

Download Request: Tagged Documents: 58-61,64-65,67,70-71

Time Of Request: Thursday, May 03, 2018 03:59:52

Send To:

UNIVERSITY OF LIVERPOOL

SYDNEY JONES LIBRARY

PO BOX 123

Terms: (Airgas Inc)

Source: FD (Fair Disclosure) Wire

Project ID:

|  | Results |
| --- | --- |
| 1. | [Airgas Analyst Meeting - Final](#doc_id_1)  *FD (Fair Disclosure) Wire,* December 15, 2009 Tuesday, (31910 words) |

|  |  |
| --- | --- |
| 2. | [Airgas at Bank of America Securities Merrill Lynch Industrials Conference - Final](#doc_id_2)  *FD (Fair Disclosure) Wire,* December 9, 2009 Wednesday, (6149 words) |

|  |  |
| --- | --- |
| 3. | [Airgas at Oppenheimer & Co. Industrials Conference - Final](#doc_id_3)  *FD (Fair Disclosure) Wire,* November 17, 2009 Tuesday, (5355 words) |

|  |  |
| --- | --- |
| 4. | [Airgas at Robert W. Baird & Co Industrial Conference - Final](#doc_id_4)  *FD (Fair Disclosure) Wire,* November 10, 2009 Tuesday, (4593 words) |

|  |  |
| --- | --- |
| 5. | [Q4 2009 Airgas Earnings Conference Call - Final](#doc_id_5)  *FD (Fair Disclosure) Wire,* May 6, 2009 Wednesday, (10432 words) |

|  |  |
| --- | --- |
| 6. | [Q3 2009 Airgas Earnings Conference Call - Final](#doc_id_6)  *FD (Fair Disclosure) Wire,* January 29, 2009 Thursday, (8990 words) |

|  |  |
| --- | --- |
| 7. | [Q2 2009 Airgas Earnings Conference Call - Final](#doc_id_7)  *FD (Fair Disclosure) Wire,* October 24, 2008 Friday, (10944 words) |

|  |  |
| --- | --- |
| 8. | [Q1 2009 Airgas Earnings Conference Call - Final](#doc_id_8)  *FD (Fair Disclosure) Wire,* July 24, 2008 Thursday, (9446 words) |

|  |  |
| --- | --- |
| 9. | [Q1 2009 Airgas Earnings Conference Call - Final](#doc_id_9)  *FD (Fair Disclosure) Wire,* July 24, 2008 Thursday, (9557 words) |

[Return to List](#cite_id_1)

FOCUS - 1 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

December 15, 2009 **Tuesday**

**Airgas Analyst Meeting - Final**

**LENGTH:** 31910 **words**

Corporate Participants \* Jay Worley Airgas - VP, Communications and IR \* Peter McCausland Airgas - Chairman and CEO \* Mike Molinini Airgas - EVP and COO \* Tom Thoman Airgas - SVP - Tonnage and Merchant Gases \* Jim Muller Airgas - SVP - Specialty Gas and Life Sciences \* Ron Stark Airgas - SVP - Sales and Marketing \* Les Graff Airgas - SVP - Corporate Development \* Bob McLaughlin Airgas - SVP and CFOConference Call Participants \* John Roberts Buckingham Research Group - Analyst \* Mark Gulley Soleil Securities - Analyst \* David Manthey Robert W. Baird - Analyst \* Kevin McCarthy Bank of America/Merrill Lynch - Analyst \* Mike Harrison First Analysis Securities - Analyst \* Laurence Alexander Jefferies & Co. - Analyst \* Miles Lewis Bishop Rosen - Analyst \* Don Carson UBS - Analyst \* Holden Lewis BB&T Capital Markets - Analyst \* Mike Sison KeyBanc - Analyst \* Amy Zhang Goldman Sachs - Analyst \* Bob Roe SBS - AnalystPresentation-------------------------------------------------------------------------------- Jay Worley, Airgas - VP, Communications and IR [1]-------------------------------------------------------------------------------- All **right.**

