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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Modine Manufacturing Company's fourth-quarter fiscal 2016 conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Ms. Kath Powers, Vice President, Treasurer, and Investor Relations.

Kathleen Powers - *Modine Manufacturing Company - VP, Treasurer, and Investor Relations*

Thank you for joining us today for Modine's fourth-quarter fiscal 2016 earnings call. With me today are Modine's President and CEO, Thomas Burke, and Michael Lucareli, our VP Finance and Chief Financial Officer. We will be using slides with today's presentation. Those links are available through both the webcast link as well as a PDF file posted on the Investor Relations section of our Company website, modine.com.

Also, should you need to exit the call prior to its conclusion, a replay will be available through our website beginning approximately two hours after the call concludes.

On slide 2 is an outline for today's call. Tom and Mick will provide comments on our fourth-quarter and full-year results, an update on our Strengthen, Diversify, and Grow strategic initiatives, and provide our revenue and earnings guidance for fiscal 2017. At the end of the call, there will be a question-and-answer session.

On slide 3 is our notice regarding forward-looking statements. I want to remind you that this call may contain forward-looking statements as outlined in today's earnings release as well as in our Company's filings with the Securities and Exchange Commission.

With that, it's my pleasure to turn the call over to Thomas Burke.

Thomas Burke - *Modine Manufacturing Company - President and CEO*

Thank you, Kathy, and good morning, everyone. On today's call, I will discuss our fourth-quarter and full-year results and provide an update on our various activities taking place with regard to our Strengthen, Diversify, and Grow strategic transformation.

After that, Mick will provide a more detailed review of our consolidated financial results, and will also provide our revenue and earnings guidance for fiscal 2017. I will then provide remarks prior to the opening - prior to opening the call for questions.

From a big picture perspective, our top line saw similar trends as we witnessed during the fiscal third quarter. But our strategic initiatives designed to strengthen our business helped us drive excellent operating performance.



Specifically, sales in the fourth quarter were down a little less than 3% on a constant currency basis, primarily due to continued weakness in certain markets. We had sales increases in Europe and Asia segments being offset by decreases in the Americas and Building HVAC segments. Gross margin improved by 80 basis points to 18.1%, benefiting from favorable material costs, improved plant operating performance, and savings related to procurement initiatives.

Our adjusted operating income was \$23.7 million, up 38% from the prior year. Adjusted earnings per share were \$0.36 for the quarter, representing an improvement of \$0.24 or 3 times that of the prior year. For the full year, our adjusted operating income was \$63.2 million, and our adjusted earnings per share were \$0.76, up 21% from the prior year.

It is clear that continued cost control efforts have allowed us to deliver year-over-year earnings improvements, despite lower sales for the second straight quarter. Although our top line continues to be challenged by weak conditions in several of our end markets, I am pleased that we continue to deliver on our commitments. We took several actions during the quarter to further lower our cost structure so we can continue working towards achieving our earnings targets.

Now I would like to review our segment results. Turning to page 6, sales for the Americas segment decreased 10% year over year on a constant currency basis, primarily due to continued weakness in the off-highway markets, lower commercial vehicle sales, and a decline in all vehicular end markets in Brazil.

We saw significant decreases in the sales to both heavy-duty and medium-duty commercial vehicle customers. This decline was partially offset by higher sales to North American automotive and coils customers due primarily to launch activity for two major automotive OE oil cooler programs.

Gross margin improved by 40 basis points from the prior year to 18.8% despite the drop in sales for the quarter. Our margin benefited from lower material costs, various cost reduction efforts, including the closure of the McHenry, Illinois, facility, and savings from our ongoing procurement savings initiatives.

SG&A was down \$6.2 million due to cost control efforts, higher income from contract testing at our North American tech center, and a \$3.2 million charge for a legal matter in Brazil in the prior year. Adjusted operating income for the Americas segment was up 6% to \$16.3 million despite the significant drop in sales. This resulted from gross margin improvement and the lower SG&A expenses.

