GRACO INC., #4323043
SECOND QUARTER 2010 EARNINGS CALL
July 22, 2010, 11:00 AM ET
Chairperson: Pam Steinkraus (Mgmt.)

Operator: Good morning and welcome to the Second Quarter 2010 Conference Call for Graco Inc. If you wish to access the replay for this call, you may do so by dialing 1-800-406-7325 within the United States or Canada. The dial-in number for international callers is (303) 590-3030. The conference ID is 4323043. The replay will be available through July 25th, 2010. Graco has additional information available in PowerPoint slide presentation which is available as part of the webcast player. At the request of the company, we'll be open for… open the conference up for questions and answers after the opening remarks from Management.

During this call, various remarks may be made by Management about their expectations and prospects for the future. These remarks constitute forward-looking statements for the purposes of the Safe Harbor provisions of the Private Securities Legislation Reform Act. Actual results may differ materially from those indicated as a result of various risk factors. (Inaudible) identified in Item 1A of Exhibit 99 to the company's 2009 Annual Report on Form 10-K. This report is available on the company's website at www.graco.com and the SEC's website at www.sec.gov. Forward-looking statements reflect Management's current views and speak only as of the time they are made. The company undertakes no obligation to update these statements in light of new information or future events.

If any participant has difficulty hearing the presentation, please press the star followed by the zero on your telephone for operator assistance.

I would now like to turn the conference over to Caroline Chambers, Vice President and Controller. Please go ahead.

Caroline Chambers: Good morning and welcome to everyone. I'm here this morning with Pat McHale and Jim Graner. I'll provide some comments on the financial highlights of our second quarter and Pat will follow with additional comments. PowerPoint slides are also available to accompany our call and can be found on our website. The slides include information about our consolidated financial results and each of the segments. After opening comments, we will open up the call for your questions.

Net sales were up 30% to 192 million for the quarter. Sales increased in all divisions and regions with significant growth continuing in Asia Pacific and solid growth in both the Americas and Europe. Operating earnings as a percentage of sales were 20%, up from 12 % a year ago with net earnings totaling 25 million.

Currency translation did not have a significant effect on the quarter as changes in the Asian currencies and Canadian dollar offset changes in the Euro. The overall year-to-date growth rate of 25% included 2 percentage points from translation, primarily from currencies in Asia Pacific.

Our gross profit margin as a percentage of sales was 53% as compared to 49% in the second quarter of last year. The improvement from last year was primarily due to higher production volumes. In Q2, our factories were running at about 85% of prior peak production as compared to approximately 55% a year ago. Approximately $1 million of additional production costs were incurred in the second quarter related to new products, primarily in the contractor segment. Operating expenses for the quarter increased by 8 million as compared to last year. As a percentage of sales, operating expenses were 4% lower than last year.

As expected, volume-related items are resetting from last year. Strong operating results drove higher incentive and bonus provisions in the second quarter which expense approximately 3 million higher than the first quarter of this year. For the full year, we expect that the incentive and bonus expense will be 15 to 20 million higher than last year.

Marketing and selling expense related to new product launches increased by approximately 1 million as compared to the prior quarter, primarily in the contractor segment.

In the industrial segment, we did not see the same tailwind from currency translation in the second quarter that we saw in the first quarter. With continuing acceleration in sales growth, we also saw increases in volume-related expenses, primarily incentive and bonus provisions.

Year-to-date tax rate was 35% as compared to 32% last year. The federal R&D tax credit has now been renewed so far in 2010 and no benefit is included in the current rate. We currently continue to have a full-year expectation of a tax rate of 34%.

Year-to-date, cashflow from operations was 28 million as compared to 69 million last year. Our working capital investment increased in line with our increasing volume. Year-to-date, inventories have increased by 18 million with an improvement in turns and accounts receivable have increased by 37 million with consistent days of sales outstanding. Year-to-date, primary cash uses have been in capital expenditures of 6 million, dividends of 24 million and repayment of long-term debt of 6 million. We also had share repurchases in the second quarter that totaled 10 million including 6.5 million that actually settled in the third quarter. We will continue to repurchase shares on an opportunistic basis going forward.

On the financing side, our long-term debt totaled 80 million at the end of the second quarter with unused credit lines of 178 million.

With that, I'll turn it over to Pat for additional comments.