Good afternoon and welcome to the 2009 Airgas Analyst Meeting. We'd like to say thank you to everyone in attendance, both here in the room and also to our webcast participants today. Those of you here in the audience should now have a printed version of the slides and if you don't, please raise your hand, we'll make sure that somebody gets those to you. For those on the webcast, you should be able to view the slides at this point and I would also note that the slides are available on the Airgas Investor website under the Slide Presentations heading as well. So, my name is Jay Worley. I am the Vice President of Communications and Investor Relations for Airgas. This first slide, you'll see my contact information as well as the contact information for our IR Manager, Barry Strzelec. We'd like to encourage you to please use us as a resource while you're developing and enhancing your understanding of Airgas. The last time that we held an analyst meeting was in September 2007. Our company's really come a long way since then and we're very excited to share some of those developments with you today. We think the timing of our meeting is opportune for investors, given the state of the US economy and our growth prospects in the coming years. We think our valuation is very attractive and hope that you will find so as well. We're scheduled to go 'til 5.30 Eastern Time today. We'll take a short break in the middle and we plan to have our question-and-answer session at the end. So, as we go through the presentation, I'd encourage you to record your questions and then we'll take those at the end. We'll make reference to certain non-GAAP financial measures and reconciliations to the most comparable GAAP measures can be found at the back of the slide deck. Slide two lists our line-up of presenters today, seated here to my left. We have Peter McCausland, our Chairman and Chief Executive Officer. Mike Molinini, Executive Vice President and Chief Operating Officer. Tom Thoman, our Senior Vice President of Tonnage and Merchant Gases. Jim Muller, Senior Vice President, Specialty Gases and Life Sciences. Ron Stark, Senior Vice President in Sales and Marketing. Les Graff, Senior Vice President, Corporate Development. And Bob McLaughlin, Senior Vice President and Chief Financial Officer. Today's presentation will include forward-looking statements based on current expectations regarding important risk factors, which are identified on slide three. Actual results may differ materially from these statements, so we ask that you please note our Safe Harbor language. And with that, I am pleased to turn the time over to our Chairman and CEO, Peter McCausland.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [2]-------------------------------------------------------------------------------- Thank you, Jay. As Jay mentioned, this presentation is being webcast. So, I'm going to continuously refer to the slide numbers and I hope you'll bear with me. Slide number one -- let me begin the presentation by reviewing some of our key investment highlights. First of all, we believe we can achieve organic growth in excess of non-tax industrial production by leveraging our infrastructure and our customer base and by executing on the growth accelerators, which we will be discussing during today's presentation. We also believe that we can continue to make acquisitions. There are plenty of opportunities out there and acquisitions are a core competency for Airgas. Next, our organization and our culture have become customer-centric over the last several years and this is a very important fact and we think a game changer. Fourth, our strong cash flow as a result of long-lived assets and low maintenance capital expenditures will expand with our sales as we move forward. We have a very diversified customer base and we have a proven track record of creating value through establishing and enhancing our very efficient operating model, through execution of our business plans, which always have stretched goals, and through disciplined investing. Also, we have a proven track record of returning value to our shareholders. Even in the downturn, our dividend was up 44%, '09 over '08, and for the trailing 12 months, through September '09, our dividend is up 50% -- 51% over the prior year. Slide number two -- we are in a good industry. There's no question about that. But Airgas has outperformed its peers in both revenue and earnings growth over the past five-year period. We run our business for long-term value creation. Given the organic and acquisition growth strategies, which we will be discussing today, we're in a great position to deliver above-market growth in the years ahead. Slide three -- while each local market is unique, the US packaged gas market in the aggregate is more than $13 billion annually, split equally between packaged gases and welding hardgoods. About half the market is in the hands of around 900 independent distributors. Our gas and rent business extends into the large bulk and pipeline markets, which are more consolidated and serviced by the five major industrial gas producers. Our hardgoods business extends into safety products and other MRO distributions, both of which are highly fragmented. Aside from Airgas, there are only two other competitors that are vertically integrated from packaged gas and welding hardgoods all the way through to pipeline and large bulk. They are Praxair and Taiyo Nippon Sanso. Neither of those companies has the coverage or the product and service offerings that Airgas has. Slide number four -- our strategy has remained constant throughout our history and we'll be talking today about how we're stepping on the gas pedal to accelerate our growth. We believe that we can drive organic sales growth by focusing our customers' needs and delivering on a combination of product and service offerings that maximize value for those customers. We also believe that we can continue to make acquisitions in our core business and adjacent businesses to leverage our distribution infrastructure. And we know that we can improve our operating efficiencies through the ongoing optimization of production, distribution and administration. The customers -- this new customer focus, together with our unique operating model and market density will drive operating performance and value creation in the years ahead. Slide number four -- five, Airgas has a growth culture. Our associates' interests are aligned with our shareholders. We have a highly leveraged comp system, with a large equity component that keeps us focused on long-term value creation. Our performance metrics at every level of our organization are perfectly aligned with the drivers of our share price, EPS, return on capital and operating margin. Airgas enjoys long standing customer relationships with a wide variety of customers, ranging from welders and mechanics to engineers to scientists to space explorers. Our distribution platform is built on products and services that our customers need, with enhancements to accelerate our growth. We continue to evolve and now we will have a sales and marketing resources that are aligned with our customer segments, recognizing that every segment has different needs. Slide number six -- over the course of our 27-year history, Airgas has steadily built the leading US distribution platform for industrial medical gases, industrial medical and specialty gases and hardgoods such as welding equipment and supplies and safety supplies. Packaged gas distribution, which is a local distribution model with an economic delivery radius of about 50 to 75 miles, is at the core of Airgas's business. However, we also have a significant position in the US merchant bulk business, a production and distribution model with a geographic delivery radius of around 200 miles. We're also a leading distributor of refrigerant gases, ammonia and various processed chemicals. We produce many of the gases that we sell, through our network of air separation units, we're the fifth largest producer of atmospheric gases in the market. We purchase approximately 70% of the atmospheric gas volumes for our packaged and bulk gas business and produce about 30%. We're a leading supplier of carbon dioxide, dry ice and nitrous oxide. The US packaged gas industry is the primary distribution channel for welding supplies and we have a robust network for the sale of welding hardgoods, safety supplies and other related products. Additionally, we offer a full line of welding machines for customer rental through our Red-D-Arc business unit, the leader in welder rentals in North America. The majority of our product sales are distributed by our truck delivery fleet, through our 850 branches across the country. We also feature other sales channels, such as telesales, catalogues and e-Business. At the heart of our customer-centric platform is our 1 million plus customers, not one of which represents more than one-half of 1% of our total sales. And these customers represent almost every industry in the United States. Around that customer base, we've built a gas product line that includes bulk and package and pipeline gases and we've built a hardgoods package line. The gas package line covers the atmospherics, fuel gases, helium, hydrogen, CO2 and dry ice, recently ammonia and refrigerants. It also includes a complete line of medical gases and spec gases. The hardgoods product line includes safety products, which are basically personal, protective equipment of various types, equipment that's used for welding and other -- and cutting activities, filler metals, which is -- which are used for welding and various accessories. Around these product lines, we've built supply chains. On the gas side, we've built a production supply chain that includes 16 air separation plants, seven large CO2 plants, a national network of dry ice production facilities, four nitrous oxide plants and so on and so forth. And we've also built other capabilities, such as bulk logistics and applications engineering. Some of this bulk capability on the supply chain side was acquired by Linde, a lot of it was started by us originally. We've also built a specialty gas supply chain that is the industry leader and we've built this essentially from scratch. We have national labs, approximately nine of them, that make the more complex mixes and what we call the nasty gases. We also have 55 regional labs that are located close to the customers and they make the simple mixes and pure gases. We have a specialty gas equipment company. We have a national quality program. We have manufacturing technology that is proprietary and lots of training programs. We have a number of packaging plants across the United States as well, in atmospherics, in medical, in fuel gases, ammonia, nitrous oxides, refrigerants, it runs the whole gamut. On the hardgoods supply chain, we have national buying centers, three of them, that take care of all the buying, of all the hardgoods items, for all of our stores and other channels throughout the United States. We have six state-of-the-art distribution centers from which we distribute our hardgoods and we have a brand management function that has done a very good job in the brand management area, including our Radnor private label brands. In support of our customers, we have built a bunch of functional areas at Airgas, beginning with the branches where walk-in customers -- let me see -- beginning with the branches where our walk-in business takes place and where we stock gases and hardgoods. But then, we've gone farther. On the sales side, we have developed a very vibrant and industry leading strategic account business. We have 1,500 outside sales representatives in the United States, 25% of whom are specialists. These are welding engineers, chemists, safety hygienists and other kinds of specialists. We have developed an engineering solutions group to solve our customers' problems. We're moving towards industry segment managers and you'll hear more about that later on. We have national sales leaders and we have an applications support group. We've also developed other channels, including our telesales channels, which provide single point of contact for multi-facility customers and various account managers who focus on outbound telemarketing activities. Finally, we have the most robust e-Commerce capability in the business, with the online catalogues and B2B interfaces and custom customer catalogues, paperless invoice processing and payment. At the heart and at the center of this platform, again, our 1 million customers. I think the takeaway from this eye chart is that this platform presents almost limited -- limitless opportunities for us to improve. We can make acquisitions and make the platform bigger and stronger. We can add product lines that our customers need. There are many places where, within this platform, where our efficiency programs can generate additional profitability. There are lots of cross-selling opportunities that are presented by this platform. You've heard us talk about the physical -- slide number is eight. You've heard us talk about the physical assets and the Airgas associates who make up our unique platform. You've also heard me say that density is the single most important determinant of profitability in the industrial gas business. This slide speaks to the density and our unique operating model, which together have given us the critical mass to take Airgas to the next level, a market-focused sales and marketing organization. With more than 1,100 US locations, we are everywhere our customers need us to be, leveraging the most complete distribution network in the industry. Slide nine -- from the smallest high-pressure lab cylinders to the largest nitrogen pipeline, Airgas has it all. A customers' volumes determine the appropriate mode of gas delivery with increasing quantities, capital intensity and contract terms as you move from the left to the right on this particular slide. In 2007, when we purchased the air separation units from Linde to form our Airgas Merchant Gases unit, our bulk gas capabilities expanded significantly and we became much more competitive in large bulk and on-site business. As a result, we can offer the full range of supply modes to our customers, which is important because most bulk customers use gas in cylinders and doors. No competitor has this range of offerings in the US. Slide number 10. We also have the most complete hardgoods supply chain. This is very important to many of our customers. It makes us a low-cost supplier for hardgoods in the industry. Our supply chain consists of six state-of-the-art distribution centers, from which we drop -- ship large and small quantities of products to our end customers. We can reach 95% of our customers in a one to two-day period and next day 60% of our customers. We also have 850 regional company branches where we serve our walk-in customers and from which we deliver to customers on trucks according to assigned routes or via a common carrier. Our buying centers also arrange for direct shipment from manufacturers to customers, so for some products we never even touch the shipments. Not only can customers streamline their supply chain by making us their one-stop shop, they can benefit from our unparalleled engineering expertise in areas such as welding process, safety consulting and vendor managed inventory. Our experts can help customers in a variety of industries gain in quality and efficiency through custom application of technology and process knowledge. Few of our competitors have the scale to be able to offer this type of expertise and fewer still can do so across such a broad product line. Slide number 11, another eye chart. Over the last 12 to 18 months, we've looked across our broad product and service offering and our large customer base and we've identified a number of growth accelerators, which we believe will give us growth above non-tech industrial production. These growth accelerators including the following. First, service to multi-location customers. The Airgas strategic accounts program is unrivaled in the industry. We have the broadest product and service offerings, offering the best opportunity for vendor reduction and transaction cost reduction for our customers. You'll hear about our new market focus and how that is impacting our strategic accounts program later in the presentation. Secondly, we have the ability to cross-sell. Over the last several years, we've added many products and services to our offering and cross-selling opportunities abound. Third, customer service. We believe that our core strategy to training, focused on improving the Airgas -- the total Airgas customer experience, along with skills training and then our migration to SAP are true game changers for Airgas. Fourth, technology. You'll hear later on about how we're using technology to enhance value and grow sales today. Fifth, demographics and regulations. These have been and continue to be real drivers of growth in our specialty and medical gas business. Sixth, supply chain management and other services. Customers want and need these services. We like to say it's not just about the molecules or the goggles. Seventh, e-Commerce. A clear competitive advantage for Airgas. Many customers are migrating toward efficient and paperless transactions. Few competitors can match Airgas's capabilities in this regard. If you add these accelerators to our efficiency programs, throw in some acquisitions and you have a very bright future. I'm pleased to turn it over to Mike, who will now talk about that bright future in more depth.