As I mentioned last quarter, we expect difficult end-market conditions to continue into fiscal 2017. In North America, the truck market has continued to soften and we expect heavy-duty volumes to be down about 25% in fiscal 2017. We have also not seen any improvement in the heavy construction and agricultural equipment markets, with the market outlook showing further declines of 15% to 20%.

Offsetting some of that expected decline is the automotive market, which continues to be relatively strong and we expect the market to be up 2% to 4%. However, some of our recent automotive launches have been delayed at our customers' request.

In Brazil, we expect the commercial vehicle and agricultural equipment markets to be down a further 10 to 20% from the currently depressed levels and expect the aftermarket to remain flat. We are hopeful that economic conditions will improve once the political situation stabilizes.

Although these market conditions are challenging, our quote activity in the Americas segment is high and increasing, particularly for engine, oil cooling, and related products. The need to achieve the updated fuel economy or CAFE standards in the U.S. is accelerating the adoption of our layered core products with added thermal unit content per vehicle, which is driving both increased launch volumes of our automotive products and higher quote activity. I'm very pleased with the resulting rate of our business wins.

You may have seen the announcement earlier this month that we won a significant business award from Oshkosh Defense to supply cooling modules for the joint light tactical vehicles, which we will begin to launch later this fiscal year. In addition, we won a significant new transit bus program during the quarter and several new off-highway programs.



We continue to launch products for electric vehicles and are quoting on additional programs with existing customers and with new customers on hybrid and electric powertrain cooling opportunities. We won a program during the quarter to provide cooling modules for a new electric vehicle customer that will launch next year. And I am very excited about the work that is being done in this area and for the growth opportunities this brings to Modine.

Please turn the page 7. Sales for our Europe segment increased 4% in the fourth quarter on a constant currency basis as a result of higher sales to commercial vehicle customers. We also had higher sales to automotive customers, but this was offset by a significant drop in sales of BMW modules as the wind down of that business is nearing completion.

Gross margin improved by 370 basis points from the prior year to 15.2%, driven by favorable material costs and improved operating performance. We have eliminated the backlog that had created operational inefficiencies over the past several quarters, resulting in improved operating performance.

We also continue to make progress with our plant expansion in Hungary, which is a very cost-competitive operation and will provide crucially needed incremental capacity for the region. In fact, we are already seeing an increase in quote activity and have won several key programs.

In addition, we are using our latest building block technology to enable us to quote global designs for our commercial vehicle radiator products. These products will be quoted from Hungary and other low-cost country facilities.

Adjusted operating income in Europe was up \$6.1 million to \$11.2 million, primarily due to gross margin improvements. Europe is also experiencing a high level of quote activity on both automotive powertrain cooling and engine products, including requests for quotes on hybrid and electric vehicles. Again, I am pleased with the win rates we are achieving with our improved cost structure.

The commercial vehicle market in Europe remains strong and the automotive market continues to see modest yet predictable growth of about 2%. We expect the off-highway markets to remain weak, but this represents a smaller percentage of the Europe segment sales mix.

Please turn to page 8. Sales for our Asia segment were up 15% compared to the prior year on a constant currency basis. Although off-highway volumes in China and Korea continue to decline, this was more than offset by a significant increase of automotive sales, driven by launches of aluminum oil coolers in China.

Adjusted operating income increased \$1.5 million to \$1.9 million in the fourth quarter, primarily due to higher volumes and continued cost control efforts. I am pleased that we are able to report an operating profit in Asia for the second straight year. I just returned from a trip to our Asia facilities and I'm pleased with the sales growth the teams are projecting.

I was also happy to witness the integration of our new joint venture in China. Modine Puxin will produce stainless steel products, including EGR coolers and oil coolers, and will expedite our introduction of stainless steel products for the commercial vehicle and automotive markets in China. We are actively quoting on and winning new business for the joint venture. We are targeting local Chinese customers, many of which place value on our ability to meet global standards of quality and design.