Patrick McHale: Good morning. In the second quarter we had 30% revenue growth compared to the second quarter of last year and 17% growth compared to Q1 of this year. The 17% sequential growth from Q1 to Q2 was generally in line with the historical patterns. Compared to the first quarter, we saw single digit growth in our Industrial and Lube segments and strong 40%+ growth in our Contractor segment driven largely by seasonality, successful new products and good performance out of Europe and Asia.

Our incoming order rate in the second quarter was solid with backlog increasing approximately 4 million from the end of the first quarter.

Sales in Europe were up 27% versus the second quarter of 2009 and although the health of end markets varies considerably across Europe and construction is particularly weak in some areas, we are confident opportunities exist to generate growth in every segment and in the second quarter we achieved double digit growth across all major product categories. Revenue in Western Europe was up strong double digits from Q2 2009 and growth rates in Eastern Europe were even higher.

Asia Pacific had another good quarter with consistent double digit increases across most product lines and countries. Japan was the only weak area and declined versus Q2 of last year. In Asia Pacific, this quarter was higher than our pre-recession Q2 peak as was also the case in Q1.

We also saw good growth in the Americas. In North America all segments were up double digits compared to last year. Our Industrial segment performed well as end market conditions and our customers' appetite for capital equipment spending is much improved versus last year. New products in Industrial are being well received and we have a good pipeline that we'll launch in the second half as well.

The Lubrication segment achieved double digit growth compared to last year. Growth in industrial lubrication was strong. The vehicle services lubrication market remains challenging although we did see modest growth in that segment as well.

In Contractor, North America, the pro paint business was up strong double digits driven almost completely by successful new product launches. Base business in pro paint remains depressed due to market conditions in both residential and commercial construction. The home center business was down double digit compared to Q2 of last year. Q2 of 2009 included new store launches, making the comparisons difficult. For the year, the home center business is essentially flat. Channel inventory in both pro and home center appears to be stable with no evidence of significant restocking as of yet.

In Latin America, off a small base, we again posted gains in the high double digit range and exceeded our pre-recession peak.

Gross margins were solid at 53% for the quarter, up from 49.5 last year but down slightly from Q1 due mainly to mix. In our Contractor business, we continue to see higher sales on lower priced, lower margin offerings. Operating margins in Industrial and Lubrication are significantly improved compared to last year's second quarter and are in line with Q1 on similar volumes. Contractor operating margins improved substantially from Q1 on higher volumes but are below prior year primarily due to costs associated with major new product roll outs. We anticipate further roll-out expenses associated with new products in Q3.

Excluding the return of incentive payments, incremental operating margins are as expected on base business increases. The extent that revenue increases were driven by new products, the incremental operating margins were lower. New products require substantial up front investments in selling, marketing, manufacturing and engineering to be brought to market. Most of the growth from Q1 to Q2 came from Contractor and specifically from new products. Profit contribution of the new products will normalize as the early launch costs roll off and manufacturing process improvements are implemented.

We continue to invest in our key growth strategies during the quarter; developing new products, recruiting and training international sales people and selectively increasing distribution coverage. These strategies have been delivering as evidenced by the quick return past-peak in Asia Pacific and Latin America and strong growth in the developing areas of Europe. The new products launched this year have also been well received in the marketplace and are contributing to revenue growth. Our new product sales as a percentage of the total increased to 28% in Q2 versus 26% for the full-year of 2009. We continue to anticipate new product spending in the range of $40 million for the year. In certain categories, we are putting more product development resources into new markets and less into product upgrades and line extensions. We believe this shift will drive better long-term growth, although it will have a short-term dampening effect on this particular metric.

Products released in Q1 and Q2 have contributed nicely to our results and we have additional new products planned to launch in the second half of this year.

Priorities for cash continue to be finding organic growth opportunities, making strategic acquisitions and returning cash to shareholders through dividends and share repurchases.

In terms of outlook, we believe the global economy will continue to recover and while we don't expect Asia Pacific will continue with the period-over-period growth rates we saw in the first half because of tougher comparisons for the rest of the year, we are positive about the near-term outlook for Asia Pacific and expect solid performance in 2010. We also anticipate continued good performance from Europe. The painfully slow recovery in the US housing market and difficult conditions in the US commercial construction market will create challenges for our Contractor division. In order to achieve reasonable growth rates, our Contractor, North America business this year will need to continue to find success with new products and initiatives.

This concludes my prepared remarks. I now ask the operator to open the session to Q&A.

Operator: Thank you. The question and answer session will begin at this time. If any parties would like to ask a question, please press the star followed by the one on your telephone. If you wish to cancel this request, please press the star followed by the two. Your question will be taken in the order that it is received. Please stand by for your first question.