-------------------------------------------------------------------------------- Mike Molinini, Airgas - EVP and COO [3]-------------------------------------------------------------------------------- Thank you, Peter and good afternoon, everyone. When we started talking -- preparing for this presentation, and I realize the last time we had gotten together was September of 2007, my first reaction was boy, there's been a lot of change since 2007. And I want to take a few minutes and go through and bring you up to date on some things that have been going on since that time. And some of these, you've heard about. Some of them, you probably haven't heard about and it's pretty cool. We've made a lot of strides in recent years, going through a few pictures on the first slide, you'll see on the right-hand side, the picture of our new plant, which we commissioned in May in New Carlisle, Indiana. It was the second of the two plants we have built in this year and both of which are running very well. The left side of the picture is our bulk logistics center in Cleveland, Ohio; we acquired a small bulk logistics center. With the Linde acquisition, we've relocated and dramatically expanded it and Tom will speak more about that as well as the picture at the bottom, which most people don't even know we have the capability to do. That is an on-site plant at one of our customers that was completed this year and is running well and is part of a new offering that we'll tell you more about, to expand the type of gas modes that we can now supply our customers. And moving on to the next slide, the top of the picture, you'll see a photo of our fill plant, our new fill plant in Sacramento, California. That's one picture of one of 17 large fill plant upgrades, projects or relocations that we've completed since the last time we've met. There are six more still in the process of construction, most of which will be finished within the next six months, part of a major modernization, rebuilding efficiency program that we're able to undertake with the volume and the mass that we have in the markets. The bottom left, a picture of an Airgas store and since the last time we met, there have been hundreds of these stores that have been upgraded, renovated, relocated, expanded, to meet the needs of our customers or to relocate, beginning to get closer to our customers. On the right-hand side at the bottom, is a picture of our new hydrocarbon mixture facility in LaPorte, Texas. Example of a major commitment to technology that we've embraced and you'll hear a lot more about those technologies in order to solve our customers' most complex problems. And lastly, on the next slide is a picture of what you can do when you have volume and mass in a marketplace. It's a picture of our new high-capacity fast-fill plant in Oakwood Village, Ohio. It's typical of the fast-fill plants that we've been putting in around the country and its further evidence of our commitment to low-cost production of cylinder filling and operational excellence. And all of that's happened since the last time we met. Moving on, on the hardgoods side, we've been leveraging our Radnor brand. The Radnor brand is our private label brand, it started in 1998 with sales of $2 million. It's a brand name now that equals consistent quality of products that meet the daily demand of our customers at competitive prices. It's a full 12% of our total hardgoods sales and where Radnor products exist, it makes up 25% of those sales in those associated categories. We're targeting for it to grow to 20% of sales, of hardgoods sales, in the next three to four years. Our gross margins remain 1.5 times comparable brand name items. Two years ago, we acquired an international welding and safety sourcing company that's been searching globally to source our products and reduce our costs, while remaining -- retaining the quality. Our strategies for success is our Radnor brand sales approach $200 million. It's to penetrate further with our existing offering into the branded share, selling deeper into the customer base. Expand our SKUs and existing offering by adding more products in the same families. Extend our Radnor offering into new categories, more product groups to the same customers and continue to drive international sourcing to reduce cost of the products that we sell. New opportunities in retail. Retail, okay. Let's talk about retail. We have never talked with you about retail before. Within the past year, we acquired two companies, SKIL Enterprises and Techwood, both of whom were leading providers of helium to retail stores. Their sweet spot was single point of contact service provider to chains with multiple locations. At the time we acquired them, they had 40,000 cylinders deployed, but less than half of those cylinders were they getting from Airgas. And what does that mean? If you take SKIL, for example. SKIL Enterprises was a company that at the time we acquired them had 34,000 cylinders out on-hand by their customers. SKIL Enterprises did not own one cylinder. SKIL Enterprises did not own one truck. SKIL Enterprises was a service company providing single point of contact to customers with multiple locations, to get the helium to those customers so that they could fill balloons and sell them to their customers. And you say, well, what's so difficult about getting one cylinder or two cylinders of helium to a drug store? Well, nothing really unless you happen to own 6,000 drug stores. And it's not something you want the manager of the drug store to have to worry about. So, we've taken this business, we've taken the SKIL infrastructure, we've taken the service model and now we've leveraged that, using our infrastructure, because we really can supply pretty much anybody's location around the country and we've built on that service model an infrastructure and we began -- we've begun attacking a market that we've largely ignored. It's a very large opportunity in many products and we're just starting to target it. Since we made those two acquisitions, we have deployed an additional 37,000 cylinders, many of which we got back from some of our industrial manufacturing customers just in the past nine months and the future is really exciting in this area. You'll hear more about this from Ron. Our national footprint, and making it easy for these customers with multiple locations, and these are customers that have 1,000 to 8,000 individual locations of having a single point of contact and making it very easy to do business with is very essential and it opens the door to thousands of potential new customers, retail customers, for a number of products. About refrigerants. You knew we made some acquisitions in refrigerants. We made acquisitions in -- and acquired Refimax and Refron and we combined those together to create Airgas Refrigerants. We now have a robust national distribution platform for refrigerants as well as our reclamation business. And why is that important? What's important is that in 2010, for Refrigerant 22, which is the most common refrigerant, the phase-out of production has begun. As most of you know, refrigerants are a greenhouse gas, an ozone heater and the production of those -- of some of those gases, particularly R-22, is being phased out over the next 10 years. 65% reduction will kick in 2010. It'll step down every year until you get to a 90% reduction by 2015. The embedded population of Refrigerant 22 equipment will last for another 20 years and the demand will be strong. Reclaimed and recycled product will be essential to satisfy the demand of the future. Replacement refrigerants that are now being developed are all greenhouse gases, but to a lesser extent than Refrigerant -- than 22. So, the idea of reclaim and recycling as a way of life for these products is something that's going to happen. The strategies for enhancing Refrigerant's presence within the Airgas offering are very simple. Some are simple, some are not so simple. Reclamation capabilities are very, very important because if you want Refrigerant 22 in the future, you're going to have to help and support the reclamation cycle or there's not going to be enough product. Sales to existing Airgas customers, there's over 1 million customers, many of whom use refrigerants. We started this year with a promotion internally called Operation Cold Front and have expanded that now with all our sales people engaged in selling refrigerants and have had great results, expanding Airgas sales of refrigerants to existing customers. And then, on the other -- the last front is legislation to drive migration to returnable cylinders. And I want to talk about that for a minute because the United States is the last developed country in the world that has not migrated the supply of this product to returnable cylinders. You go anywhere else, you go to Europe, all of these products are sold in returnable cylinders. And why do you not want to sell it in a disposable cylinder? First of all, it's steel, it's used once and the steel winds up in the landfill, number one. But more importantly, these cylinders contain a heel, a residual product, and when they come back empty and they're disposable, that heel winds up in the atmosphere and there's probably millions of pounds of this product that is inadvertently discarded because you can't refill the cylinder. Peter has been on the kick, rightfully so, for years that we should be migrating in this country to a refillable cylinder and up until recently, there really has not been much attention paid to that. But the climate is definitely changing, the environment is changing. Just in the past several weeks, we've been very successful in getting language in the current energy bill in the Senate, and the language basically says that within two years of passage of the energy bill, only a refillable container may be used to hold 20 pounds or more of a Class 1 or 2 substance, in which case -- in which refillable refrigerants fall. So, we're positioning ourselves. It's not if this country's going to go to refillable cylinders, it's only when this country is going to go to refillable cylinders. So, we believe the sales growth outlook over the next three to five years, with the reduction in production in 22, the beginning of migrations to refillables, the need for reclamation; the outlook for refrigerants looks very exciting. Ammonia -- we bought an ammonia business a number of years ago and we've been continuing to build it out and provide additional coverage for both anhydrous and aqua ammonia distribution and services. We serve utilities, petrochemical, refrigeration, and manufacturing for DeNOx, which is the pollution reduction process of using ammonia in stack emissions, to remove oxides of nitrogen, chemical processing, water treatment, and refrigeration. Just take a look at the map, keep that map in your mind because I'm going to speak to something in a minute that will utilize this map and the build-out of these ammonia distribution facilities. Operating efficiencies. The last analyst meeting in 2007, it really -- for the first time, we stepped up and said we are willing to step up and commit to taking $25 million of operating efficiency programs out of -- and costs, out of our business by September of 2010. It's a couple of years later, and we've achieved the first $25 million in savings to date. We -- the areas of routing logistics, cylinder testing, freight, plant studies, fuel purchases and indirect spend were the big drivers. We're confident enough, when we look at the opportunities going forward, that we're willing to step up and say that our next target over the next four years is to take another $40 million out of various efficiency programs and it would be about $10 million per year. Segment product overview. This is a slide we use at pretty much every one of our presentations. It's a great overview of Airgas. If you look across the top, you see all the segments that we sell into. We have some markets that are GDP, some markets that we believe are naturally GDP plus growth markets. Over 1 million customers, no customer greater than a 0.5% of sales. About 30% of our total sales are now in customer segments that grow faster than GDP. If you go underneath each segment, you'll see the percent of sales, energy and infrastructure, construction is 13% of sales, moving across -- through industrial manufacturing and maintenance and repair, which are in the -- still in the mid-20s. If you go down the left-hand side of the column, you'll see the products. 61% of our sales are gases, 39% of our sales are hardgoods, and you'll see the various gases. You can see the box that highlights the group of products that we consider strategic products, which I'll talk about in a minute and the strategic products account today for approximately 40% of our sales. So, the strategic products, which have higher than average growth potential, plus the GDP plus growth markets, again, offer us a good growth potential as we grow in areas besides the historical industrial manufacturing and repair and maintenance markets. Let's talk about strategic products for a minute. The total strategic products, our three-year compounded average growth rate was 8%, while at the same time our total same store sales for that period was 5%. For the second quarter of this year, for our -- this fiscal year of FY '10, we had same store sales of minus 9% while our overall same store sales were minus 19%. So, even though they were declining, they outperformed the rest of the core business pretty significantly. They represent 40% of our sales and have strong growth profiles due to a number of factors. They're favorable customer segments, they're subject to application development, increasing regulations or environmental regulations and a very strong cross-sell opportunity. In the case of safety products, very strong cross-sell, even today, after we've been mining our safety product sales through our existing customers for many years, less than 20% of our customers that buy safety products buy them from us. And as you've heard me say many, many times, any customer that's using industrial gases is using safety products. Bulk gases, application growth, engineering solutions, our new bulk capabilities and most importantly, our sales force in the field of our 1,500 sales force, backed up by our network of bulk sales specialists, position us for continued growth, strong growth, in this area. Many, many customers buy their cylinder gases and hardgoods from us and do not buy their bulk. And now with the capability we've added in bulk, we're able to command a much higher share of that business. Medical -- population demographics for respiratory therapy, full range of supply modes and, again, strong cross-sell opportunities. With the new bulk capabilities we have, the number of hospitals that buy their cylinder medical from us, but not their bulk is substantial and we are targeting that very aggressively. Specialty gases, application growth, environmental regulations and enhanced capabilities, all drive for long-term growth. And CO2 and dry ice, food and product applications and the beverage market. Now, I want to stop that section of pretty much of being a history lesson of what we've done in the last couple of years and I want to move into a more in-depth discussion on growth accelerators. Peter listed some growth accelerators and service to multi-location customers, cross-sell opportunities, customer service opportunities, technology, increasing regulation, supply chain management, e-Commerce and things like that. And he mentioned that because we really believe that when you get closer to some of the real life examples of what's been going on with some of these areas, you too will agree this provides us with some tremendous opportunities to accelerate growth. And I'm going to cover just a few. First and most important, I want to explain a little bit further what we are doing or have done with our strategic accounts program. You all know that for years, we've had a strategic account program where it was -- we really geared to and really very successful with larger clients, with multiple locations across the country where we could provide them integrated solutions that were tailored to their needs, offered them the most efficiently managed supply chain and be willing to step up to provide them ongoing and measurable supply chain savings over the life of a contract. Our two-year strategic account sales, compounded growth rate was 15%. And year-to-date this year, sales were down 10%. At the same time, our total same store sales were down 18%. So, it's been one of our strongest performing categories during this downturn. The pipeline of opportunities remains robust as customers tend to renew their interest in supply chain savings during slow growth periods. It's historically been the most successful program where we have an existing relationship somewhere that can be leveraged with other locations. It's been an important, if not one of our most important, competitive advantages. But even though it has been successful, and even though the numbers have been very good, we have been continuously challenging how we can make this program better and more successful. For the last several years, we have been experimenting with national segment sales and marketing leadership in the medical and construction markets. And what this means is we had a national group that was developing national marketing programs designed for all customers in those specific segments. We also had a small group of national sales and relationship managers for the largest and most complex customers. And at the same time, we would use the supply and service capabilities provided by our local branches and the local account managers, which are all part of our regional companies. And we've been experimenting with how do we manage some of these national relationships and how do we use our local relationships for the execution? We also are experimenting with account managers because one of the things we found was that although we were adding new customers to the roles of our -- as Airgas customers, we were not penetrating in those customers as deeply as we would have liked with the full Airgas product and service offering. So, we took some sales people and we dramatically reduced the number of customers they had to worry about and we assigned them to a critical few and we assigned them to those critical few that had -- where there were opportunities to expand and penetrate much further with the products -- the broad product and service offering that Peter was talking about earlier. And both of those experiments, both the national segment sales and marketing leadership and using the focused account managers on the critical few customers have been very successful. And as a result of that, we're moving on to some next steps. And the next steps, really, the way I look at it is a natural evolution of Airgas as it matures, and that is building on our medical and construction success. We restructured our strategic accounts through and we've created national marketing oversight for the key market segments that define the majority of our business. And we now have identified and announced a total of 10 market segment teams, which is both -- will be both national marketing team as well as the national sales leadership team. For the largest and most complex customers, we selected one of our best guys from the field, Ron Stark, who's with us today, and we'll tell you more about what he's doing in his organization. He was formerly the President of Airgas North Central and he's accepted the role of Senior Vice President of Sales and Marketing to lead the transition. But this will really bring additional focus and a lot more attention on the individual segments and the potential we have with these strategic accounts and really accounts of all sizes in each of these segments. Let's talk about medical for a minute. We definitely are being helped by the demographics of the US population aging. People over age 65 is expected to increase by 50% by 2020 and double by 2030. Add that to a comprehensive national medical program, medical insurance program, which will allow more people to get medical coverage and the outlook for our medical business and respiratory therapy is very bright. But it's more than just demographics. I'll take one of our products. It's a picture of a Walk-O2-Bout cylinder. A Walk-O2-Bout cylinder is a cylinder that combines both the gas supply at high pressure and the gas regulation device in an integrated package. In the old days, and even today, in many cases, there was that. You had that medical cylinder and you'd have a medical