In addition, the higher emission standards in China will require that all engine manufacturers implement emission strategies closer to the global standards seen in developed countries. This will create further opportunities for us to grow our business in this segment with products such as EGR and oil coolers.

As I mentioned last quarter, we think we are near the bottom of the market for excavators in China, but are not expecting a meaningful recovery anytime soon. However, the China automotive market continues to be relatively strong and we believe growth will be about 5%. We anticipate that our sales will exceed market growth due to continued launches of automotive oil coolers and related products.

India continues to be a bright spot for both commercial vehicles and autos. We are capitalizing on this with continued business wins out of our Modine India operations in Chennai.



Turn to page 9. Sales for our Building HVAC segment were down 5% for the quarter on a constant currency basis, driven primarily by lower sales of heating products in North America. As we mentioned last quarter, the warmer winter weather resulted in lower demand for our unit heaters after two record-setting years.

We remain very confident in our ability to continue to grow this business. With new products scheduled for introduction in fiscal 2017, we will expand our heating line, continue to grow our packaged ventilation line into larger tonnage sizes, and introduce inverter-based cooling products in our precision cooling line targeted to improve data center efficiencies at less than full-load conditions.

Gross margin for this segment decreased 330 basis points to 26.9%, primarily related to the UK business. In the UK, gross margin was down due to operating inefficiencies, including those related to the move into our new manufacturing facility along with pricing pressure from the impact of the euro exchange rate on the air conditioning market. Adjusted operating income was down \$800,000 to \$2.1 million, primarily due to lower gross profits partially offset by decreases in SG&A expenses.

Although we saw a weaker commercial heating market in North America and softer demand in the air conditioning and commercial ventilation markets in the UK, we believe these markets will recover later this calendar year, with growth returning to the flat to up 6% range. Also, the recent weakening of the British pound versus the euro should help the competitive pricing situation with our mainland European competitors.

Please turn to page 10. Before turning it over to Mick, I would like to give an update on our progress towards our Strengthen, Diversify, and Grow financial objectives. Our first objective is to achieve gross cost reductions of \$40 million to \$50 million, resulting in improved operating margin of 7% to 8%. The cost reduction is a cumulative target and will more than offset general economic inflation and contractual price downs to our customers.

Second, we plan to acquire at least \$100 million of incremental non-vehicular revenue and expand our leverage ratio to between 1.5 and 2.5 times. We are specifically targeting transactions that are immediately accretive to our shareholders and that would generate sufficient cash and synergies to allow us to quickly pay down debt so that our leverage remains in our targeted range.

Each of the elements of our Strengthen, Diversify, and Grow transformation depends and is supported by the others. For example, growing our existing revenue base and adding diversification is important to achieve and maintain the 7% to 8% operating margin we are pursuing. And by strengthening our base with a more competitive cost structure, we position ourselves to take full advantage of growth, whether organic or inorganic, and deliver acceptable returns even in times when our end markets are challenged.

We are making significant progress towards our cost savings goal. Of the targeted savings, we expect 25% to come from SG&A and other personnel-related savings, 25% from manufacturing footprint changes, and 50% from procurement savings.

First, I would like to discuss our targeted savings from SG&A and other personnel-related reductions. This target represents a total annual savings to be in effect by April of 2017 and excludes the impact of wage and benefit inflation.

Following the October announcement of our SDG initiative, we initiated a number of actions targeted at reducing our SG&A and personnel costs. These actions included a limited number of employee reductions, a decision not to fill a number of vacant salary positions, and a variety of smaller SG&A reduction activities.

Also as I mentioned last quarter, we approved 65 retirements under an early retirement program in the U.S., which will result in a permanent elimination of the majority of these positions. We will backfill the remaining at a lower cost. In total, these actions will result in an annual run rate savings of \$5 million, which will be realized in fiscal 2017. In order to reach our target, we will continue to implement cost reductions for fiscal 2017 that provide line of sight to our \$10 million to \$15 million goal by fiscal 2018.

