. I don't think it's going to—at least, in our supply chain, I don't think it's necessarily going to get worse. It's actually starting to get better and at least more predictable, if that helps.

Noah Kaye

It does help, thanks. Then that really turns to a question about your current inventory balances and the extent to which that reflects higher work in progress versus finished. How do you think about the timing of some of these cost pressures embedded in this inventory flowing into cost? The real question is, are we looking at maybe some sequential cost headwinds, or do you feel like the price cost is going to improve?

John Batten

You hit an issue right away. It's a lot of the inventory increase was actually work in process as we waited for key components. Very much like the images of the Ford F-150s sitting in the lot waiting for chips, very much. Not to the same magnitude, but we already sent the cash out for the raw material. We finished it and are waiting for some components. That's a big part. We also had some transmissions that we had to delay to a customer because they couldn't get engines. It's a combination of things, but it is getting better. Things like that we're hearing from some of our customers don't ship. They see Calendar 2022 improving for them as well, so we'll ramp back up. Yes, right now, it's a little bit of everything. It's different issues every day but same trends. In general, I would say it's stabilizing, more predictable, and we should start to see things get better.

Noah Kaye

Yes, and so feeding into the cost question (inaudible)

John Batten

We've been getting price increases. We had, I would say, essentially across the board on July 1 and then October 1, we announced more pricing for January 1. We're not waiting. As we see the costs come in, we're rolling it up, seeing what the impact is on us, and making sure that we get our pricing out as quickly as possible.

Noah Kaye

Okay, maybe just a quick final one. It seems like dynamic gas blending is going to become just pretty compelling as some of these fleets are repowering. It's still obviously something just around e-fracking.

Can you outline for us where you're at in terms of your collaborations around some of those alternative fuels and the extent of what you're seeing that to be a part of your mix?

John Batten

We have some units going in that are going to be starting up in e-frack. There's been a lot of talk about e-frack. I know there are spreads out there. They have issues like any other new technology. We're really not—I would say the dual-fuel, the transmission doesn't care what fuel it is. Still see most of the activity and dollars, Capex spending being done rebuilding fleets. Again, I think there'd be more activity in new unit builds, more activity just in general, but we're also in that market facing a labor shortage.

Hopefully, that begins to ease, but certainly, if you can imagine, the phone's ringing a lot more now than it was three to six months ago. It looks like the price of oil and gas—almost important for us is the natural gas price because that plays right into our high horsepower transmission, the 8500. As these prices stay elevated, you're going to see more and more rebuild activity, and I think you'll start to see some new unit activity soon.

Noah Kaye

Okay, thanks so much. I'll turn it over.

John Batten

Thanks, Noah.

Operator

Thank you. Our next question comes from the line of Josh Chan with Baird. Please proceed with your question.

Josh Chan

Hi, good morning, John and Jeff

John Batten

Hey, morning, Josh.

Josh Chan

Good morning. Following that same line of logic, as you look at the customers, how are you thinking about the field inventory within pressure pumping? Is there this dynamic where customers would actually forego the idle equipment and pursue new equipment because of various benefits, or how are you seeing that dynamic play out?

John Batten

I think we're beginning to see that. I think we've also seen some acquisitions happen, some players buying some other players to get equipment they're familiar with. But in general, we are getting to the point where some stuff either needs to be rebuilt again right now or replaced. The activities is increasing. We're getting closer, but I can't say that as of right now we've seen the ordering activity for new units like we did a few years ago. Definitely, a lot more discussions around it and timing, but I'd also stress that labor is a bit of an issue here as well. Yes, it takes—you just can't—I would say there are quite a few players in the planning stage, they haven't pulled the trigger yet.

Josh Chan

Okay. Then, how are they talking about the timeline or the urgency because I think there's some expectation that maybe in the turn of the calendar year, there will be a bit more desire to spend, but how are the customers talking about the timeline? Is it still fluid at this point?

John Batten

I think they're looking at access to equipment parts, supply labour, and funding. There's three balls in the air, and I'm sure they're working as hard on labor and funding as they are for what's available to build. We're in a very good position to supply so we can react very quickly. I'm hoping that something pops soon that we can talk about.