cylinder and you'd have a medical regulator that was separate from the medical cylinder and in order to use the product, you needed to have both. And your worst case nightmare was when you needed to use the oxygen and you couldn't find a regulator. By integrating the two, we believe that was making a successful product that much better. Five years ago, we had 60,000 of these deployed in hospitals. Today, we have 600,000 of these deployed in many key applications beyond just respiratory oxygen and we're growing at about 85,000 units per year. And today, more than 25% of our Walk-O2-Bouts that are deployed are in everything from nursing homes to surgery centers to zoos, athletic clubs, correctional institutions, schools and drug rehab centers. So, it's a classic example of making new products better and this product is going to continue to grow and add high value for customers. There's also many new applications going on in the medical arena. One that I've just, for a moment, I'll talk about is hyperbaric chambers. Hyperbaric chambers are used where you immerse a patient for a particular reason in pure oxygen for some period of time. Its uses are increasing. It's historically been used to treat burn patients, but now it's being used for people recovering from cancer, for diabetes, many, many more uses. There's about 1,000 of these -- these are big oxygen users. There's about 1,000 hyperbaric chambers out there and the information we're getting is it's on the order of 200 per year; new ones are coming online every year. So again, we view this as a new application and we follow and track very closely every new hyperbaric chamber. So, when you look at the growth accessories -- the growth accelerators in medical besides the demographics and the new products, do we service multi-location customers? Absolutely, many GPOs. Do we cross-sell bulk in cylinders, cylinder bulk? Absolutely. Customer service is key. Increasing deregulation -- regulation and demographic supply chain management, very important, as well as e-Commerce. In addition to that, since we last met, we acquired a company called MGM Certification Services, Medical Gas Management. Medical Gas Management is the premier medical gas piping, design, installation, certification and training company in the US. They design, implement, certify and test medical gas systems in hospitals, surgery centers and other medical facilities. Regulation surrounding and compliance with medical regulations in this country are not easy. They're changing and they're not easy. And hospitals and places that use these products want help and need help, so we acquired this company with the idea of providing a high-value service to our customers that further strengthens an already comprehensive medical offering. And it's been very, very, very successful. The picture, by the way, is -- that you see is Children's Hospital of Philadelphia, one of the leading children's hospitals in the country, a new Airgas customer. And those tanks that look like they're painted Crayola customers in the background are painted Crayola customers -- colors in the background because that's what the children's hospital wants for the children to see when they look out the window. Let's talk about construction for a minute. Energy and infrastructure construction represents 13% of sales. We offer complete on-site supply and local stocking and training, cylinder handling, rental welders, the positioners, generators, you name it. And although construction is not booming right now, particularly in the energy and infrastructure, we believe it's going to come back and we believe it's going to come back strong. We're targeting the top 450 US construction contractors, where today we have a small percentage of their total spend and we believe it's a significant growth opportunity as it recovers. Now in addition to that, we are -- we believe that nuclear will have a significant role in the energy future of this country. And we are positioning ourselves to grow with the nuclear power industry. And one of the things about serving the nuclear industry is you don't just show up the day they're putting a shovel in the ground and say here I am, I'm ready to serve the nuclear industry. You have to be prepared and we are preparing ourselves and are doing very well along those lines. We worked for over a year with the ASME and recently were awarded a QSC, Quality Systems Certificate, to distribute filler metals for the construction and maintenance of nuclear power plants. And you say, well, why is this a big deal? Well, it's a big deal because without this, you don't sell filler metals to the nuclear power industry. There must be an unbroken chain of custody, documentation and certification from manufacturer to end-use. So, unless you can provide this, unless you can pass an ASME audit on your quality process, you are not an authorized supplier to the nuclear power industry, whether you're maintaining the plants or whether they're building the plants. We worked for over a year, we recently got ours at the facility. We've received certification for us and it's outside Cincinnati, in one of our large distribution centers, and the reason we're doing this -- and when you do this, you get what you call an N stamp, which allows you to then start selling to the industry. We do this because we estimate that for each new nuclear power plant that is built, it will consume in excess of $50 million of the Airgas products that we currently offer during its multiple year construction, as well as the ongoing maintenance products, which are sizeable, which would be in excess of the $50 million. So, we're positioning ourselves, we're working very hard with the manufacturers and contractors who are going to build the nuclear plants of tomorrow and maintain them. Diesel exhaust fluid, what's that all about? DEF, as we like to call it. The new product we're offering now is called AiRx. It's trademarked and available. It's a urea-based solution, which is an ammonia-based -- urea is ammonia-based, solution for mobile DeNOx in diesel engines. So, you've heard us talk for years about DeNOx in power plants. You take ammonia, you inject it into the emissions coming out of a power plant, over a catalyst, it takes the oxides of nitrogen and eliminates them as a pollutant. The same exact thing is going to start happening in 2010 for trucks and cars with diesel engines, purchased from 2010 and beyond. So, if you buy a new car in 2010 with a 2010 engine, probably in your trunk, there's going to be a little storage tank in which you're going to be carrying around your DEF to DeNOx your exhaust emissions. It'll be a fixture in the future at truck stops, things like that, any place trucks refuel, because these diesel trucks are all going to have DEF tanks on them. We will leverage the network. You saw the picture of all our ammonia distribution facilities. It's a very small additional investment to get into this. National trucking fleet, fuel retailers, AiRx has already been certified by the American Petroleum Institute, signifying quality of product in distribution operations. It's expected to grow to 800 million gallons a year in the next 10 years. And clearly, it's a growth accelerator of a new product, being driven by increasing regulation. E-Commerce. We haven't talked to you about e-Commerce in a long time. I know you know we do it, but you don't know much about what we do. Providing self-service capabilities that customers want, 24/7 access, online catalogue, very robust capabilities, reference materials, MSDS, certificates of analysis, order history, cylinder balances. Our e-Commerce, since 2007, our web traffic is up 30%, over 325,000 visitors per months. Revenues are up 38%, customer account access is up over 70%, online invoice payment is up over 120% and now about 4% of our customers are now online monthly. And with special interfaces, with certain e-Markets, we are connecting to over 100 large accounts that come into our e-Commerce system through that area. So, the system is good, it's being more heavily used and will continue to get more and more robust. Training -- training is a really tough challenge for us when you have 14,000 employees spread out over 1,100 locations and they range from a scientist to a truck driver. Sending employees to formal classroom training is very expensive and very disruptive. Taking one man out of the one-man store and sending him to training kind of puts a dent in your sales and service capability. With our footprint, providing superior training to all employees is very, very complex, so I want to welcome you to Airgas University. For the past three years, we've been developing Airgas University, which is an assortment of classroom and online courses. Most of the courses we offer have post-test verification to ensure that the students are getting the material that's being taught. We currently have 14 -- over 1,400 training programs in the library today, with more in development. They range from Gases 101, Welding Safety, Selling, Leadership Skills, Operations, Customer Service, Computer Skills, DOT compliance, you name it, they're in the course assortment. In order for this to be embraced, we had to buy hundreds, hundreds, of computers to put in our locations just for the purpose of providing a place for our employees to do online training. We also had to dramatically increase the network bandwidth that was connecting these facilities to our network so that we could have rich content that could be streamed to these locations. And the results have been dramatic. In the April to November of 2008 period, we completed 28,000 courses, a combination of online and training -- and classroom training. And the period of April to November 2009, we have passed the 80,000 course completion rate. It is not uncommon for us when we post a new training class, that within two or three months of an important class, that we will have 3,000 people now that have been able to complete the course. This has had a dramatic, very, very dramatic, impact on the ability for us to train all of our people, whether it be in application support knowledge, new equipment releases, market intelligence, you name it, very, very dramatic impact on the training culture at Airgas and puts us well on our way to having the best trained people in the industry. Core Strategy II, we talked, probably at the last meeting, about Core Strategy I, which was a program to stock the stores with the right products, improve fulfillment, incent the store employees with gain sharing, get their product and process knowledge up to the same level as the best run independents. Now, we're moving on to Core Strategy II, which is improving the Airgas customer experience, designed to eliminate costly rework. It's all about the three C's, connecting, consulting and completing customer transactions. It's -- it generates -- improves the customer loyalty, generates higher sales and most importantly, when something does go wrong, significantly reduce the customer issue resolution time. It's been tremendously successful. We had planned to send 1,000 to 1,500 people through the three-day course that we had developed specifically for our environment. It's so successful, we're going to exceed 2,000 people having gone through the course and this a classroom training. This is not an online training. But this year, we will have exceeded sending 2,000 people to three full days of customer service training and customers are responding with comments and increased business. And rather than me tell you what they're saying, when you get back, we're going to mail each of you a copy of our newest Airways, the company newsletter, much of which is dedicated to what's happening with Core Strategy II. A lot of customer commentary in there about things that they're seeing and experiencing. That's due out in the next couple of weeks and we want you to see it for yourself rather than just take it for one on my word. Core Strategy III, which is bringing it all together with SAP. We're currently running multiple operating systems with separate data sets. It's a pretty well known fact. Our work processes, although we've worked very, very hard over the last four or five years to improve the consistency, there are still some differences. As you would expect, a single platform means a single process. We've taken a very customer-centric approach to the design of what the process is going to be and getting the configuration right is probably one of the most critical things we've been working on since we had the last meeting. We've embraced -- we have about 75 full-time Airgas people working on this project now. We've engaged over 250 additional field people from all walks of life in the field as well as across all of our companies as Airgas subject matter experts, to review over 2,800 work activities and processes to ensure the capabilities our customers need are in place the day we go live. The customer facing applications are going to improve the customer buying experience, we believe, pretty significantly. The configuration we want and need has been built and it is currently in test. It's a phased, multi-year implementation, so it's not a big bang. The first unit -- first business unit will go on -- go live in late spring of 2010. It appears, from talking with the people on the teams, that the universally an improvement over what we have today. And the potential long-term efficiencies and cost reductions that we think we will realize long term appears substantial and will be fully evaluated later in the process. Right now, the idea -- the plan is get the configuration right and get it right for our customers and we'll take on the operational efficiencies and cost reductions later. So recapping, our Hardgood gas and Hardgood infrastructures and supply chains are built and are very strong and very reliable. Identifying and realizing efficiencies in our operations, which several years ago was a project, is now part of our culture. We've got unmatched training programs to develop the very best people in the industry. Our e-business platform continues to provide the capabilities our customers want. Core Strategy II is raising an already customer-centric culture to new heights. Migration to SAP will position us for improved customer service and open up a whole new realm of operating efficiencies. Emerging growth opportunities in things like refrigerants and DEF remain strong. Medical construction and retail growth accelerators are already at work. Our employees remain entrepreneurial and very highly motivated. Strategic accounts activity is very high and the new segmented sales and marketing structure is going to unlock the full potential of what we have built. And at least from my perspective, there's never been as an exciting time at Airgas as there is today. At this point, I'd like to turn it over to Tom Thoman to tell you more about Bulk.-------------------------------------------------------------------------------- Tom Thoman, Airgas - SVP - Tonnage and Merchant Gases [4]-------------------------------------------------------------------------------- Thank you, Mike, and good afternoon, everybody. Today, I look forward to sharing with you some information and details about our Airgas Merchant Gas business. I'm going to focus it on two specific areas. First, I'll touch on the things we've been doing to enhance and optimize our supply chain. And then second, I'll go into how our customer focused selling teams along with engineering solutions approach is being employed across all of the supply modes that you saw in our gas supply chain to really create measurable value and preference to Airgas in the marketplace. Moving to slide number 43 -- so, let's begin with that supply chain and it's our foundation. Our bulk gas supply chain is a unique one, really in the industry. When you look at how we purchase quite a bit of product and then we also produce quite a bit of our product. Putting all that together and really looking at how to optimize that so that we're not driving past each other so that there's not redundancy in what we do is a great opportunity for us. As you see, our teams responsible for managing the gas sourcing relationships with all the suppliers. We're responsible for the production units, 16 plants that are producing merchant gases that we deliver to our customers as well as several thousand tons on top of the 6,700 tons of merchant product down pipelines to pipeline customers. Our logistics team is forecasting and determining what the demand of our customers is ahead of time so that our distribution team can then take the products that our customers need one time, every time. The opportunity for us in optimizing the supply chain is taking all of that and using supply chain tools, expertise, to put all that together and take a look at the demand from our fill plants, our bulk customers and our pipeline customers. And then also, looking at some of the constraints or the situations that we're faced in a given week or in a given month, things like real-time power rates, things like inventories at our plants, DOT driver hours that our drivers have available, where we're picking up product that we're buying from the suppliers, there's take-or-pay considerations. Putting all of this together based on that demand and optimizing the network to satisfy really two goals, to ensure that we're delivering a high level of customer service, no run outs to our customers. And that we're achieving across our production and distribution the lowest landed cost into the network at that given time. Moving onto slide 44, you're aware that we've built some new ASUs and we brought them both online during 2009, which really did two things for us. It really enhanced our supply network and it gives us new market presence in these two new areas. Clearly, winning long-term, large-scale supply agreements with world-class customers like ArcelorMittal and also Dow Corning is something that our Airgas team is very proud of. We're also very proud of how our committed and talented associates working along with engineering partners, suppliers, OEM equipment vendors and construction partners really came together through these two projects as one team instead of a bunch of individuals trying to put something like this, which is very complex, up. They really executed these projects. In New Carlisle, Indiana we have a nitrogen pipeline, a pretty sizable one that send nitrogen to ArcelorMittal's finishing, steel finishing plant. And in Carrollton, Kentucky we have another nitrogen pipeline from the ASU that supplies Dow Corning silicon plant. Both of these plants liquefy in addition to those pipeline gases, 350 tons per day of liquid oxygen, nitrogen and argon that's trucked out of the facilities to the local marketplace. When you look at these two plans strategically, there's a couple of things to comment on. Clearly, when you look at our layout of air separation plants that we bought from Linde that we had prior and that we molded in from National Welders, these two plants fill in open areas in the network, which is very key. They also give