Next, I would like to report on our progress on our manufacturing footprint. We realized \$1.8 million in savings in fiscal 2016 and are planning an additional \$5 million to \$10 million in savings in fiscal 2017.

The Washington, Iowa transfer and associated closure continues to run ahead of schedule and will be completed in fiscal 2017. The expansion of our Nuevo Laredo, Mexico, facility is complete and equipment from Washington is being installed in the finished building.

In Hungary, we have finalized negotiations to procure the last remaining piece of adjacent land required to expand the plant in Mezokovesd. We are also working on phased workforce reductions at our Pliezhausen, Germany facility in conjunction with the expected wind down of programs at that plant.

For the procurement initiative, we have identified and negotiated approximately \$15 million of annualized savings to date and realized \$1.9 million of gross savings in fiscal 2016. We will continue to work towards our targeted goal of \$20 to \$25 million in savings by fiscal 2018.

With that, I would like to turn it over to Mick for an overview of our consolidated financial results and to provide our fiscal 2017 guidance.

Michael Lucareli - *Modine Manufacturing Company - VP Finance and CFO*

Thanks, Tom, and good morning, everyone. Please turn to slide 12. Our fourth-quarter sales decreased 5% as we continued to experience foreign currency headwinds and weakness in certain end markets. Lower sales were primarily due to weakness in global off-highway markets, the North American commercial vehicle market, and commercial heating market. Similar to last quarter, warm winter weather contributed to the sales decline in our Building HVAC segment.

As Tom mentioned, sales decreased 3% on a constant currency basis, excluding an unfavorable currency impact of \$10 million. I am happy to report that our gross margin improved by 80 basis points to 18.1% despite the decline in sales. This improvement was driven by lower commodity prices and further operational improvements.

In addition, we are beginning to realize savings from our procurement initiatives. Further, we lowered costs at many of our manufacturing locations. This is the result of hard work from all of our teams, particularly those throughout Europe and North America.

Please note that gross profit includes a \$1.1 million environmental charge related to a manufacturing facility that the Company closed in 2012. However, this charge was backed out to arrive at adjusted operating income. Excluding this charge and a \$1.2 million negative foreign currency exchange impact, our gross profit was up \$1.8 million or 3% on the lower sales.

Moving on to SG&A, costs were lower than the prior year by \$7 million or 15%. This includes a number of moving pieces. First, the prior year included a \$3.2 million legal reserve in Brazil, which remains on the balance sheet. Also, the exchange rate impact was \$1 million favorable in the quarter.

Our reported SG&A number includes a \$1.5 million non-cash pension settlement loss related to our lump sum payout program that was offered earlier in the year. Excluding these items, SG&A improved by \$4.4 million, resulting primarily from our continued cost control efforts.

During the quarter, we recorded \$11.4 million of restructuring expenses. The majority of these restructuring charges relate to employee severance, equipment transfers, and plant consolidation costs in the Europe and Americas segments.

We also recorded an asset impairment of \$9.9 million in Germany. We made the strategic decision to wind down production of the Origami commercial radiator, which triggered the recording of the impairment this quarter. The bottom portion of the table shows all of the adjustments. As usual, we have included a full reconciliation between our reported results and adjusted operating results in the appendix.

Q4 adjusted operating income of \$23.7 million was up \$6.5 million or 38% from last year. This was the result of strong operating performance during the quarter and ongoing cost savings initiatives. Adjusted EPS was \$0.36, up \$0.24 or 200% compared to last year. Our improvement in EPS was driven by both improved operating earnings and lower income tax expense.

Taxes were positively impacted by a number of factors, including some one-time events this year, nonrecurring negative tax items in the prior year, and changes in our country-by-country mix of earnings.



