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ARJ Chemicals Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. The question-and-answer session will begin at this time. (Operator Instructions). Our first question comes from Robert Felice, Gabelli & Company.

Robert Felice - Gabelli & Company

Hey guys just a couple of questions.

Michael Campbell

Hey Rob.

Robert Felice - Gabelli & Company

I guess first, Mike, did I hear you correctly that HTH margins for the year will be 13%?

Michael Campbell

That's correct.

Robert Felice - Gabelli & Company

And, I guess if I look at the first half, it looks like you are tracking about 100 basis points improvement year-over-year, and you mention that the third quarter will be above third quarter '07 levels. And I know that Louis has been aiming for that 100 basis point improvement. So what's impacting the business in the fourth quarter?

Louis Massimo

Rob, this is Louis. The one thing that you have to factor in the fourth quarter, and I agree with you the trends are very nice and they continue to be nice, but you remember we have to recoup the anti-dumping duty benefit that we had in the fourth quarter. So we're going to recoup most of it. But we feel pretty comfortable in the 13% to you know I'm not going to say that 14% is out of sight but we are comfortable with the 13% right now, based on what we are seeing on the surcharges that we are getting on the freight side.

And, as you know, when it comes to the water industry in particular, you can't, we are unable to pass on fuel charges in the mass channel. We've done a little bit on the dealer side so we are being you might say a little conservative but we're going to have a nice year-over-year improvement but it's

probably going to be in the 13% to 14% and it's probably, right now, we're tracking mid-point of that range right now.

Robert Felice - Gabelli & Company

Okay. So it's really the freight, the energy that's kind of snuck up by surprise a little there?

Louis Massimo

Well, yeah, when you say surprise, we went into this year assuming that freight and distribution was going to be higher. You know that from a water perspective, it about runs about 11%, 12% of our cost of sales kind of number.

And, unfortunately in the first half, we were able to mitigate a lot of it, but as we look forward we are projecting that the fuel surcharges will continue. So that if the oil prices continue to drop and energy costs come down, then there is upside that we won't have to worry about it. But and, as you know, our pricing for the '09 season we start discussing that stuff with our customers in the fourth quarter. So if there's any upside in the fourth quarter that's not factored into these numbers when we get into there, but the bigger impact will be in '09. So we are very confident on the HTH water numbers. I just wish that it would be you know I'd be saying 14% and you'd be trying to talk me to 15%.

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