us the bulk gas products our sales teams needs in these markets, in Indiana and Kentucky and operationally, these plants give us more redundancy, flexibility and operating options. Moving to slide 45. So, having this infrastructure, this great supply chain is one thing and operating it is one thing. But really, how do you drive it to the next level? And we're doing that through our strategies. There's a number of things to mention here. Our operational strategy and our business around these facilities is really guided by Airgas's vision of being a safety-first minded organization that consistently exceeds its customer's expectations. We did a pretty neat thing a couple of years ago after the acquisition. We held a number of townhall meetings with the new associates; really sought from them the things that could make a difference in this business, the things that can help us achieve that vision around safety and exceeding our customer's expectations. What came of it was the strategy focused on the tenets of safety, reliability, efficiency, and executing, just really getting things done at the end of the day. Well we've made a lot of improvements in the area of safety, really getting in front of the big issue around drivers and driver fatigue, training, behavioral training in that area to enhance awareness. Also, when we dig into the data in safety and look at some of our vehicular accidents. When you study the data, we see that 90% of our accidents resulted in backing at a customer site. So, engaging the drivers, getting them to participate, realizing where those opportunities are for improving the site, working with our customers has had a dramatic impact on our safety record. I'll talk more on how our logistic centers are bringing more reliability and our customer service levels in a little while. But another important reliability initiative through the teams was taking a vulnerability assessment of the entire business. A big area that came up was critical spares, critical spares being in place to minimize turnaround times and unexpected outages. Efficiency is being gained in driving the cost out of our business, driving a continuous improvement culture, by going through our production planning process where we look at that forecasted demand each week. We look at the constraints and then, we figure out how we're going to run each of our facilities that next week so that we're buying the most effective power and again, lowest landed molecule cost. And then, also looking at technology and how these big plants run in the control systems. Some of these plants are upwards of 20-years-old and the control systems back then are a lot different than the control responses of today. These things drive efficiency and our cost stack in making the product. Areas have metrics, incentive systems around these metrics in the production area. We're looking at things like specific power, the amount of energy it takes to make a unit of our gas, payload per mile or how much volume we're delivering per mile in the distribution and logistics area, making sure we have optimal planning and overall, measuring both group's production, distribution and logistics together to ensure that they're working together to achieve the total landed cost into our network. We're doing these good things for a reason. There's clearly headwinds and challenge out there, challenge to our cost stack around power rates, deregulation, expiring rate caps. Cost and capital recovery from prior events, like the spike up in natural gas and coal last year being recovered now, new power generation facilities being put in and recovery on that. And we're seeing a rebound in oil prices in the form of diesel fuel pricing moving upwards. And when capacity utilization is in the low to mid 70s, there's certainly higher operating costs there. So, these things are necessary for strategy and pushing harder to achieve continuous improvement in our operation against these challenges. On slide 46, I'll talk a little bit about our logistics center. It's based in Cleveland, Ohio and it's really become a focal point around how we make, purchase, and we move liquid gases to our fill plants and bulk gas customers throughout the supply network. It's a 24/7 operation and as I've mentioned, we use software planning tools to look at forecasted demand and from there, the demand planning process and deliveries follow. You know, a lot of our regional companies have done some level of bulk distribution themselves and this group is also leading the integration of bringing all of that distribution and those customers being taken care of into the center and the distribution assets into AMG, which is bringing further efficiency to our business. And that's seen in just the growth over the last couple of years. We're now doing 13,000 deliveries per month, driving 2.5 million miles a month and it's quite a growth from where we started off. Again, key metrics are used here, too, to make sure that we're servicing the customer right and we're doing it most efficiently. So, in all, these are some of the key areas of operational focus that are enabling us to enhance and optimize our gases' supply chain to the benefit of both customers and the Airgas bottom line. I'll switch gears now and move into some business development opportunities around merchant gases. I'll give some examples of how our customer focused and team selling approach is really working across all of those supply modes to create win-win situations for both customers and Airgas. And it starts with that very large sales force. A lot of times, I like to break big numbers down and when I think of 1,500 sales people out there, I think on average we have at least 30 sales people per state. That's a lot of sales people. That's a lot of people waking up every day, turning rocks over, taking care of their customers and knowing really what's -- having the density of sales people to really know what's going on in their backyard. That's a real advantage at Airgas. They're backed up with 60 bulk specialists, folks who really understand the bulk gas sales, the bulk gas application, the commercial pieces around selling bulk. They have these black belts right behind them to help them out to win bulk opportunities when they're found. The next layer, application engineers. These are industry and customer process experienced engineers who are creating solutions in the food industry, in the plastics industry, in steel making, primary steel making and secondary steel making, areas like water treatment and the chemical and petroleum industry. They bring the understanding of what's going on in those customer processes. They understand the language that's being spoken in those industries and the opportunities to create more efficiency, improved safety, improved environmental, more quality in the customer's process. And these engineers are also working with our customers and third-party OEM equipment suppliers to enhance existing applications and also to find those next applications for gases and equipment that are on the horizon. This is how we're going to market around our bulk gases. On slide 48, you see the supply modes and our sales teams are now selling fluidly, I could say, across all of these modes, from small customers who need cylinders or doers, to medium-sized customers who are using microbulk as a supply mode or small bulk, tube trailers to the larger customers who have larger bulk tanks, pipelines or onsite plants. The value is really being delivered and enabled by this supply chain. Having the gas molecules in the right place and the right size supply mode is something that really gives customers reliability and a cost effective solution for their specific need versus trying to put some square pegs in round holes. It's clearly a sustainable and competitive advantage for Airgas. I'd like to share with you a few examples of how we're using supply chain and mode and expertise to bring value, real measurable value to customers. And this is a bulk example where you can see our bulk customer or our customer process expertise coupled with application equipment is really delivering that measurable value. This is an example where someone who's molding, injection molding rubber parts; when you do that, you're melting the rubber or molten rubber is being pushed into a mold. When you push it into the mold, there's a flash, there's a thin excess around the edges. Typically, it's hand trimmed or it can be outsourced, tumbled and cryogenically cooled and the flash is knocked off. This customer was sending their parts out, making these various different parts for the industries you see. What was happening is as their business was expanding, they had a real bottleneck and since sending the parts out, getting that parts back, repackaging them and getting them to their customers. Also, the cost was getting out of hand. They were finding themselves in a real challenge in their business, really needing to find a way to become world-class competitive. Our sales people found the opportunity, our bulk specialist and application engineers went in, designed an in-house system to take that inside and save the customer 40% in their costs of doing this. That's a needle mover for the customer and a happy Airgas customer as a result. Next example is around MicroBulk. This is a pretty interesting product size or size mode. It's really between our cylinders and doers and it's smaller than our bulk tanks. Typically, a MicroBulk tank is anywhere from say 60 gallons of product stored at the customer site to maybe a little over 400 gallons of product stored at the customer site. And the mode wasn't really here, you'd say five or six years ago; the mode quite wasn't there. So, what customers were doing is they were using a lot of cylinders or doers or they had an oversized bulk tank that was largely inefficient for what they did and hence cost them more money than it really needed to. The value to the customer with this mode of supply and this right-sized supply approach replaces cylinders with doers, dedicated tanks never have to leave the customer site, taking cylinders out when they're empty and hooking up the new ones or moving heavy doers around which is a safety concern is eliminated. Telemetry is on all of these tanks so they don't have to worry about ordering. These are headaches and hassles that our customers have when they're using the wrong supply mode that something like MicroBulk has solved. We're delivering liquid oxygen, liquid nitrogen, argon and liquid CO2 into MicroBulk sized tanks and typically, our customers out there, you'll find laboratories using nitrogen, argon or CO2. Healthcare is using oxygen, of course. The Life Sciences industry employing incubators and [cryobuyer], or cryopreservation using bulk CO2 and nitrogen, fabricators, laser cutting, using all of these gases and beverage carbonation, of course, CO2. What's making us successful in this is our infrastructure and you kind of look at those modes from cylinder to doer to MicroBulk, to tube trailer to bulk to on-sites, almost like a -- I like to look at sometimes like a baseball farm system. As the customers grow, they need the next mode. Having as many customers as we do and then the customers moving through that supply chain, we have a lot of customers that we can right size into this supply mode as well as use it as a tool to acquire other customers in the markets where we play. Today, we have 150 of these MicroBulk delivery trucks out there serving 27,000 customers. The next example highlights an emerging market that we have our eyes on, so not only the traditional markets but we're keeping a keen eye on where the emerging growth is coming from. This market is about taking hydrogen gas that's run through a fuel cell to create electric power. You've heard a lot about fuel cells in the new hydrogen economy. We're involved in this with a company called Nuvera. Earlier this year, we announced the joint and exclusive marketing arrangement with Nuvera, a leader in this area of developing fuel cell units, what you see on the bottom right-hand side of the slide. And also, onsite hydrogen generation plants, small steam methane reforming plants that take natural gas and crack it into pure hydrogen. Really, if you look at what it's about, this application focus is about taking lead acid batteries out of electric-powered forklifts and replacing it with fuel cells and hydrogen power. You can see on the forklift there where the lead battery unit went, the exact same size and footprint the Nuvera fuel cell slides in and that box contains the fuel cell and also a small storage tank for high pressure hydrogen. In these opportunities, Airgas' scope is around providing the power, the hydrogen power. Whether we're putting it in a bulk tank or a tube trailer or we're installing an onsite plant, our responsibility is to get those molecules, compress those molecules up to about 6,000 Psi, store them in high pressure tubes and then piped to the various dispensing stations in the warehouses. We know along with our work from Nuvera that there's about 15,000 warehouses in the US that operate 24 hours a day, seven days a week and have several -- from 50 to several hundred electric-powered forklifts out there. The opportunity for the customer in switching from lead battery acid power, which has a large carbon footprint, is productivity, real productivity, operating cost, capital avoidance as we're offering this system and energy on a monthly-cost basis to the customers. Straight economic benefit as well as a nice way for customers to get into the green movement, reduce their carbon footprint and achieve their sustainability statements. Like I said, the growth opportunity is pretty good. We're pretty darn excited about working with Nuvera on this. We've got a lot of exciting projects that are working and you'll hear more about this from us pretty soon. We'll switch gears a little bit on slide 52 and go through the last area that I'll share with you this afternoon. And it relates to our readiness now to offer customers, the captive, on-site supply mode. The captive on-site brands meaning when we build, own and operate a gas plant right at the customer site; it can make oxygen, nitrogen or hydrogen. And this mode of supply benefits the largest gas users who typically operate around the clock and they require several truckloads of product per day which presents another set of challenges including supply security, particularly when weather is bad and scale economics. I think our sales team as they become more comfortable with the larger opportunities as a result of the bulk gas acquisition -- acquiring Linde's bulk gas assets and the customers orientation towards larger opportunity is all new for us and it's very exciting. We're seeing more of the larger opportunities as each day goes on and there's a couple of drivers for that. We have a larger gas business clearly than we did in the past or when we got together last. Customers' gas intensity is increasing. The microcylinder customer grows into the MicroBulk customer. So too do the large bulk customers as they find the use of gas to improve their safety, their quality, their environmental issues or their productivity their gas intensity increases and they mode change into the next realm, which is having it on site. As I mentioned through the acquisition of the Linde gas business, we want to grow with our customers. We don't want them to grow and then go to one of the traditional providers for this mode of supply. And with those we've done some big projects with, it's becoming an expectation that Airgas has this both and we can clearly say that they're both expecting this from us and they're pleased to see that Airgas is involved in this supply mode as an alternative to the traditional suppliers. On slide 53, there's some guidelines in how we're going after this. It's not like we're going after every one of these opportunities out there. We're really trying to focus on these objectives. We do want to keep our customers. We want to grow with them and if they're growing beyond the mode of supply of delivering liquid gases to their site, we want to put the plant in for them. We want to look at each one of these opportunities and make sure that these opportunities may even give us the opportunity to build a plant like we did in New Carlisle or Carrollton where the conditions are right to pipeline to the customer and build a little liquid into that marketplace to give us market presence and cost position. Will it enhance our core business supply chain? And how do we create those new and repeat value options for our largest customers? These are the things we're asking ourselves as we look at these large opportunities. We're ready to go out and win these opportunities as we're confident with the capabilities that we've developed. From a business development point of view, we have that large sales force turning over all those rocks. We have the bulk sales reps who know how to recognize and bring one of these opportunities along. Our strategic accounts process that you've heard about already today and that Ron will talk more about is certainly going to give us more VATs in this size opportunity. On the technical side, technical sales support creating engineered solutions for the large opportunities is very common in these projects. And then, how to financially structure a capital project like this and build a proposal for the customer is backed up by internal experience combined with tested and proven partnerships to execute projects through each of the phases from scoping, design and estimating, putting the equipment engineering packages together that go out to the vendors and then expert project management in the construction and commissioning of the new facilities. You'll see on slide 55 that it's paying off. Clearly, the benefits for the customer supply security and having that gas production on site where they're not having to liquefy the product and distribute it to them is the economic benefit that they're gaining by producing just the gas on their site, avoiding the energy costs to liquefy the gas and the distribution expense to move it to them. We've installed our first one of these in -- through the summer and commissioned it in August 2009, making 75,000 standard cubic foot. Let me put that in a little perspective from a core business point of view. That would be the equivalent of about 250 cylinders per hour or 6,000 cylinders per day or from a bulk point of view, about 3.5 truckloads of nitrogen would be going into this site every single day 30 days a month. We have another project signed up and being built right now and that will be commissioned by April 2010 and there's several other very nice opportunities that we're looking at and as you can see, they're pretty sizable opportunities on the sales line. So recapping, I hope you see that we have a strong and diverse gaseous supply chain that spans the supply modes from cylinder to bulk to on-site gas supply systems. And this platform combined with our sales coverage, our customer-centric approach and ability to engineer the right solutions based on our customer needs is really delivering. And finally, our entrepreneurial culture will keep us open to ideas and opportunities that always continue to accelerate our growth for customers and our shareholders. I'll turn it over to Jim Muller now who's going to talk about specialty gases and life sciences.