Thank you. Our first question comes from Kevin Maczka from BB&T Capital Markets. Please go ahead.

Kevin Maczka: Good morning.

Patrick McHale: Good morning Kevin.

Jim Graner: Good morning Kevin.

Kevin Maczka: Pat, I guess first can I just clarify a comment in the press release about the Contractor business? You say there that you're looking for modest improvement in the Americas and Europe in the back half. Is that true of the segment as a whole and are you talking about sequential improvement from here or on a year-over-year basis?

Patrick McHale: Well, you know, second quarters are typically the highest quarter in Contractor just due to the painting season so when we talk about modest improvement, I talk really about modest improvement in end market conditions compared to last year at the same time.

Kevin Maczka: Got it. And last year Q2 and Q3 were both similar margins in that business, about 20%. With the ongoing new product roll-out cost, how should be think about margins there as we go forward? Is the Q2 run rate, you know, maybe a high water mark because revenues will be lower but we still have these new product roll-out costs coming through?

Jim Graner: Kevin, this is Jim. We're expecting a slightly better margin in the third quarter on the new products as our production… our one-time production costs become smaller and the sales pick up slightly on the new product side. So if you put that together with the seasonality maybe we're flat to a modest improvement.

Kevin Maczka: Okay and then maybe just one more if I could, I'll get back in line, but just kind of a high level question. Just interested in where you're seeing the growth in places like Contractor and Lube? Is this all new product because, again, Contractor is heavily exposed to res and non-res which, you know, doesn't look that great at the moment and Lube, a lot of exposure there to vehicle service stations which it doesn't feel like a 27% growth world we're living in there either. Is this all new products or I guess where is the growth coming from here in these if it's not the new products?

Patrick McHale: Sure. In Contractor, it's mainly coming from the new product and, you know, we've been talking for the last 18 to 24 months about the ramp up we did in product development across the organization and we expect to see the results of that in 2010 and I think we are and will and really new products grow the Contractor business.

On the Lube side, even though the base is small we've had some really nice growth in Europe and Asia and that's helped the overall worldwide lubrication numbers showing the kind of… the numbers you're talking about. In North America we've got more modest numbers, really not driven by new product, really driven by I think slight increases in health of end market condition. But primarily in Lube it's the international story.

Kevin Maczka: And you said, Pat, you're not seeing any signs of, you know, the headlines we see about China perhaps tapping the brakes, things like that. You're not seeing that but of course the comps get more difficult and are you also not seeing any signs that concern you in Europe as well?

Patrick McHale: You know, I mean if you want to look for things to be concerned about you can spend you're… a lot of time finding things. I guess, you know, in general I'm not overly concerned about Europe. I think it's going to be spotty and we need to make sure that we're going where the opportunities are good but I think overall the second half in Europe is going to be fine.

China is trying to tap the brakes a bit. They've done that… tried to do that many times in the past with minimal success and although they may slow it down a little bit, our team feels pretty good about the next few quarters and that there's not going to be a big meaningful change there from the government.

Kevin Maczka: Okay, great. Thank you.

Operator: Thank you. Our next question comes from Charles Brady from BMO Capital Markets. Please go ahead.

Charles Brady: Okay, thanks. In regards to the product cost mix/price breakout on the three segments, you know, if I look at Industrial equipment, third quarter last year had a pretty +6% favorable. This year you've got another 2%

favorable. How much looking to the back half of this year do you think you get more on that line item? Is it being driven by the majority of one of those three items in that line item?

Jim Graner: I think it's really driven by the product cost and pricing for the most part in that segment.

Charles Brady: Is it fair to say that the number of new products you're getting, that that pricing… you're obviously getting better pricing on the new products and that's what driving some of that new pricing and if I back that out, how does pricing on legacy products compare?

Jim Graner: I would say that you're assumption is not correct. So we're getting good pricing and we did increase prices this year on our existing products so the price I'm talking about comes both from existing products and new products.

Charles Brady: Okay. And if we just drill down to the Lubrication equipment, on that one line item that was a 9% favorable in this quarter which is a pretty strong number. I'm just trying to… what really drove that 9% in Lubrication?

Jim Graner: That's… the majority of that is cost reduction. Again, if you recall at this time last year we were having some issues in our factory specifically with regards to acquired products so the cost changes and the improvements the factory was able to deliver in the third and fourth quarter of last year are… as well as this year to-date, are really rolling up into that 9% number. So it's really straight… quite strong performance out of that group on the cost side.

