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Trane Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Nigel Coe - Deutsche Bank.

Nigel Coe - Deutsche Bank

The EBIT delta,, so commodities are up \$60 million versus the plan. Revs are down \$17 mil so let's call that \$50 million of EBIT. So looks like EBIT's \$75 million negative from those two factors. It's down \$15 million in guidance. Just want to understand how much of that offset is coming from cost containment measures and how much is coming from the contingency.

Frederic M. Poses

I think it's a combination of the two. We started the year with a reasonable amount of contingency because we knew there was concern about the residential market. I'm not sure we understood completely the concern about the commercial market. So we did reduce our contingency, which helped us cover that gap. We do have slightly higher prices than we had in the plan to help us offset that gap. And we do have cost containment to help us.

You take those all together, and we reduced our EBIT by \$15 million, and we still have a reasonable amount of contingency, not the amount of contingency we ended the year with. But I also think we have a much better understanding of what the year is going to look like at this point than when we entered the year.

Nigel Coe - Deutsche Bank

I think you had \$75 million entering the year in contingency.

Frederic M. Poses

That's right. We have about a third of that left.

Nigel Coe - Deutsche Bank

And your hedging and forward agreements on copper, steel, and aluminum, could you give us some color on that?

Frederic M. Poses

Yes. We're un-hedged. And the color on that would be, when we entered the year, we knew we had the opportunity to hedge or not hedge. We were concerned that if the market got weak, we thought that commodities may weaken also, and therefore we didn't want to get stuck, as I would say, with high price commodities in a declining market. As it turned out, that probably wasn't the smartest thing in the world.

On the second part of it, historically when commodities go up, generally this industry has the ability, although somewhat at a lag, to move prices. And my own personal belief is that the story hasn't been told there on what's going to happen in the second half of the year on pricing, although in this estimate we have built nothing in for pricing.

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