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Quaker Chemical Corporation Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Robert Felice - Gabelli & Co.

Robert Felice - Gabelli & Co.

I guess first on an absolute basis, how much of your raw materials increased year-to-date? You mentioned a percentage number but just wanted to get my hands around the absolute number.

Mark Featherstone

Yes, I think we mentioned in our last phone call Rob that we expected a \$40 million increase in raw materials for the full year '08, I think through the third quarter of around \$25 million or so.

Robert Felice - Gabelli & Co.

And you still expect that \$40 million number?

Mark Featherstone

Yes, that \$40 million number.

Robert Felice - Gabelli & Co.

And what's the magnitude of your price cost GAAP?

Mark Featherstone

We made some progress through the third quarter, but we still have some GAAP carried over from the second quarter.

Robert Felice - Gabelli & Co.

And we're finally starting to see base oil prices and other prices tic down although they haven't obviously dropped as fast as crude has. Just wondering as those costs start to decline, do you anticipate holding onto your price despite the weak demand environment?

Mike Barry

Well, I think we target to get a certain margin from our customers and of course as we went up in prices with our customers we work with them to try to reach a certain margin level that we need to have an acceptable profitability level.

In a lot of cases we're just getting to that point where we still haven't reached that point. So as things begin to change, we get our price increases in place, raw materials begins to come down, once we get to a certain point and we exceed that profitability level, we will be working with our customers to adjust pricing downwards.

So I'd say in the most part we still haven't gotten to our margins EBITD as a whole, as a company, so we still expect to see margin expansion going forward but then once we get to a point where we feel they're at the right place given everything considered, then we will expect to see some declines probably going in our pricing.

Robert Felice - Gabelli & Co.

Okay and on the consolidated basis what would you say is that target op income margin, the appropriate level?

Mike Barry

One of the things I kind of struggle with is I know when you're looking at our P&L and looking at gross margin percentages and things line that and operating percentages, we tend to at a macro level look at things more on a margin per kilogram level with our customers and what kind of margin we need to get an acceptable rate of return or EVA with a customer. So we do this on a customer-by-customer basis, so it's hard for me to kind of say at a macro level, where we would be and something that you'd be looking at on a gross margin percentage. Mark, I don't know if you have anything.

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