-------------------------------------------------------------------------------- Jim Muller, Airgas - SVP - Specialty Gas and Life Sciences [5]-------------------------------------------------------------------------------- Good afternoon. When we talk about specialty gases at Airgas, we're talking about pure gases that are at purity levels that are appropriate to support instrumentation, precision gas blends and calibration gases, environmental monitoring gases, hydrocarbon blends, rare gases and specialty gas equipment. Over the years, we've built out an infrastructure that spans the country. We have now nine national spec gas labs. We have one medical OEM facility, two equipment facilities and one R&D center. The national labs basically produce the higher end, lower volume products and they're supported by 65 regional labs that produce the higher volume, pure gas products and more common mixes. Over 54 of our facilities are ISO 9001:2008 registered. We have three facilities that are 17025 accredited and one facility that's accredited for medical devices. We have a real leadership opportunity we feel in spec gas. The reason we feel that way is we've been investing heavily in the future working to advance technology, listening to our customers, learning from them as to what areas they need support in and providing solutions, which to us means we're building lifetime customer relationships. Because the spec gas is not enough for us to play the game, we're out to change the game. I want to talk to you a little bit about our R&D center in Cheshire, Connecticut. I'm not sure how many of you are familiar with this. We started this effort back in 2001 and what we have here is what came out of work experience from the director that runs this center. The director actually had run one of our national labs and in that responsibility, he became frustrated with the fact that our industry wasn't developing tools to really move forward in terms of quality and consistency. So, with that as the need, we launched this R&D program where the mission of this group is to invent, design, fabricate, install and service technologies and automation that will drive efficiencies in our industry and move the entire industry forward. We have in that group people that can handle the chemistry, the software engineering, the mechanical engineering, electrical engineering and project engineering. This is a total solutions group. In terms of what they begin working on, they started with what I believe is our toughest challenge in the specialty gas arena. I mentioned that we product EPA protocols. I say EPA protocols is the toughest challenge because the accuracy and integrity of the protocols that you supply to your customers translate to tremendous financial impacts to those customers. Protocol gases for those who may not know are used to calibrate continuous emissions monitoring devices. So, what you do is you take these blends and you use the blends to calibrate your instrument so that you can then report on the level of emissions that you have. The graphics in this slide that you're looking at actually show the impact of providing EPA protocol blends to customers that are not completely accurate. The first example is if you're looking for 100 parts per 1 million of a contaminant and you have a tag value that says that cylinder or the certification says this cylinder has 100 parts per 1 million and the actual value of the cylinder is 96 parts per 1 million, you calibrate you CEM using that gas and you will be overstating your emissions, which you all understand I believe that it's a significant financial impact when you do that. Conversely, if you supply a cylinder that has a tag value of 100 PPM and there's actually 104 parts per 1 million of the contaminant in the cylinder, you'll be understating your emissions which can lead to bigger problems, including fines from the EPA. So, when an end user selects a gas supplier to supply protocols, they're entrusting that supplier to provide them with an accuracy level that will minimize the impact of these variances. You look at the industry and how the industry traditional produces protocols, the standard method is gravimetric blending and what I have pictured up here is actually considered to be basically a state-of-the-art gravimetric blend panel. However, I'll tell you that this is a very manual process that you're looking at and it's a very fragile measurement technique and has very difficult reproducibility. And the reason is its very much operator skill dependent. I know the picture is a little blurry but if you look in the center of the picture what you'll see is a series of valves and what's going on here is gas is being added to the blend based on the molecular weight of the gas product. And you have an operator manually turning a valve to hit the targeted amount that he wants to get into that cylinder. Now, at the PPM levels that we're dealing with, I would suggest to you that it's very difficult for a gravimetric blender to hit the values every single time. Plus, you're relying on that gravimetric [pillar] to record the information in terms of what he's put the gram as into that cylinder accurately and that's part of the certification process. The Airgas solution, which came out of the R&D effort is AcuGrav. AcuGrav is still gravimetric blending, however, it's an automated process. And it's an automated process driven by a user-friendly graphic user interface that gives the operator text, verbal and visual prompts. The problem that drives AcuGrav will follow our SOP every single time. It has no ability to deviate from our SOP. So, there are no shortcuts in the Airgas production of protocols. Also when the target values are recorded they're recorded electronically. There's no operator interface to record the values so they're accurate every time. So what it means to us is we have unmatched quality, unmatched consistency and this is a patented protected proprietary product that was developed by Airgas R&D. This is a game changer. Now, I mentioned that Acugrav was developed for protocol production. I will tell you that today we have 28 AcuGrav units now deployed. Now if I only have nine national labs producing protocols why do I have 28 AcuGrav deployed? The answer is the power of this technology is such that we've found much broader application for it in our industry. We are using AcuGrav today to fill a lot of medical mixtures, for example. This has been FDA validated. We are also looking at using AcuGrav to solve some of the toughest problems that we have filling on the industrial side of the fence. For example, shielding gas blends in our industry have been a problem forever in terms of getting quality and consistency and per se and argon CO2 with our mixture. Airgas has the ability to fill those products using this proprietary technology and get it right every time. That's a game changer. So, once we solve the production part of the equation the other challenge in producing accurate protocols is the analytical challenge. It's the most difficult product we have in terms of the analysis that you have to go through. The processes that we use to do the analysis is called FTIR. It's an analytical method. We have been able to automate the FTIR process. What does that mean? It means unmatched speed, unmatched accuracy. We are now filling 4,000 protocols per month at Airgas and we have 14 chemists that are doing the analysis. The reason I put that statistic on the slide is rule of thumb in our industry is that for every 100 protocols you analyze in a month you traditionally need one chemist to do that. So, without auto FTIR, Airgas would need 40 chemists approximately to keep up with our production demands today. So this has been a tremendous advantage for us from a cost standpoint. It's patent-protected product. We now have 11 of these units deployed throughout our lab network. So, when you sum up the advantage on the production side and on the analytical side we have superior blending technology. Our average prep tolerance is less than one tenth of one percent. I would suggest to you there isn't a grav filler in the world that can get that kind of accuracy. We have superior analytical technology. We have the most accurate protocols in the business. And that saves our customers a lot of money. Join that with the larges production network and distribution network, an excellent reputation with NIST, which is the National Institute of Standards and Technology. We are actually -- we were awarded the gas supply contract to NIST which sort of understates the relationship we have with them. We have an excellent reputation with the EPA and we are today very credible environmental consultants. Okay. The next challenge that we faced was in the area of hydrocarbon blends. These are multi component hydrocarbon blends that are used in various petrochemical industries. There's actually an evolution going on in that marketplace where the end users are changing from a periodic measurement model to a continuous process where instead of taking a sample out a production run taking it to a lab and analyzing it. What they want now is process control whether analyzing real time as their process is ongoing. There's a migration in the industry from less complex gaseous standards to more complex liquid standards that have tighter tolerances. And there's a need for enhanced blending analytical and certification technologies. Hydrocarbon blends include such things as the blend standards, hazardous air pollutant standards, volatile organic compounds standards, and so on. There's just a laundry list of demands that are coming from this industry. And what we find in the industry is it's very fragmented in terms of supply of these products. There's a lot of small distributors, less than $5 million a year in sales that are, what we call, boutique suppliers of these products. And that is what we're targeting for, for acquisition. We've just recently made an investment in the hydrocarbons arena. We've opened a new hydrocarbon center of excellence in the Port, Texas. I think Mike may have referred to this. What you have on this slide is some photos of that facility. What I want to impress upon you is when you think about the competitive landscape and the size of the competitors consider that this is roughly a $4 million investment that Airgas has made to be a leader in hydrocarbon blend technology. What you see here are some four manifolds that are capable of bringing as much as 18 components to a cylinder at one fill operation. You also see in the center of the slide some of the analytical instrumentation that we've invested in to support this market. There's nothing like this in the industry. Next, I'm going to talk about another development from our Airgas R&D center known as the SCADA system. SCADA stands for supervisory control and data acquisition. Essentially what we've done is develop a software platform where we can monitor various types of devices that we have out in the field. And so depending on what the end user's requirement is we can put a control in place to basically feed back to them what the condition of the acid is at any given point in time. What I have pictured here is actually a MicroBulk installation. It's an argon MicroBulk installation. To the left what you see is the data acquisition device. On the top of the device is actually a solar panel. This is solar-powered cellular technology Web-based tracking mechanism where we can actually for this cylinder measure the liquid level in the tank remotely. We can also tell you what the head pressure is in the cylinder at any given point in time. And we can feed back to the customer what their usage pattern has been on the product, what their peak usages are, what their peak flows are, any data that they're requiring for their application basically is what we're endeavoring to capture for them over this SCADA system. Now, this is just one application of what we believe will be many. The logical expansion of SCADA can go to something as simple as monitoring a cylinder remotely. We could get to the point where we could actually have in critical applications cylinders reordering themselves through our delivery system -- very powerful. Mike mentioned before that there's a real push for refrigerant recovery that's coming our way with the decrease in the production of R-22. Today when you talk about recovering refrigerant it's a very labor-intensive manual process and as we reclaim refrigerant even the process of analyzing what's returned to you is not accurate and slow today. So, planning for the future, we've challenged our R&D team to come up with a better analytical solution for recovering refrigerant and to come up with an automated solution for processing that recovered product. This was a conceptual photograph. I can tell you that we've been now working on a recovery plant for about a year. We've conquered the analytical solution part of this. We're solving it with GC mass spec. I can tell you that within two minutes, we can analyze the GC mass spec recovered cylinder and tell you exactly what's in it, not just whether it's R-22 or not but what the exact refrigerant is and the purity of that refrigerant that we're recovering. What the plant depicts is where it goes from there. Once we know what it is, what this automated plant will do for us is calculate what the credit should be for the customer that returned the product, and also send the product to the right recovery tank so that we can then repackage it and resell it downstream. This is just a picture of the graphic user interface that has been developed for the recovery plant. In the interest of time I'm not going to walk you through this. But it's suffice to say that this will be a user friendly and very comprehensive graphic representation of the whole process. Switching now to Engineered Solutions for Life Sciences. We have a lot of customers that are brilliant scientists that are using cryogenic storage today. And the reality is they're not expert at cryogenic storage. So, what I show on this slide is not untypical of what you'll find when you walk into a laboratory environment. On the left-hand side of the screen, what you see is three liquid doers that are supplying the nitrogen to the freezers. The freezers are on the right side of that picture and you'll notice that the freezers are a combination of different styles and sizes. To the right of that slide, you'll notice that there's piping that goes from the liquid nitrogen can over to the freezer. And it's just foam-insulated pipe and you'll notice if you look closely an ice ball on the bottom of that line. That's very common when you have foam-insulated pipe. With the temperatures that we're dealing with here you're going to get to the ice ball formation. It's going to create puddles on the floor and a mess in the lab. You also will see the wiring system that's in place that goes to the temperature controllers and alarm systems for this installation. Now consider that we're talking about tissue samples, potentially life and death issues that are requiring this cryogenic storage. The integrity of these systems has to be brought up to a higher level. And we believe our role in this market is not just to supply liquid nitrogen but to bring solutions to these end users as to how they'll provide cryogenic storage in a better way. The after slide shows the same space after it's been reengineered by Airgas. It has double the capacity. The integrity of the freezers is state-of-the-art. You've got data recording that is also state-of-the-art. You see the MicroBulk supply on the outside of the building. Its vacuum jacketed, stainless steel pipe that feeds that system so you're not going to get ice balls and frost on the floor. This is where I'd want my tissue samples stored if I needed that service. The logical extension of this is for Airgas to provide an entire cryorepository, which we've done in a few cases. This is a relatively new offering for us but what this represents and the picture shows is where we would supply the freezers and we would supply the nitrogen basically guaranteeing the cold and the integrity of the backup systems, the alarms, the temperature recording and so forth, another game changer. We have another capability their gas and the specialty gas arena where a customer that has a gas supply requirement that they're having trouble solving from an engineering standpoint we actually employ a group of engineers that specialize in solving these problems. I'm just going to give you one quick example. What you see in this picture is a manifold system that was developed by Airgas. These are mass flow controllers. This happens to be a solar cell manufacturer that needed an efficient way to supply hydrogen, wanted a processes. We came up with a solution. We've now installed over 80 of these manifolds to help them bring in-house a process that they had been outsourcing prior to. The picture that I have up now is a solution that we've come up with for universities. Anyone that's ever dealt with a university laboratory environment knows that they buy a lot of disposable lecture bottles. They are very small cylinders of products that they consume and the problem is once they consume the products since the cylinder is not refillable it becomes a hazardous waste disposal issue for them. We know that if we can develop a refillable cylinder to handle four products, ammonia, hydrogen chloride, chlorine and sulfur dioxide we can address 80% plus of the problems associated with lecture bottles for a university campus. That is a huge problem solved for universities, but a big door open for Airgas and that is something that we piloting as we speak. So to recap, the specialty gas position of Airgas our goals are to maintain our excellent safety performance to provide world-class quality products, deliver our products on time, every time, push for advancements in automation, engineer solutions for our customers and change the industry. Our growth will be driven by the pursuit of new technologies, advancements in automation, increasing regulations, strategic accounts and e-commerce. We're very bullish on spec gas. Okay. Now Jay, I believe we're going to take a five-minute break. (BREAK)Presentation-------------------------------------------------------------------------------- Ron Stark, Airgas - SVP - Sales and Marketing [1]-------------------------------------------------------------------------------- Good afternoon, everybody. I guess I'll kick off the second half of the presentation here today. I've been in this role since September 1st, so about 100-day mark. And as Mike mentioned prior to that, I had the pleasure of serving as President of Airgas North-Central for the previous five years based in Chicago. So, I'd like to talk