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EnPro Industries Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator's instructions) And your first question comes from the line of Todd Vencil from Davenport. Your line is open.

Todd Vencil – Davenport & Company

Hey. Good morning, guys.

Don Washington

Good morning, Todd.

Stephen Macadam

Good morning, Todd.

Todd Vencil – Davenport & Company

So, the big thing I guess that surprised us in this quarter was the margin in engineered Products, and you talked a bit about in general the fact is they were behind and that's certainly on the demand side, also on the raw material side — can you give us a little more color on what's going on with raw materials and the price-cost balance and how you see that playing out going forward?

Stephen Macadam

Yes. I think late last year and certainly early this year we've seen a number of our raw materials turn south and start to fall in price, some of them significantly. In the engineered Products segment in the case of GGB, we actually had some contracts that were in place that played out through the year and into early 2009 that required us to pay higher prices that were bought ahead a couple of months. But other than that we've got pretty aggressive sourcing activities under way, and we expect our input material costs to be going down throughout the year.

Todd Vencil – Davenport & Company

And how's pricing working out? I mean, are you — I know that you had raised some prices there late last year, have you lost price or are you just having trouble kind of getting prices in, or how do you think that's looking?

Stephen Macadam

Well, we did get — we were pretty aggressive in the second half of last year in pricing in the market and we, for the most part, have been able to hold those levels. Obviously they're under a lot of pressure with the competitive intensity that's going on today, but our expectation is, as I said in the prepared remarks, that our gross margin levels — we'll be able to hold those this year through the combination of pricing discipline and some declining material costs.

Todd Vencil – Davenport & Company

Okay. And if you think about the operating margin there in that business, would it fall into the 6%-ish level from what's kind of a generally mid-teens kind of number. How much of that is what we've just been talking about which is price versus cost, and how much of it is maybe under utilization of plant do you think, Steve?

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