Charles Brady: And that ought to be sustainable into the back half of the year, correct? In other words, what's this level? It's permanent (inaudible) backtrack from that.

Jim Graner: It is not, no. That's solid improvement, solid process changes, solid use of automation in that factory.

Charles Brady: Thanks. I'll hop back in the queue.

Operator: Thank you. Our next question comes from Mike Halloran from Robert W. Baird. Please go ahead.

Mike Halloran: Morning.

Pat McHale: Morning.

Mike Halloran: On the incentive costs that rolled back in this quarter—I think you said it was about 3 million—is that allocated back to the various divisions and if so, how is that allocated back?

Jim Graner: Yes it is allocated back and again it's calculation by individual so the sales people on those respective units' increases and incentives are charged to those specific segment costs. The 3 million number that you're calling out is the delta between the first quarter and the second quarter.

Mike Halloran: Mm-hmm.

Jim Graner: The absolute numbers are 3 million in the first quarter and 6 million in the second quarter, and then Caroline gave you a forecast of where we expect we might be for the year.

Mike Halloran: Right. And I was trying to drive down into the delta between the first-second quarter and the Industrial margin. I'm assuming that that's almost fully the explanation for why there's a 200 basis points sequential decline but despite a little bit better sales sequentially is going to be driven by this incentive comp and so I was just curious how much of that 3 million gets allocated to the Industrial side versus the Contractor side and the Lube side.

Jim Graner: I'll answer it that 2 million of the 6 million in the second quarter went to the Industrial segment.

Mike Halloran: Okay. So from your perspective that explains the move… the lower sequential margins.

Jim Graner: It does, yes.

Mike Halloran: And then staying on the Industrial side, just from the sequential standpoint, what sort of typical sequential growth would you expect second to third quarter? You know, I'm a little uncertain from your outlook section in the press release but I just wanted to make sure I understood what your expectations were from a sequential standpoint and whether in the Industrial side and whether the end market improvements you were referring to were solely on the Contractor side or also referred to the Industrial side.

Jim Graner: I think the end market comments are really for the total company.

Mike Halloran: Mm-hmm.

Jim Graner: The… if you go back to when we were in a normal cycle rather than the new normal, Industrial was 48-52; 48% first half, 52 second.

Mike Halloran: Mm-hmm.

Jim Graner: Second half I don't know where we're at in the cycle. My expectations are that we should continue to see some good growth out of the industrial global economy.

Mike Halloran: Thanks for the time.

Operator: Thank you. Our next question comes from Ned Borland from Hudson Securities. Please go ahead.

Ned Borland: Hi, good morning. Just to clarify again on the incentives, you said year-to-date the delta is at 6 million for the year, it's going to be 15 to 20 million so you've got an additional 9 to 14 million in the back half of the year. Is that…?

Jim Graner: Let me try again.

Ned Borland: Okay.

Jim Graner: So the… for the first six months, Ned, we're at 9 million.

Ned Borland: Okay.

Jim Graner: And for the year at our current run rate we would be accruing 18 million versus 3 million last year. Most the three million in expense last year was recorded in the second half due to the cycle of how the improvements came. The 6 million is the second quarter versus 3 million in the first quarter as our sales trends continue to accelerate.

Ned Borland: Okay, so… all right. I think I got it. Then on the new product pipeline, you have launches coming in the back half of the year. Anything of the magnitude that you've seen so far in the first half of the year?

Patrick McHale: Well I think, you know, on the Industrial side I think our new product launches are spread fairly evenly throughout the year so I would expect it to be as good in the second half. Probably the same for Lube, maybe even a little better because some of their nice products were launched here late in the first half. With the Contractor business where we had some real nice success, it's really going to depend on what the sell-through is and early indications are that the sell-through looks pretty good so we're hoping at least here for the next few months of the key painting season we're going to continue to see a nice success on products that we had launched here in Q2.

Ned Borland: Okay. Thanks.

Operator: Thank you. Our next question comes from Matt Summerville from Key Bank. Please go ahead.

Matt Summerville: Morning. A couple of questions. First, within the Contractor business, over the last couple of quarters you've been kind of gradually migrating into product lines, at least with some of your home center customers in that sub-$300, you know, price point, more of a consumer DIY product line. You know, if I go back in history with Graco, historically that's been a place that the company strategically decided to deliberately avoid. It seems like there's been a change in that view on that piece of the business and I guess, Pat, if you can kind of walk through what the thinking is there and then how, if at all, does that shift or does that decision change the incremental margin profile of Contractor going forward?