about today is our customer base and how we are going to better serve them in the future. As we've mentioned we have over 1 million customers that we supply today and with great diversity, with none of our customers being more than 5% of our sales. We have broad exposure to the US economy as the previous presenters have shown. And about 30% of our revenue now comes from customer segments that have above average, above GDP growth characteristics. So, where do the opportunities abound going forward? As you've heard already this afternoon, we have many new and enhanced products and services since the last time we got together about two years ago. We have strong capabilities to deliver those products and services in a variety of modes for our customers. We have the industry leading distribution platform. And have developed a full range of customizable supply chain solutions. Customers, as been mentioned, are much more apt to interface now with our e-Commerce portals. That's important for two reasons; number one for our customers it substantially reduces the cost of transactions both in actual costs and in errors. Second equally important as we deal with large multi-location customers, it allows a lot better compliance to the supply contracts that they sign so that they can deliver the revenue volumes that they say to us and can monitor that we are supplying all their facilities effectively. We've also mentioned there's an expanding role of product and application technology in our offering. The regulatory environment that our customers face today is increasingly complex. And we have developed the ability to serve as subject matter experts in many of the regulatory issues that not only will impact them today, but will impact them tomorrow as well. And because of the diversity of our customer base, we have customers with a very wide, very range in needs. And sharp focus on their particular needs is critical as we move forward. As mentioned over the past couple of years, we segmented three specific market segments for more intense focus. That was our Medical and Healthcare business, our Construction business and the most recent, the focus on the Retail business. We have over the last couple of months reviewed the balance of our customer base and have recently announced that we are going to have sales and market segment focus on the following major customer bases, petroleum, chemical and pharmaceuticals, the energy market, metal production and fabrication, food and beverage, multi-sector conglomerates and non-ferrous materials, our work with government and alternate channels, and the university, commercial labs and emerging nanotechnology segment. I'd like for a minute to talk about two of these particular market segments in more detail. First I'd like to take the energy segment. What is the energy segment? Basically, it is the production of electrical power or natural gas from point of production all the way to the distribution to the end user. So all of the value chain along the way with the production and distribution of energy is what we're focusing on. This would include areas like the large electrical utilities, the natural gas producers and the pipelines that carry it, oil, gas and coal production, and the emerging renewable sources which include solar, hydrogen and biomass. As others have mentioned earlier today, particularly Jim in the last presentation, a key customer need in this energy segment is the monitoring of pollution control and the environmental aspects of that. In this particular segment, it's the largest consumer of our EPA protocols for continuous emissions monitoring. We also supply this segment a substantial amount of ammonia for DeNOx applications, primarily for coal-fired power plants. This customer segment also has a significant requirement for refrigerant and sulphur hexachloride. And so not only supply that, but reclaiming those gases for them is critical. And they also use a significant amount of hydrocarbon blends for the monitoring of their various processes. As we pointed out earlier, we not only supply all these but we supply all these products at a technical level that is in the highest of the industry. And we have the resources to help customers utilize these gases efficiently. When you look at the exploration area, particularly natural gas, it consumes a substantial amount of bulk nitrogen and bulk CO2, what is typically called well fracing in the industry for the production of natural gas. We also have a significant amount of applications for confined space. We have a service company by the name of Oil & Services that's in the group that specializes in breathing air supply and monitoring. And when you add all these products and services together, the ability to manage the entire supply chain for this customer base becomes very critical. Additionally, we supply the core products to the -- this industry consumes a substantial amount of safety, welding hardgoods and MRO and industrial packaged gases of all forms. When you look at this market, of the 78 largest North American energy companies, 73 of them today are already Airgas customers. So, we have a significant business relationship that we can build upon and continue to sell more and more products to these customers as we help solve their problems. With this segment alignment, we have the opportunity to grow in this area, we feel by $100 million of market opportunity that we have yet to tap. So, what is the selling approach to this now that we've defined the industry and the products and services we can supply? First and foremost is our product and process expertise. And that is developing the customer-specific regulatory compliance solutions. These are the most powerful opportunities we have to get in front of the customers, not only because of the technology contents of these offerings, but as the potential cost implications for these customers if they're out of phase with their regulatory compliance. Saving customers on their emissions, as Jim pointed out, is a very powerful weapon in our arsenal. And we have developed and are continuing to develop a strong reputation in the Utilities industry for consistently providing very high quality EPA protocols. We have the ability to leverage our existing relationships both at local levels and corporate headquarters. We utilize both strategies in helping develop a strategic account portfolio for our customers. And we are a single source supplier. In the past, procurement has tended in this industry in particular, to be very compartmentalized and geographic. And there wasn't really many suppliers if any that could provide the complete product offering. Those are changing dramatically, particularly when you think of areas like utilities where there's been a substantial amount of mergers over the past decade. You're getting some very sophisticated supply chain management people in those utilities now to look across their entire supply chain. And they have the electronic tools at their disposal now, particularly in e-Commerce to put together the range of their supply chain needs and go through the procurement process. All those developments are very exciting for Airgas because it puts us in a very excellent position to gain more business with these customers. And as we mentioned before, we can supply support for this industry, particularly the Utility industry from construction, from the dirt, until all the way until the owner-operator manages that plant. Or in the construction of a typical coal-fired or natural gas construction project, all the way up to a nuclear power plant. We're a key supplier not only to the owner-operators, the utilities themselves, but we're also a very key supplier to the largest general and mechanical contractors that build these projects. And the recent addition of our N stamp just adds to that capability. We also provide in the supply chain management for this customer base our OUTLOOK services. In this case, we embed actually Airgas employees on site to do the supply chain management. And with these customers, there is opportunity primarily because it's quite a challenge. They have several, in the utility sector, they have several plants and in some cases multiple hundreds of unmanned substations that we provide product to. So managing the entire area of solar gas management is a key opportunity. So from an opportunity standpoint, we feel we have strong strategic account potential. Today we estimate that we have captured about 10% of the total revenue potential in the energy segment. As you look towards areas of legislation, global warming and air pollution, and energy security, it's going to be quite an exciting time as the energy sector goes through this transition. Power generation, particularly greenfield and retrofit investment, in the nuclear industry flex-fuel and natural gas, infrastructure projects for natural gas pipeline construction, emissions monitoring, management and even the proliferation of non-conventional natural gas recovery, as well as other technologies all bode well for us for increased growth and revenues with these customers with a very rich and broad supply product offering. Going from energy now, I'd like to go to the other end of the spectrum. It's energy or very large plants where we deliver to the retail segment is on the other end of the spectrum. When we think of retail, we think of institutions that are primarily B2C transactions. They sell to the end use customers. They're your grocery stores, your pharmacies, your discount stores, your party stores, your flower shops, restaurants and auto mechanics. These customers collectively use a substantial amount of cylinder gases in the form of helium and dry ice, beverage C02 refrigerant, oxygen and fuel gases, and so a wide range of products that they use. They have a multitude of locations that require a few cylinders in each. And the delivery is not your typical industrial delivery. We're not backing up to a large dock with a semi, we're delivering in a strip mall and taking these cylinders off our truck and delivering them into the store itself. And these customers that own these chains want a single point of contact, consolidated invoicing, and that's why we've developed a unique service platform offering for this group going forward. To give you an idea of one area, greater New York City area, the greater Philadelphia area and New Jersey, there's 17,000 plus retail institutions in this market place alone that utilize Airgas products or services. Today, we're slightly over 10% penetrated; only 1,800 of this potential customer base are Airgas customers today. So, what is our selling approach? As Mike mentioned earlier, we develop this distribution platform, or service platform, with the acquisition of Techwood and SKIL Enterprises creating what is now Airgas Retail Solutions. Our offering is to target the large national chains with the greatest potential to build density in the various metropolitan markets that we are offering the product in. We can offer consistent product quality, pricing and consolidated invoicing with location-specific reporting. And as you look at our 1,100 locations, 850 branches, we can basically get that product anywhere in the United States. Our delivery service we believe importantly includes the swap-out and connection and retail presentation. Again, this is not an environment that's used to dealing with compressed gases from a safety standpoint. And so, we take all that hassle away from the customer so they can go about the process of filling balloons without having to make high pressure, compressed gas connections. And the ability to cross-sell to this market place for greater penetration in our beverage CO2 market, which we've been in longer than this market and other retail markets allows us to sell both helium and CO2 to a lot of institutions across the United States. So, from an opportunity standpoint, to kind of put this in perspective, our current strategic accounts offering, we have about $40 million in this channel. And quite candidly, we have not -- prior to the acquisition of SKIL and Techwood, we have not really developed this channel at all because we do not have that platform to do so. So basically, we're starting with $40 million of revenue and the opportunity of double-digit revenue growth over the next five years seems pretty good. And with our unmatched presence and offering and probably most importantly a focus on this business and a platform to give the customers what they need, we find this to be a very, very exciting opportunity going forward. Okay, so those are two specific examples, kind of a deep dive if you will on some markets. Now kind of going back to what else do we offer these customers besides product and the ability to deliver? An area of continuing evolution and more and more need in the market place is supply chain management solutions. What we're trying to do again is solve our customers' major challenges. Cylinder management, inventory stocking and tracking is a major opportunity for us, a challenge for our customers. Our opportunity is to solve the problems for them. Tracking the gas usage across departments, allocation of cylinder rental costs, when you think about a university campus or a large research and development facility, the ability to accurately track where those costs are going is key to them; as Jim mentioned with these SCADA devices, the ability to accurately manage them. And then in the hardgoods arena, in the safety arena, inventory control, nobody wants to have more inventory than they need on hand. At Airgas, we offer customizable platforms. The key is that we can do everything from a B2B interface, all the way to having employees on site managing customers supply chain requirements, and basically anything in between. So even our largest customers, we have customers for example that have some facilities that have 1,000 employees where we have people on site managing it. They also have facilities where there's as few as 20 or 30. And those facilities order B2B, and we direct ship from our distribution centers. So even within companies, we can customize the supply chain solutions at each individual location. And the customer benefits of doing that obviously is reduced inventories, improved cylinder utilization, improved site safety by having less product on site, and ultimately it's the total overall reduction in the customer's total cost. So, what is our offering going forward? To put this in perspective, about 17% of Airgas total sales are currently through strategic accounts. And that has been growing at a 10% plus rate in recent years. Our existing strategic account program was built off of our core product offering which was the national branch platform for packaged gases, hardgoods and safety. The utilization of our six distribution centers for shipping to customers, our nine specific gases and 65 regional specific gas labs, and the nationwide production distribution of bulk and CO2 and dry ice. We've added that over the last two years with the substantial increase in the 16 ASUs that we now have for bulk nitrogen, oxygen and argon. We've added the ammonia and refrigerant product capabilities which a substantial amount of these customers utilize, a lot of them with a very fragmented supply chain. We have the gases application support, supply chain platform and administrative services now that go basically from customers request for proposal all the way through accounts receivable. And as we bring all these various offerings that have been developed under a new sales and marketing structure, we can bring focus of the entire portfolio of Airgas products and services to each individual segment and customize to their specific needs. So, as a quick recap as we move forward, we are in the process of segment alignment that allows Airgas to tap the full potential of customer-centric platforms and offerings in both field sales and our strategic accounts group. Our market segment teams will focus on the development of our highest potential customers. 430 plus customers have been identified for development, review and prioritization. 120 of these already have strategic accounts within Airgas and we have a substantial relationship with many of the others that are there. And when you look at it from our current portfolio, the existing products and service offerings there's about $1 billion in revenue opportunity in Airgas in these targeted strategic accounts area alone. And we have significant additional opportunities beyond that in the field sales area. So with that as an overall recap, I'd like to pass it to Les Graff to talk about acquisition strategy.