Josh Chan

Yes, that's true. That's a lot of things to manage there. If we can switch over to the marine business. It seems like it started to grow again but off of a pretty low base. Could you talk about what you think the outlook there is and how much growth that there could be in marine this year?

John Batten

Well, good question. I think in normal times that there weren't supply chain issues and chip issues, a lot of what we're seeing is repowering activity. I'm hopeful that there's inventory available on the engine side. Again, there was a lot of entrenched inventory at our North American distributor base in marine transmissions. They have worked through that very nicely over the last 12 months so we're starting to see replacement orders.

The market in Europe didn't come down for as much for us as it did in North America, meaning there was market activity, but our distributors had so much inventory they could sell out of inventory. We're starting to see more orders across the board for our transmissions built in Racine and in Belgium, and in Italy. I'm pretty confident that this trend is going to continue just as—in Europe, a lot of our volume is based on inland passenger vessel, inland the river cruises. As that post-COVID activity starts to pick up, we'll see more activity there. Certainly, moving in general inland marine here in North America is very much reflective of the overall economy and still moving goods all over the country. We see the demand there improving throughout the calendar year. I don't know if I could give you a percentage, but it should be a significant part of our growth in dollar amount in Calendar '22.

Josh Chan

Okay, yes, that's good to hear. Lastly, it's good to see that you feel better about spending. What kind of initiatives or maybe new products are you planning with the Capex or even the Opex spend increases this year?

John Batten

As we announced with Belgium, it's very similar to what we did here in Racine 20-plus years ago. Really, in Racine here we focused on gear production and machining complex housings. In Belgium, we very much, we machined everything, and we decided that we were just going to focus on, as we reinvest in the

Belgian operations, it would be just in gear cutting and assembly and test, so the manufacturing of the gears and we're able to find sources for our shafts and our housings.

In Belgium, the size of the units are a little bit smaller, but the volumes per model are bigger. That was a little bit easier to do to find suppliers who are interested in that volume. In Racine, the larger workboat transmissions, much higher dollar content, lower volume, more variability. I think we're finding that we may end up investing more, again, recapitalization in the gear area, but also putting some assets on the shaft. It's very much, we're going to focus on capability and quantity and being able to deliver, and then we have some investments in Lufkin for test stands and things like that.

It's not necessarily on machine tools. It's on testing and safety equipment and capability we'll be investing, I would say, significantly more in the hybrid electrification area as we ramp up those types of things. Those are the areas that we're focused on right now, and then it will be around a little bit in Europe, a little bit more in the United States.

Josh Chan

That's great. Yes, thanks for the color there, and good luck in the rest of the year.

John Batten

All right. Thanks, Josh.

Operator

Thank you. Our next question comes from lion of Rand Gesing with Neuberger Berman. Please proceed with your question.

Rand Gesing

Hey.

John Batten

Hi, Rand.

Rand Gesing

How are you guys? If we look at the backlog, are you seeing growth across the board? You may have mentioned that. Just give a sense for how much of it is rebuilds versus around the broader portfolio.

John Batten

Oh, Jeff. Yes, so, Randy, the backlog has increased across the board in all markets. In oil and gas, the unit backlog still remains predominantly for Asia, but the aftermarket spare parts, there is definitely a big component there for North America, which is the precursor to units. Don't have a significant backlog at all for units for North America yet, but that's probably coming. The backlog, when I look at the backlog, I smile. It's significantly better than it was a year ago.

Rand Gesing

I know you mentioned inland barge, and yes, I know that with the (inaudible) with steel prices, there is demand to put new barges in, but the steel prices are being delayed. For you guys, is that business really more aftermarket, or would you benefit if we get back to (inaudible) barge fleet?

John Batten

If they were building new vessels, I think that would help our market even more, but a lot of what's happening, and to your point, it's very cost-prohibitive to build a new vessel, but you're seeing a lot of repowers, and that's probably—I don't know if we do a good enough job or anybody does explaining that a lot of the big marine engines and marine gears that are sold into the North American fleet go into re-power.