Overall, we are pleased with the financial performance this quarter. The management team is highly focused on the items we can control. Despite the lower sales volume, we once again improved our gross margin and reduced SG&A spending. Earlier this year, we shared our outlook for a much stronger second half of the year, and while it took a lot of hard work, the team delivered.

Turning to slide 13, free cash flow for the year was \$22 million, more than \$6 million higher than the prior year due to higher cash generated from operations. Capital expenditures of \$63 million were \$5 million higher than the prior year. This is primarily due to the Nuevo Laredo plant expansion and the addition of engine product capacity in Europe.

Our balance sheet provides plenty of liquidity to support our growth and strategic initiatives. We ended the year with \$94 million in net debt. This includes \$69 million of cash on hand and a leverage ratio of 0.84.

So far, we have purchased nearly \$7 million or 1.6% of stock through our repurchase program. We will consider resuming our repurchase program when the window opens while balancing the potential need for cash to support our acquisition plans.

So let's turn now to our fiscal 2017 full-year guidance on slide 14. Tom reviewed the progress on our SDG initiatives and we expect to see a portion of these benefits in the new fiscal year. These savings are more than offsetting general economic, inflation, contractual price downs, and material pass-throughs.

In addition, Tom discussed some of the market challenges in fiscal 2017. Throughout the Americas segment, we expect difficult market conditions. This includes ongoing weakness in our global off-highway markets, while a bright spot remains the global automotive business. In addition, we expect to grow our Building HVAC business in the new year.

Given the current conditions, we expect to offset volume challenges and further grow earnings in fiscal 2017. This outlook is based on several factors. First, we anticipate that metals prices and foreign exchange rates will remain stable at current levels.

In addition, our sales will benefit from the new automotive program launches. And last, we expect improved margins from our Strengthen, Diversify, and Grow initiatives, resulting in improved operating performance in all of our segments.

After considering each of the factors, we are establishing the following full-year sales and earnings guidance. We expect sales to be down 1% to up 3% from the prior year. We expect adjusted operating income to be \$65 million to \$71 million. This equates to an increase of 3% to 12%.

An anticipated increase in our tax rate to a more normal level will have a slightly negative impact on EPS. As a result, we anticipate adjusted EPS to be \$0.77 to \$0.87, up 1% to 14% compared to the prior year.

Clearly, the global off-highway and North American commercial vehicle markets are impacting our top line. However, our cost reduction efforts are paying off and I am confident that Modine will convert well, particularly when the volumes recover in our core markets.

With that, Tom, I will turn it back to you.

Thomas Burke - Modine Manufacturing Company - President and CEO

Thanks, Mick. We had some major accomplishments in fiscal 2016. We delivered a 21% improvement in our full-year adjusted earnings per share despite a decline in sales. We announced our Strengthen, Diversify, and Grow strategic framework that will help to improve our competitive position and allow us to diversify our business and reduce our exposure to the highly cyclical vehicular markets.

We announced and implemented a share repurchase program that allowed us to return cash to our shareholders in the second half of the year. And finally, we completed the formation of the Puxin joint venture in China, strengthening our position in that market.



Although most of our accomplishments towards our Strengthen, Diversify, and Grow financial targets in fiscal 2016 have been on lowering costs, there's been a lot of work going on behind the scenes in our diversify and grow objectives.

We continue to evaluate acquisition targets and are encouraged by the number of promising opportunities that will help us grow our top line and broaden our non-vehicular Building HVAC and Coils businesses. Although I don't have anything to report right now, I am hopeful that we will reach our targets in the near future.

Looking ahead, fiscal 2017 will bring an important milestone to our Company: our 100th anniversary. We will celebrate this accomplishment by continuing to focus on what's important: strengthening our Company and keeping the commitments made to our shareholders.

And with that, we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Leiker, Baird.

Joe Vruwink - *Robert W. Baird & Company, Inc. - Analyst*

Hi, good morning. This is Joe Vruwink for David. I wanted to start on revenue guidance for the next fiscal year. If I just add up all your regional exposures and take what you assume the markets are going to do, I come out with a number that assumes industry volumes decline 2% or so in 2017.