Patrick McHale: Yes, you know we've had some pretty interesting, I'd say call them technology break throughs and really if you take a step back, prior to 1999 we weren't in the home center business at all and we didn't want to go in and play in that channel with a me-too product and we were able to find a way to bring piston pump technology into the… let's call it the $400 to $1000 price point and so we entered that space and to the extent that we're able to find technologies that allow us to play at other price points with a differentiated product, then we think that's still consistent with our overall business philosophy and business strategy. It's definitely the case that to the extent that we end up with more sales at the… you know $300 kind of a level, we're going to see margins that are slightly less.

Matt Summerville: Now, I would assume this is something that you weigh in kind of going into this process but you know one of the things we've found as we go through the channel is that Graco has tremendous brand equity. We've known that for years. Kind of getting into this kind of lower price point level of the market, doesn't that essentially give your customers better to access to keep that brand maybe more permanently at a lower price? I guess as we come out of this downturn may be a better way for me to ask the question is how do you get people that you know are buying $300 things right now to start buying, you know, $500, $600, $700 sprayers again if they're now conditioned to know that they can get Graco at that lower price point? Does that make sense?

Patrick McHale: Yes, I understand your question. You know, obviously that's part of our product lineup and planning process and if you take a look at each incremental price step that a consumer would take or a contractor would take, there are performance and features at that next individual level that pay for that price differential so I'm not really concerned about that. Somebody who is buying a $300 sprayer when they're going to go to buy a $500 sprayer they're going to get more performance, they're going to get a larger tip size, they're going to get more flow, they're going to be able to do jobs faster and so there's reasons that people climb the ladder and you don't get a $300 Graco sprayer that performs like a $1000 Graco sprayer. It's still best-in-category and it's still great performance but there are definitely differences and I don't see that as being a trend.

I'd also like to comment that, you know, to the extent that Contractor new product influenced the second quarter results, that hand-held product that we're talking about has got a $450 street price so we're not talking about consumer toys for what was launched here in the second quarter.

Matt Summerville: Correct. Okay. Thanks, Pat.

Operator: Thank you. Our next question comes from John (unintelligible). Please go ahead.

John: Good morning guys. Just quickly, it looks like you elected to do some open market repurchases versus retained debt. Could you just talk a little bit about that decision and maybe give us what the average cost was of buying back the stock in the quarter?

Jim Graner: Sure. We did some purchases under a 10b5-1 program in the quarter. You know we say the—I'll call it the Euro panic happening—

John: Mm-hmm.

Jim Graner: And we thought that it might give us an opportunity to buy Graco shares and our price was less than $30. We picked up approximately 300,000+ shares during that period, a little bit before the quiet period happened. So again our strategy here is to be somewhat opportunistic, not trying to go back to the 2008 level of share repurchases but to buy enough shares to keep our share count flat for the near-term.

John: Okay, that's it. That's all I got. Thank you, Jim.

Operator: Thank you. Once again, if you would like to ask a question, please press the star followed by the one on your telephone. To cancel this request, please press the star followed by the two.

Thank you. We have a question from Terry Darling from Goldman Sachs. Please go ahead.

Eddy: Good morning. It's actually Eddy [ph] here on behalf of Terry here. One question for you guys regarding the outlook for housing-related revenues. We saw some comments coming out of Sherwin Williams that they're going to see a weaker back half to 2010. I don't know if you guys have any insight around that.

Patrick McHale: Well they're a major player in the industry and so I think that, you know, you can take their commentary for what it's worth, and again, what we're trying to do is we're trying to manage our own future to the best that we can and that was the reason that we did a big push on product development a couple of years ago and hopefully that's going to help us navigate through what looks to be a few more quarters of choppy waters on the housing front.

Eddy: And kind of in early '11, you guys are kind of modeling a turn or thinking about a turn in the housing market?

Patrick McHale: Yes well to be honest with you, if you would have asked me in the spring of '09 I would have told you by the summer of 2010 that things were going to be a lot better and unfortunately they're not. So yes, I would anticipate that next year is going to be better but what we're trying to do is not just be victims to next year and we're going to continue to invest and drive initiatives and see what we can do in Contractor.

Eddy: Got you. I guess just as a follow-up on kind of the comments you guys made about Europe, on the flip-side, your European competitors, have they been using the weaker currency as a way to kind of be more competitive or gain market share?