You take a 50-year-old hull, and they may be on their third engine and gearbox because the average age of the North American fleet—I wish I had a sales guy here—but it's significantly older than in other places in the—significantly older than in Europe. I venture to say that the fleet age in Asia and South America is probably older, but when you look at the European fleet in general, much newer vessels. You have just as modern engines in the North American fleet, but they're in older hulls.

Rand Gesing

Okay. Just getting your help and insight into trying to figure this labor issue out. It's across the board. I think in the summer, one of the leading thesis was that people were taking stimulus, and once that came off, that people were going to be coming back and looking for something to do. I just don't think that—I think it's something much more structural, and you're in a key place to opine on that because you have the Amazon effect, and I just feel like there's different employers that are hoovering up these people that you would typically be hiring to go into Lufkin or what have you. What's your sense for what's going on, and how you are going to be able to deal with it longer term?

John Batten

Again, Rand, you know us well, I'll speak for our subset of the universe, which is just under 1,000 employees in a planet of seven billion, so take that for what it's worth. The issue seems a little bit more constrained. The labor issues seem more painful in the U.S than in other markets. Although there's shortages around the world, but it just seems when you're looking for employees in the U.S, it's just the landscape. It seems a little bit scarcer. Definitely more challenging, I would say, for us in Racine, which, we're on the shore of Lake Michigan between Milwaukee and Chicago. The radius that you have to attract employee—you can't go east because you'll just be hiring fish. You have to go north and west, and you double the radius, and there are a lot of businesses here. Amazon's moved in. There are a lot of businesses that are in that $20 plus an hour range. What we do is complicated, and regardless of the position, whether you're machining something, assembling something, or just moving inventory, you're doing something different every minute of the day. It's a bit more complicated than other jobs that you can get for $20 an hour.

A little bit better in Lufkin, made better by companies vacating the area, and you just had a workforce that was trained up in very much the things that we do. We have more jobs in Racine, but there's more availability in Lufkin, so we're trying to balance out are there things… For instance, we've moved the industrial product out of Racine down to Lufkin to help with the group in Racine so they can focus on doing more things. We're probably moving another product line to Italy where we can find labor; we can find sources to make the product line more competitive there. Again, they won't be getting rid of anybody in Racine because there's a lot of stuff that we need to do in Racine.

In the salaried ranks, again, very similar. I think I've been talking about this with other execs in the area. You've definitely seen a trend where people in the mid-management, making lifestyle changes and choices about less responsibility and less salary. I may want to do something else that, again, find a job in an industry where I can work from home 100%. We are very much—guys and girls in our shop floor, they have to be here every day. We have to receive material, assemble it, get it out, ship it and we've got a salaried staff that is equally dedicated to making that happen, but I think, Rand, you've seen, last 12 months to 18 months, everything changed, and there are opportunities for different positions in different industries to work 100% remote. We can do that in some areas, but in a lot of areas, you've got to be here, and so that is very much a change.

I don't know what the overall effects are. I know that there's been a lot of turnover everywhere. We've had some—I think we're doing a pretty good job, but we can always do better. It will continue to be a struggle. Our HR department is very, very busy. Yes, and sorry for my long answer.

Rand Gesing

No, I love it. Is that what went on with the president or was that just a natural age-out?

John Batten

President, no, Jim always said he was going to retire. There were some, I think some things in his personal life that changed that made—of course, I had hoped… Jim is a great person, great employee. I had hoped that we would be able to keep him for another year, but he had some other things that he wanted to do, and we fully supported that. We'll have an announcement here in the next couple weeks, but he coached and mentored a fantastic team underneath him. Let's just say he accomplished everything that I wanted to do in three to four years; he got it done in two, two and a half. We wish him all the best. We just had dinner with him Wednesday night. You'll see some key additions on our Management team here in the near future.

