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Sauer-Danfoss Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions)

And our first question comes from Amit Daryanani with RBC Capital Markets.

Amit Daryanani - RBC Capital Markets

Thanks a lot. Good morning, guys.

Dave Anderson

Good morning.

Amit Daryanani - RBC Capital Markets

Just sort of I guess the question maybe to start off with, it sounds like you guys are talking about a little bit of slowdown that you're seeing in the European site, specially in road building and material handling segment. Given that back drop of -- can you just talk about maybe have you evaluated options to delay the capacity expansion at least longer demand and stretch them out over time?

Dave Anderson

Yes. That is a good question. And we look at that really, product line by product line. And the expansions that we're making are really in specific areas that, even under today's current demand levels, are really under-capacity, forcing us to operate over time that we wouldn't want to utilize operating to -- forcing us to operate really at a level of efficiency that's suboptimal.

So we still need to be making those kinds of investments. I think, what's important to point out is that we're talking about machine tools and productive capacity; we are not talking about bricks-and-mortar here, too.

Amit Daryanani - RBC Capital Markets

Fair enough. And then when I look at the backlog, it's been pretty strong. It's I guess 37% this quarter year-over-year, organically. Is there a way to maybe parcel out the part that's due to extended lead times?

Dave Anderson

You know, we have tried to do that. It's difficult to get a real grip on it. So, I don't know. The delta over last year, if I was just to pull a number out of the air would be -- it might be that it's 50% higher than what we might expect, but we are -- we still have a backlog that, even under normal conditions, is greater today than it was last year at this time.

Amit Daryanani - RBC Capital Markets

Fair enough. And then, looking at the pricing surcharges. How much per headwind has this commodity inflation been for us, maybe in Q2 or even going back to the first half of '08? And given the fact you've actually announced this, sounds like, to your customers, have you seen any pre-buying that may have helped Q2 out a little bit?

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