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## Sauer-Danfoss Inc. Q3 2008 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

(Operator instructions) Our first question comes from Marty Pollack of NWQ Investment.

#### Marty Pollack – NWQ Investment

Hi, gentlemen. If I may, just couple of questions, on pricing, going to the fourth quarter, what are you seeing as far as pricing for your product and also how do you see pricing develop next year? And secondly, with regard to fourth quarter based on what you are suggesting of overall growth sales out-front 7% to 8%, it sounds like sales in the fourth quarter will be down dramatically 15% or so, if you can confirm that. And lastly with regard to the initiatives you are taking this year right into fourth quarter, what kind of cost benefits do you see in mitigating to the slowdown – so do we here some cost savings that will help next year's development?

#### Dave Anderson

Yes. Good morning, Marty. The first question was regarding what are we seeing in the fourth quarter for pricing? Typically our approach for pricing has really been to announce those changes effective at the beginning of the year. So, it'll be something that would have an impact going forward into 2009. We do have in place surcharges that relate to commodity costs, commodity price increases as those have started to come down a bit. But the reality of putting those in place as we tend to lag the effect. We will also lag the effect in taking them out. A number of those surcharges have been put in place as price increases. Net effect though is that we expect – we are able to capture in surcharges to be neutral to what we get from our suppliers. Your second question related to the sales being down in the fourth quarter. They will be down. I have to do a quick calculation here to – I think Karl can you help out here on that question here. You have that in front of you the exact number?

#### Karl Schmidt

Yes. We are projecting sales to be down. And the big variable here for us, Marty, is the exchange rate. If you look at the third quarter numbers, I had mentioned that we were up 11%. Since that time the euro has dropped. It varied by about 25% at the low exchange level we saw two years ago. So, we are very susceptible to how these European sales translate back and to our nominal top line and that will have an impact. And that's why we have lowered our margin. It's not completely a volume reduction but it carries a significant expectation of exchange rate being lower when we translate these European sales into our books. So, that is – that's the technical effect we have to keep in mind. But definitively we do see some softening in volume as well, but certainly at least half of this impact that we are foreseeing is the exchange rates are as low.

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