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NN, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you, sir. (Operator instructions) And our first question is from the line of Holden Lewis with BB&T. Please go ahead.

Holden Lewis – BB&T Capital

Thank you. Good morning, guys.

Rock Baty

Morning, Holden.

Jim Dorton

Hi, Holden.

Holden Lewis – BB&T Capital

First off, you said, I think, in your text that the pricing contribution to the first six months was, I think, a negative 0.2. I just want to make sure I have these numbers correct. I think in Q1, you actually had pricing contribution of negative 0.6, which would have suggested that your pricing went positive in Q2, albeit only slightly so. Can you just talk to those numbers? And then a little more broadly, I know you had sort of contract negotiations, I think in May. Can you talk about how that's going and sort of expectations for price going forward?

Rock Baty

Holden, as I mentioned, I'm going to let Jim and Tom comment on the net impact of the pricing versus second quarter. But just in general, the contractual reductions that Jim spoke to in his comments were long-term contracts, most of which that are expiring this year, either midyear or at the end of the first quarter. And so, to the extent that, both contracts are expiring, we have been moderately raising prices at the expiration of the contracts. Of course, as we've mentioned before, I think we are entering a period relative to inflation on non-raw material costs, as well as inflation associated with pure raw material, that lends itself to shortening the length of time that we are willing to offer prices to our customers. And so, although we are ending some pretty major contracts that were multiyear – and I will say two to three years in length – we really have been shortening the discussions with customers on the basis of the uncertainty of inflationary factors in our business and our unwillingness to extend pricing beyond certain periods.

And so in terms of renegotiating existing contracts, and if you're looking for us to say, hey, we've re-extended a contract for a two or three-year period of time, that's not going to happen, for the reasons I just mentioned. And of course, raising prices, regardless of the environment, is always difficult with any major customer. But we have been raising prices, as I mentioned, on a moderate basis. And I think importantly, our customers are raising prices. And I've mentioned this before. On the majority of their business, especially on the industrial side, as well as, I think, automotive, they are raising prices as well. So we think will be successful with that. And the net price change moving forward the last six months of this year as well as into 2009, you'll begin to see the resulting impact of that. I don't think you really saw it in the first and second quarter. Jim and Tom, do you have –?

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