So comparing that to revenue guidance, down 1%, up 3%, that seems like a fairly wide range of what backlog may be contributing next year. Am I thinking about this right? And are there any particular regions or businesses where you might have just embedded a wider forecast at this point in the year?

Michael Lucareli - *Modine Manufacturing Company - VP Finance and CFO*

Yes, Joe. A couple things that really impact that. One is if we look at our Building HVAC segment, as you know, it's a very seasonal business. This year for sure will be second-half loaded. And that's both due to recovery in data center sales and our business in the UK. Also, the heating season.

Now with that, the heating season, as you know, is kind of a wide variance or an unknown. It really is going to be heavily dependent on the winter and the weather. Also then on the vehicular side, we've got a really good visibility to our launch activity this year. I will let Tom comment to this.

I think the wildcard for us is especially in some of the off-highway space, the market is a little volatile right now. And depending on timing of launch activity and actual ramp rates and volumes contributes to that wider variability in the top line.

Thomas Burke - *Modine Manufacturing Company - President and CEO*

Yes, Mick. It's a good point. We are winning significant programs, and on off-highway specifically, it's what's the volume assumptions behind those. So we know we have new programs that will lead to higher share, if you will, than we have before. The question is what rate will they take. Will they assume with the market situation?

And then secondly, on the automotive side, as mentioned, our oil cooler and oil-cooler-related product launches are going extremely well, specifically in the Asia region and China and in Europe and starting in North America as well. So this content per vehicle that is increasing because of the CAFE



standards and emissions standards around the world is starting to give us an opportunity to actually growth share or business faster than market recovery or market growth because of the added content.

Michael Lucareli - *Modine Manufacturing Company - VP Finance and CFO*

Joe, the one piece of additional color I guess I would add to that. You had asked about by segment. I commented on Building HVAC and the seasonality, but I think we would say the strongest area, the most consistent area has been automotive in Europe. The automotive seems to be stable and in a good trend in Asia as well.

Clearly alot going on in Brazil, and we haven't found that bottom yet. And then lots of volatility going on in North America, both commercial vehicle and off-highway.

Joe Vruwink - *Robert W. Baird & Company, Inc. - Analyst*

That's great color. So am I right in thinking the plus-3% revenue growth would imply everything you know you have in the backlog that will launch this year launches on time at what the OEMs are telling you? Is that the ideal plus-3% scenario?

Thomas Burke - *Modine Manufacturing Company - President and CEO*

Exactly.

Joe Vruwink - *Robert W. Baird & Company, Inc. - Analyst*

Okay. If I go a little more granular and specifically on North America, that would seem to maybe be the one region where organic growth hasn't outperformed what the underlying market volumes have been, just based on our math.

Is that a fair characterization? Or when you look at OEM build schedules and your growth, do you seem to be growing pretty much in line?

Thomas Burke - *Modine Manufacturing Company - President and CEO*

Good question. Clearly, as said, our off-highway markets, both heavy construction, including mining and ag, are under pressure. Commercial-vehicular-wise, we are seeing and had planned for a second-half recovery in the commercial vehicle market in the second half of the year is flattening out, as you've projected in your numbers as well.

So offsetting, trying to offset that is the growth in automotive business and the coils business, which we've had significant wins. So I would say that and Mick, what would you add to that?

Michael Lucareli - *Modine Manufacturing Company - VP Finance and CFO*

Yes, I would say if we break it down on the automotive side and especially on engine, we are clearly outpacing the market and gaining share. Even in the quarter, we had a double-digit growth rate on automotive.

We are holding in the mediums. Both in mediums and heavies, you know we are very customer-specific there, so we tend to move up and down with customer-specific share in sales.

And then the other thing in the number and we are holding share, and we are actually still winning business, but it's the entire off-highway space. And we are on most of the larger equipment. And we think off-highway construction, ag, mining, it's the larger horsepower engines. And as you know, Joe, those markets have been down significantly.