Patrick McHale: I would say we haven't seen any dramatic evidence of that. No real big change in what the market dynamics are.

Eddy: Got you. And just lastly, thinking about second half incrementals… I mean just as we're looking out towards the next two quarters, any comments you guys can make there on how we should be thinking about incrementals for the business?

Jim Graner: You know I think the profitability on the incremental business will… after you account for this extra provisions on incentives just because of rate of change continues to accelerate here and our sales will be consistent with your expectations that we've had before.

Eddy: Perfect. All right. Thanks guys.

Operator: Thank you. We have a follow-up question from Matt Summerville from Key Bank. Please go ahead.

Matt Summerville: With regards to the incentive comp, correct me if I'm wrong, I guess I thought the expectation originally was that that line item would increase roughly $10 million in 2010 versus 2009. What I guess has occurred from an expectation standpoint that's driving that number to potentially almost double this year? Are these new product launches being more successful? Is underline and demand for—I'll call your core product for lack of a better term—been better than what you would have thought, you know, three months ago? Can you help close the loop on that?

Patrick McHale: Yes, you know all those things are true and if you take a look at just what happened between Q1 and Q2, Q1 we were up 19% and Q2 we were up 30% and so obviously the payout is going to be significantly different at those two levels and that really drove the big delta between the 6 million in Q2 and the 3 million in Q1 but, you know, looking out we anticipate continue to perform well in the second half and the numbers that Caroline gave you there and the 15 to 20 for the year are reflective of that.

Matt Summerville: With regards to some of the success you've had in the professional paint side with some of the new product launches like you mentioned, have you seen the full benefit from that initial stock-in? Did you experience that in the second quarter or will you see some continued positive effect of that into Q3?

Patrick McHale: No, we'd expect to see that positive effect of that to continue into Q3.

Matt Summerville: And then how would you characterize—just to make sure I'm clear on what's driving the Contractor business—how would you characterize sell-through or out-the-door volumes for your core products in both the home center and pro paint channels? Can you go through that again Pat?

Patrick McHale: Yes, I didn't cover out-the-door sales in those channels but I did mention that inventory seems to be fairly stable in both of those channels and so base business in Contractor I'll call it flattish, maybe slight growth, and on a year-to-date basis sort of similar kind of stuff coming out of the home center. So base business is sort of what it is.

Matt Summerville: So as we take all these items, the things that are maybe going against you a little bit on the cost side, going for you a little bit on the top line, is there any reason to think that the second quarter won't be the high water mark for Graco's quarterly earnings? Is that still the right way, as you see the rest of the year unfolding, to think about it?

Patrick McHale: I tend to be a little bit more optimistic on, you know, the state of the economy but I don't think anybody knows.

Matt Summerville: Okay. And then I guess lastly Pat if maybe you can just provide within your Industrial business, the growth you're seeing there, kind of more end market commentary across the geographies, what industries are driving the growth and the success you're seeing there.

Patrick McHale: Well you know global automotive has been pretty good this year and although we're not seeing a lot in terms of new facility construction in places like the US, we are seeing that they're doing a fair amount of retooling and we're getting a fair amount of repair and replacement as they do that. Asia automotive has been really hot since I would say last August or last September and that's continued through the first half. Not only, you know, transplants into Asia taking advantage of labor rates but also some of the domestic car companies that are in places like China that are doing a lot of investing and unit volumes look pretty good so, you know, overall automotive and automotive feeder on a global basis are much improved versus where they were at last year.

Some segments of aerospace are decent, some segments are tough. The small private jet business is not so great but other segments of aerospace are still pretty good. And oil and gas has been okay. Pretty much on a global basis prices have been hanging in there and we've been seeing investment so our protective coatings business has been doing well. Mining has been strong and in places like Australia and down in South America we've continued benefit both in our Industrial and our

Lubrication business on the strength of investments in the mining sector. So, you know, there's a fair number of things going right. It's… construction worldwide is tough. You know it's still pretty good in Asia but in Europe in general construction is weak and of course we all know what it is here in the US.

Matt Summerville: Appreciate the color. Thanks, Pat.

Operator: Thank you. Once again, if you'd like to ask a question, please press the star followed by the one on your telephone.

If there are no further questions I will now turn the conference over to Pat McHale, President and Chief Executive Officer.

Patrick McHale: All right well thank you all for your time this morning and have a good week.

Operator: This concludes our conference for today. Thank you for all participating and have a nice day. All parties may now disconnect.

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