Rand Gesing

Okay. On the labor, just getting new people in and stuff, do you think you just have to increase what you're paying and then roll that through the inflation to customers or what's the …

John Batten

Absolutely. There's no hourly—our base hourly rate has probably gone up 10%, 15%, maybe more. I'm trying the math in my head very quickly. Again, that was obviously—we've had, as I mentioned, two price increases, we've rolled that in. I think you're going to see, again, another hard look. We're meeting again on it next week. We're going to have to invest in capital and efficiency, understanding that even if we wanted to increase our hourly headcount by 10%, 20%, we can't. We can't bank on that.

You're going to see us investing again another wave of investing in fairly expensive machining centers that can take the place of two or three because the clock is ticking. We have very talented experienced machinists, and who are probably going to retire in five years, so we have to get this stuff in and beat that curve. I think the trend that you'll see is, again, a focus on capital that can do what multiple pieces of machinery and people were doing, Rand, out of sheer necessity.

Rand Gesing

Will 3D printing play a role there or?

John Batten

3D printing, it plays a role on some of our prototyping and some of our, I would say, parts that we buy from suppliers. Yes, 3D printing is going to—whether we're doing it in-house or contracting it, that is absolutely going to play a role in the future, along with we'll be investing in—we have the new ERP journey coming up, and so I'm hoping that the next generation of ERP that we go to truly will have that transformational effect of allowing people to step back from many of the transactional duties that they do every day into more fun things like analysis and thinking.

Yes, it's going to be a technology for everyone. It's going to be investment in technology, understanding that you're just not going to—you can't rely on sheer numbers of people to do what you did before.

Rand Gesing

Okay. Back to oil and gas, you mentioned a number of factors, but you left off the list, which is what I think is like the biggest overlay. On our team, I'm the industrial guy. We have an energy guy, and we're just battling. He's telling me there's just no way in hell that oil and gas EMP companies are going to take Capex up because they've gotten religion, all their shareholder base doesn't want them to grow and invest Capex. They want this price to throw flow through and free cash flow to come to the shareholders. He's just like, there's no way there.

We're seeing the units, and I'm saying, well, these commodity prices are high. We're going to see—they always spend, and we're going to see it, but I think it's critical for what your next two years looks like. If you just get rebuilds and flatline versus you could be up 10%, 15% this year, and then 20% next year would be the way that would be awesome for Twin Disc. Do you have any insight at all as to …?

John Batten

I agree with you that—I highly doubt we will ever see a wave of capital spending the way we did three years ago and what, three, five—so I think you said religion. I think their shareholders and everyone, but there comes a point—but I think it won't be that huge wave where you were seeing 3x, 5x versus what they were doing the year before. I do think you can expect some 10%, 15% increases for Twin in their capital spending which would mean significantly more. You could see that for us based on shipments.

We subscribe, and we understand the move towards hybridization electrification, but we also understand that natural gas is very much a significant part of that transition source of energy, source of power. I'm telling you right now, Rand, that the existing fleet is not going to last another year or two years without some attention. There will have to be some replacement and some rebuild activity, but you just won't see that 2017-18 spike. It's just not going to be. I agree with you. I think I agree with you on both fronts.

Rand Gesing

Okay. If anything, your competitive position, if there's going to be spends on transmission versus three or four years ago, are you guys much better positioned, a little better positioned, or still the same?

John Batten

I think we're better positioned because we kept inventory at the last (inaudible) I highly doubt anybody could react faster than we could.

Rand Gesing

Yes. All right, we'll see. Well, good to catch up. Thanks for taking the time.

John Batten

All right, thanks, Rand.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Mr. Batten for any final comments.

John Batten

All right. Thank you, Melissa, and thank you for joining our conference call today.

We appreciate your continuing interest in Twin Disc and hope that we have answered all of your questions. If not please, feel free to call either Jeff or myself, and we will get your question answered as quickly as possible. We look forward to speaking with you again following the close of our Fiscal 2022 second quarter.

Melissa, I'll now turn the call back to you.

Operator

Thank you. Ladies and gentlemen, this concludes our call. Thank you for your participation. You may now disconnect your lines.