So across the board, we feel we are holding share in most of our core markets. And I would say on auto, and especially on engine, we are gaining share.

Joe Vruwink - *Robert W. Baird & Company, Inc. - Analyst*

That's great. And then my last question. On hybrid and electric vehicles, so a bigger piece of your presentation today. I think a bigger piece of how investors view the vehicular opportunity, particularly if one OEM builds 500,000 of them in the next 18 months.

But can you provide just an overview of what you're doing on an electric vehicle, your typical content? I seem to have a \$300 content figure in my head across coolers and chillers, but just some additional detail there and your expectations.

Thomas Burke - *Modine Manufacturing Company - President and CEO*

Yes. We have stated that the \$300 per-vehicle content was the opportunity that we see. We have landed that with one customer that you referred to already on the second platform they released.

Earlier, we have a chiller content that initiated our entry into that market. But we've won and announced a business win this last quarter with another electric vehicle producer. Again, more of the full content that you talked about that will launch in the next fiscal year.

So if you look at the trend and all, it went from maybe a fad to a questions mark of where is this market going to the number of entrants now. I think Ford was out with a recent announcement of 40% of vehicles by 2020 will have electrification of some sort, whether full electric or plug-in hybrid. And we have quoting activity going on all of that.

Europe is catching up, as you know, with their transition from a diesel kind of strategy to now really accelerating into electric. A lot of Chinese entrants that are coming on, so we feel very well positioned.

Again, it's a competitive market. I'm not saying that there is any major barriers to entry there. It's just basically having the capability of being able to tie your knowledge into their systems and bring out solutions that they need. So we feel very well positioned to really capitalize on this trend.

Joe Vruwink - *Robert W. Baird & Company, Inc. - Analyst*

Great. I will leave it there. Thanks, guys.

Operator

Mike Shlisky, Seaport Global.

Jordan Bender - *Seaport Global Securities - Analyst*

This is Jordan Bender in for Mike today. So your operating profit was up \$6.5 million in Q4 on a declining revenues. But now you are guiding to a \$5 million improvement in operating profit for the entire 2017 on what kind of looks like flat revenues.



I guess we're just wondering why the restructuring benefits aren't higher for 2017. Are you guys taking a cautious stance with your cost structure or is there something else that we should know about?

Michael Lucareli - *Modine Manufacturing Company - VP Finance and CFO*

Yes, this is Mick. I'll take first stab and then Tom can add color. As we approach the entire strengthen, diversify, and grow initiative, we are still targeting the \$40 million to \$50 million in savings. We've talked about there's going to be a ramp. We will start to see a portion of that in fiscal 2017, so yes, we will see those savings.

Part of this ties as well to our top line and leveraging all the costs we've taken out. So how the top line comes in is an important determinant of the actual earnings. Because while we have the costs that we are taking out, we still have to address the annual economics, wage inflation, contractual price downs, and we also are passing through in the new year a portion of these lower material prices.

If you add up a lot of those just general economics in a normal year, that can easily be \$20 million type in annual cost increases. So Tom mentioned we not only have to offset those, but more than offset them. And then in addition, the real kicker is launching the new programs and leveraging the new cost structure.

Tom, anything you want to add?

Thomas Burke - *Modine Manufacturing Company - President and CEO*

No, I think you said that well.

Jordan Bender - *Seaport Global Securities - Analyst*

Okay. I guess my next question is could you give us a little more color on your efforts to expand into a new end-market category. At this point, where do you think we are most likely to see you win something?

Thomas Burke - *Modine Manufacturing Company - President and CEO*

I assume you are referring to the coils business.

Jordan Bender - *Seaport Global Securities - Analyst*

Yes.

Thomas Burke - *Modine Manufacturing Company - President and CEO*

Okay, yes. We have a \$60 million coils business today in North America. We've been in that business for decades. The market dynamics of that market are such that we like the lower capital intensity required for that. We like the ability to leverage our core competencies on heat transfer to be able to apply to that.

