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Tenneco Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. (Operator Instructions). Your first question comes from Brian Johnson – [Brathwaites Capital].

Brian Johnson – [Brathwaites Capital]

Good morning. I want to focus a bit on decremental EBIT margin in North America. My calculations have it somewhere between 30% and 40%. Can you help us with how you calculate it and also what's driving that versus sort of the 20% to 25% we'd seen in earlier quarters?

Gregg Sherrill

Yeah, a couple points to take into account there. You're talking North America in particular.

Brian Johnson – [Brathwaites Capital]

Yeah.

Gregg Sherrill

We said it in the script there, but let me go back to it. In this last quarter our light truck mix represented about 46% of revenue. In the second quarter it was at 58% of revenue. If you go all the way to 2007 it was 72%. That's probably not even relevant right now. So that is one of the items.

There are obviously overall more quarter-to-quarter sales. You have the seasonal issue in there. I think also currency affected, between the Mexican Peso and the Canadian Dollar. And then the last thing is the timing on some steel recovery that we expect now in the future quarter. I think those are the big drivers there.

Ken, you got anything you want to add?

Kenneth R. Trammell

I think that covers it. Brian, I think one thing you probably just want to think about that Gregg mentioned is the unusual movement in currency, especially near the end of the quarter. Because we found that was, like Gregg said, about a \$6 million currency headwind that we had not clearly anticipated.

Brian Johnson – [Brathwaites Capital]

Right. But if I strip out the currency, the \$28 million, if I divide that into the revenue decline ex substrate seems to get me to a 40% decremental operating margin.

Kenneth R. Trammell

Yeah. And then the other things that Gregg mentioned I think are the things that you need to take into account. Certainly the mix deteriorated faster in the third quarter than it did in the second quarter. We also had the timing issue on the steel recovery. Which, as Gregg said, we anticipate to recover in a later quarter.

Gregg Sherrill

Probably the biggest factor in the mix continuing to deteriorate was the tundra shutdown.

Brian Johnson – [Brathwaites Capital]

And as we think about Europe what kind of decremental margins should we be thinking about going into 4Q in Europe?

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