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Baldor Electric Company Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) We will go first to Steve Sanders with Stephens Incorporated.

Steve Sanders - Stephens Inc

John, just coming back to your comments about the commodities. You highlighted steel, iron ore and freight. Can you kind of rank those in terms of relative pressure you felt during the quarter?

John McFarland

Well steel is the largest commodity that we buy and so the biggest pressure in dollars was with steel. The highest increase as a percent was with outgoing freight, but the biggest impact was on steel and cast iron would have third.

Steve Sanders - Stephens Inc

I think you said, I may have misunderstood, that you expect upward pricing trends to continue during 3Q. Is that correct and is that the assumption you've made with regard to the price increases?

John McFarland

Yes, our steel prices are based on indexes, so we know what we are going to pay for steel in the third quarter. We'll know what we pay for in fourth quarter, later in the quarter because it's based on a monthly index. So we know what increase we are going to have in the third quarter. The two things that cause some problem in the last quarter are not based on indexes and that's transportation cost and cast iron, either of those is based on an index. So, we kind of know month-to-month where we are on those, but based on what we know with steel, based on what we know with respect to our copper prices and based on what we expect with regard to some of these other commodities.

We feel our products increase will cover, at least in the near-term will cover those increase cost. If it doesn't then we will take addition action. We certainly don't want to, our customers of course don't want us to raise prices every, but if we are unable to cover those costs we'll take additional price action.

Steve Sanders - Stephens Inc

And the price increases of 5% to 8% look to certainly be on the high-end of what we've seen over the past couple of years. You're confident that you'll get those through any big customer pushback at this point. How would you characterize that?

John McFarland

Well that's a good question. Yes, actually the 8%, which is on the motor part of the business, 5% is on drives and generators and dodge, but the price increase has been implemented, it was implemented on the 13, and we had pushback obviously but as we have talked to customers they seem to realize the need for the price increase none of them really like it, but they realize and understand the need for the price increase.

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