There's some key trends going on there with conversion to aluminum products that we have a lot of knowledge in that we think we can leverage. And we've got a good manufacturing footprint structure set up now to support that with our expansion into Mexico and looking at how we can build on that globally.



And clearly from an inorganic standpoint, it's a very interesting area for us to consider leveraging our ability, knowledge, and right to win, as we refer to it, to go that way. So that's a heavily focused area to expand on for those reasons.

Jordan Bender - *Seaport Global Securities - Analyst*

Okay.

Michael Lucareli - *Modine Manufacturing Company - VP Finance and CFO*

Also, just add to what Tom said, a couple of areas that are closer to us, even to our core, we are continuing to leverage the -- Tom talked quite a bit about the electric vehicles. Power generation continues to be an area where we are using our building blocks to cool down new business.

And then this growing power sports industry, everything from motorcycles to four-wheel off-road equipment, has been a nice opportunity for us this year as well. I would just add those to the coils/industrial opportunity.

Jordan Bender - *Seaport Global Securities - Analyst*

All right. Well, I appreciate that. If I could just squeeze one more in here. Regarding the Asia segment, your incrementals were pretty great in Q4. Is this the kind of operating profit that we should expect going forward for a \$23 million quarter?

And could you tell us what the new project launch is? Does the seasonality change at all in Asia and do you have any more launches for 2017? Thank you.

Thomas Burke - *Modine Manufacturing Company - President and CEO*

Yes, no, I will go through the launch activity and growth efforts. As I mentioned, I and the Leadership team just came back from a trip to Asia, where we specifically concentrated on our plants in China and the growth opportunities. And we can't get capacity down there fast enough, quite frankly, with the quote activity that we are putting in place, with the quote activity that we are being faced with, and the win rate that we are winning.

So we think we made 1.5 million oil coolers this last fiscal year. That will be maturing over the next couple years. That's going to start approaching the 5 million unit number so we get a feel for what has already won and coming at us as far as new program wins.

The other thing is, as I mentioned in the Asia region specifically, their focus on emission strategies and coming up to developed country standards as far as emission standards is providing a lot of opportunities for things like boosted engines, oil coolers, liquid charge-air coolers, EGR coolers are going to be a very key product in the future that we are seeing benefit from.

And that we are going to utilize this joint venture we just announced last quarter. And we are just starting to visit that. It's going to provide and allow opportunities with bringing new technology to supply EGR capacity and oil cooler capacity into that as well. So we are very excited about Asia growth and China specifically for those reasons.

That's automotive. And of course we have a great installed base for the off-highway market, which is down, but we think it's bottomed. But again, anything that comes back, we're going to convert real well on that.

In commercial truck expansion, we won a truck program, I think we announced last quarter or the quarter before. Again, domestic customers for us are something we really think we're going to benefit from with our joint venture relationship that brings a lot of relationship improvement insight to our team in Asia. So those are the key reasons we think we are going to really see that growth.



Michael Lucareli - *Modine Manufacturing Company - VP Finance and CFO*

Yes, don't really see anything in the way seasonality. And to the credit of the team in Asia, we have talked for quite a while and on these calls about a breakeven level at \$85 million. And really happy that this segment on the full year earned a \$1.2 million operating profit on \$79 million.

And they'll probably get nervous by me saying it, but we do expect the margins to continue going forward. So we are expecting good things out of the Asia region in the next year.

Jordan Bender - *Seaport Global Securities - Analyst*

All right. Well, I appreciate the color. Thank you.

Operator

I'm showing no further questions at this time. I would now like to turn the conference back to Kathleen Powers.

Kathleen Powers - *Modine Manufacturing Company - VP, Treasurer, and Investor Relations*

Thank you. This concludes today's call. Thank you for joining us this morning and thanks for your interest in Modine.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may now disconnect. Everyone have a great day.

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