-------------------------------------------------------------------------------- Les Graff, Airgas - SVP - Corporate Development [2]-------------------------------------------------------------------------------- Thank you, Ron. Good afternoon, everybody. I plan to spend a few minutes providing you with an overview of our acquisition strategy. What I'll do is I'll give you an overview of the resources that we have available to us for acquisitions, our approach to valuation, our approach to integration, and then what we see as opportunities in the near to medium term. As you all know, acquisitions have formed the foundation of Airgas and our business. Over the last 27 years, we've acquired 400 companies approximately, and most of our 14,000 plus associates including the majority of Airgas leaders have come to us through acquisition. And we think consistent in our strategy these whole 27 years is how we invest in acquisitions and assets and people. So, I think the point here really is that we've got tremendous amount of alignment throughout the organization in regards to acquisitions given that our people evolve, most of them have come to us through acquisitions. There's a tremendous amount of confidence in the organization in our ability to acquire responsibly, to manage integration efficiently if we acquire responsibly, and do good valuations and cut good deals, and then effectively integrate and create a tremendous amount of value for our shareholders. A lot of our employees and most of the top managers, top 250 managers are all shareholders in Airgas and incented with stock options. So there's a lot of alignment there. And acquisitions also create opportunities for professional growth within the organization. We've got good alignment and we intend to continue to leverage this competency to help us bolster our growth going forward. So what does the team look like? We have a small in-house corporate development team that's out there on a continual basis scouting for opportunities. They have really four primary functions. One is that is to build relationships with private business owners and develop a pipeline of opportunities so that when the business owners are ready to sell, they come and talk to us. Then they evaluate the transaction. They evaluate the business. They put a value on the business. And negotiate the deal and close it if we're successful. And then they coordinate the due diligence process, or coordinate the integration process. That's kind of the small team, but really there's a much larger team involved here. We've got an extended team of people that participate in the acquisition process that goes throughout the organization. And that includes operational people at the divisional level; all of our division management people in our three divisions are actively involved once we have live deals. We have a dozen and a half business unit presidents and in their area, vice presidents who help us scout out transactions. And once we have them, they're very actively involved in the due diligence process and the integration process. And then, we have functional resources at corporate like IT, HR, finance, legal, et cetera that are very involved in supporting the due diligence process, and supporting the integration process. So once we've got a deal that's completed, we've got established models to help us communicate effectively and successfully integrate the business. Our approach to acquiring, we like to think our approach to acquiring businesses has always been rationale. We have a pretty consistent discipline that we've applied in pretty much every evaluation that we do. It's all based upon cash flow model, basic cash flow model that evaluates the business based upon its ability to pay for itself. We use very conservative assumptions when we value the business. Some of these include -- we use flat sales. We don't -- even though we have lots of cross-selling opportunities with our product portfolio, we use flat sales when we project out. We only include cost-type synergies that we can readily identify and get to within a reasonable period of time, things like overlapping store locations, modest route consolidation, back office consolidation. Again these are things that we've proven that -- synergies that we've proven that we can get in an efficient manner. And then, the other thing we'll do is we'll take -- these are private businesses, so a lot of times there's a lot of noise in the numbers. We've got to normalize the numbers and we go through a rigid process to do that. The return metrics are aligned with our company goals. We expect to see a cash payback in the six to eight-year basis. That's the 80-20 rule, probably 80% of them fall within that range. There could be some that are a little higher, some that are a little shorter depending on the characteristics of that business. We look for a 15% ROR on unlevered cash flow. And we look for accretion to our operating margin goals. And we look to equal or exceed our return on capital goals after full integration too. On an average basis, the multiples we've paid of EBITDA are in the 5.5 to 6.5 times range on adjusted EBITDA. Another important factor in the process is the operating management is fairly actively involved when we're evaluating a business. It's behind the scenes, but they're helping us build the operating assumptions that we put into our model. Because what happens is after the deal's done, that model gets added to their business plan and they're compensated on how well they perform relative to their overall business plan. So they own the synergies, they own the operating model. And they're compensation is aligned with our objectives. And we also take a rigid approach to due diligence, or rigorous approach to due diligence. We're pretty practical in our approach. And what we're looking for is valid the information that we've used to evaluate the business. And look for areas of risk that we need to mitigate. And when you look at risk, we've always been risk adverse in our transactions. And over 95% of the transactions have been asset transactions, so we don't do a lot of stock purchases where you inherit legal liabilities. When we have done stock transactions, the due diligence is even more rigid. And we protect ourselves with indemnification and representation wordings from the sellers. So, we're always on the outlook. We're trying to avoid legacy liabilities at all cost. So, if we do a good job on the front end with the acquisition evaluating it and getting a good transaction in place that gives us -- that really provides us the opportunity to create value for the shareholders. It doesn't necessarily create value; because where we create value is on the integration side. So over the years, we believe we've developed our integration process as a real core competency. Each transaction we will develop a detailed project plan specifically tailored to that project. And included in that will be -- we'll include all the critical functions that we need to do from an integration standpoint, timelines, interdependencies between various people within the organization and various functional groups, key milestones and we'll identify all the responsible parties. The integration plans cover all the applicable areas such as computer system integration, employee on-boarding, customer integration, consolidation of real properties, consolidation of routes, safety and compliance measures that we need to follow, and financial and internal accounting controls, as well as other important functions. Again the integration's driven by the operating team. Corporate development's role is to provide them with the information and access that they need to prepare for integration, but yet it's the management teams of the operating company that on-boards the business, they drive the integration. And it's supported by HR, legal, finance, other functional areas within Airgas. We've also developed the ability to coordinate very large integrations across multiple business units. In the past, prior to the Air Products acquisition, most of our integrations were small, contained to one or two regional companies. Once we did Air Products that was our -- that's where we learned how to do a large complex integration across multiple business units. Also, as a follow-up to the acquisitions, we have a pretty rigid process that we go through to do a post-acquisition review where we measure the success of the transaction. We look to see did we achieve the synergies that we committed to achieving? Did we retain the business? Did we retain the key employees? And then, we also look for lessons learned because they're not all going to be perfect. You make mistakes here or there. But we've got a pretty rigid process to do that. This chart just shows our acquisitions. This chart shows our acquisition history. As you can see looking back into the '90s activity peaked in 1998, in the late '90s and then dropped off. The drop off was really due to three different factors, the economic downturn and bursting of the Internet bubble. At the same time, we went through our repositioning for growth program. And that was an internally focused program that took resources and effort away from acquisition. And then also towards the tail end of that time, we got involved in the Airgas or the Air Products acquisition. So, if you look at fiscal 2001, we did one transaction there, not a whole lot. But we were really spending most of our time and effort preparing, negotiating the Air Products deal and preparing for that. Following Air Products, again the volume wasn't really heavy, but we had a whole year where we were integrating Air Products across our entire business platform. And then when you look at 2004, again acquisition activity was light. But we had gotten pregnant with BOC at that point. So, I think the important thing is once we got through BOC, you can see that we were able, a) to start to be in a position where we're integrating very large acquisition, and then following that up with pretty significant acquisition activity. So I think as we look at this now, we feel pretty confident that we can manage a lot of acquisition activity even in the midst of larger transactions. So today our capacity and ability of acquiring and integrate businesses we believe is better than ever. So what opportunities are out there? The industry is about a $13 billion industry. Half of it is still in the hands of about 900 independents. When we look at the independents, we break them into small and large. The top 100 to 125 distributors make up about half of that, and those guys average somewhere in the range of $30 million apiece. And then the balance is made up of 800 or so smaller independent distributors that average $4.5 million to $5 million in size. But they range anywhere from $1 million to $10 million or $15 million. So lots of targets still available out there. Our capacity to acquire, I don't think we need to talk about this a lot. But we have ample capital available either through our internally generated funds, capital markets. And the acquisitions pretty much pay for themselves over time through their cash flow, and also there's a significant amount of redundant assets that we can liquidate or reutilize in the business when we acquire these businesses and consolidate them. In competitive situations, we've got considerable synergies, more than most of the other buyers would have. So that gives us a competitive edge in competitive situations. And then our decentralized structure facilitates our ability to do multiple integrations at one point in time. Between 12 regional companies and 11 product line companies, each of those companies can do several acquisitions a year if there's space. We've been asked, why small distributor acquisitions? Well there's a large population of small distributors out there. And the small distributors are very attractive. They fill holes and they add local density. We have the ability to rationalize their asset base. If we've got a fill plant across town or in the same town, we can re-deploy their bulk tanks and store it at our facilities. These companies also lack scale. So our cost take out when we acquire one of those are greater. They might need three admin people to manage their business but we can fold it into our admin structure and maybe only add one. The other thing is these companies provide a high level of service to their customers. We can compete very, very effectively with these customers when they have a large -- or we can compete very effectively with them with their larger customers because that's in our sweet spot. But when you look at the numerous number of small customers they have, the direct sales efforts to target those is very expensive. So you're not going to send a sales guy into every muffler shop in town to try to sell one to two of these. So it's more efficient for us to buy those customers than to go out and try to sell directly to them. And they're profitable customers. They also have a much narrower product and service offering than us. So we have a big customer penetration opportunity, and typically when you lower valuations in the larger distributors. We're also always scouting for adjacent opportunities. I think what we're looking for there is, is it an opportunity that allows us to provide more value to our existing customer base? Do they handle products that we can handle safely and efficiently through our infrastructure? And there are a couple of examples there. And we also continue to look internationally but cautiously for international opportunities. This chart, slide 103, just really summarizes some of the things we've done from a product line expansion standpoint. And what it demonstrates, if you look at the sales acquired versus where we are today, that we've got the capacity to not only buy but to build the business after the fact and add a lot of value. So we have summarized we think with 900 independent distributors out there, we still have ample opportunity to acquire businesses on a meaningful basis and help drive growth. We've got sufficient resources and organizational alignment in place to allow us to execute on the plan. And we believe we're really positioned as the preferred acquirer for these businesses because we can offer more opportunities to the employees of these businesses. And right now activity's been slow. In the downturn, people tend to hunker down their good businesses. They've got good cash flow and stable. So, they can weather the storm. But as the business activity picks up, we expect to see a pretty significant rebound in seller activity. So with that, I'll leave it to Bob.-------------------------------------------------------------------------------- Bob McLaughlin, Airgas - SVP and CFO [3]-------------------------------------------------------------------------------- Thanks, Les, and good afternoon, everybody and let me echo the other presenters in thanking you for your attendance today. So, we're coming down the home stretch. I do have one rule. There's no advance forwarding the slides and looking ahead. It's strictly prohibited in this part of the presentation. So you have to follow along with me. We're continuing to build on a very strong and solid financial profile. We've got a great historical track record of strong sales and earnings growth over the years. Over the past five years particularly, we have significantly expanded our operating margins and returns. And as you've heard today, and even though we during the current recession our returns and margins like everyone else have contracted some, but as you heard today, we're very focused and very confident on our ability to, one, grow above market sales growth and two, we have an operating culture now and a focus to continually mine and look for operating efficiencies and productivity improvements. And the combination of that sales growth and productivity improvements, we are really looking forward to over the coming years, targeting significant expansion in both our operating margins and return on capital. The Company have always delivered and had a strong track record on strong free cash flow. And our diverse customer base, the industries we service, and our geographic exposure is broad, as well as our stable rental stream, all those factors give us stability through the economic cycle. And we certainly have seen that in our performance over the last 12 months. And we have a very strong balance sheet and credit ratio that provide the liquidity and the capital to effectively execute our growth strategies. Our growth strategies and the execution have produced strong growth in sales earnings and cash flows over the year. This graph shows our performance over the last five fiscal years with our most recent fiscal year ending in March 2009. Over this five-year period, we generated compounded annual sales growth of 19%. That 19% was well-balanced, equally balanced between organic growth and contributions from acquisitions. And you can see that we significantly outperformed the S&P 500 that averaged 7% revenue growth during that time frame. But even more impressive is the 24% compounded annual growth that we delivered on earnings per share, and again, significantly outperforming the S&P 500 during this same period at 2%. So our strong organic growth, delivering on acquisition synergies, effective management of costs and pricing, and leveraging our infrastructure drove a significant expansion in our margins, returns and profitability during this timeframe. Our operating margins increased over 350 basis points from 8.6% in fiscal 2005 to 12.1% in fiscal 2009. And our return on capital improved from 10% in fiscal '05 to 12.7% in fiscal '09. And fiscal '09 was handicapped by the recession that hit midway through our fiscal year. So a very strong performance over that extended time frame and significantly outperforming our peers in the S&P 500. I presented this slide back in September of 2007. And I can honestly tell you that I did not expect that it would be challenged to the extent that it has been challenged over the past 14 months. We presented this slide in a period where we were having consecutive year-after-year record sales and earnings growth. And at that time as we were further developing our platform, broadening our product base, et cetera, we said, well this run may not go forever uninterrupted, so we also tried to highlight some of the defensive aspects of our business model, some of the things that we had changed in our business and our business platform since the last recession in the early 2000s. So we tried to talk about some of the stability that our business model had to help us get through tougher economic cycles. So as we look at some of these points I had mentioned before our diverse customer, industry and geography mix. Certainly over the years since 2000, we have significantly expanded our product and service offerings, targeting more counter and non-cyclical industries. Mike talked a lot about those. Those are pretty much under the banner of our strategic product. We've always scouted and talked about the strengths and stability of our cylinder and bulk tank rental streams. And we also emphasized and highlighted with our decentralized, empowered operating management organization. So we have a network of empowered, entrepreneurial, every day in the business, close to our customers to detect early warning signs, and more importantly be empowered to act quickly to do whatever was needed to preserve as best possible the profitability and returns of the business. We talked about an operating infrastructure that was vastly improved from the last recessionary time. And as you heard today, still has a long way to go in terms of generating even more incremental value in the years ahead. We also talked about when our growth rate slows or moderates, that we're able to reduce our gross capital spending, pare back our investment in working capital, and generate incremental free cash flow that would allow us either to pay down debt at an accelerated pace, and/or capitalize on other strategic opportunities with the incremental cash flow that was generated. So keep these points in mind as we go over the next several slides. And I hope you'll concur with me that on a relative basis in light of the significantly difficult economic climate that we've been operating on, we've really done a very good job, and very consistent with the points that we raised here. Let me take a minute, a lot of numbers on this page, and what it does is it shows the last six questions, so a little bit of view from a quarterly trend. So what we'll be able to say, and I'll make some points, we can see the sequence of events that led up to the recession, and subsequent to that. And we can look at our relative performance on a quarter-to-quarter basis, on a sequential basis, and highlighted in the third box down, that sequential change represents the change in our daily sales, sales per day going from one quarter to the next. In the same store sales below that is the same store sales growth, or reduction rate, on a year-over-year basis for the comparable prior period. And bookended on this, we'll be able to look at the year-over-year comparison of our first two quarters and our now current fiscal '010 compared to the first two quarters of fiscal '09. And what you can see is in the early part, in the first two quarters of '09, we were still running very strong. We had same store sales growth of 7% and 8%. Our second quarter '09 was really the high water mark in terms of sales and earnings for the company where we posted 86% earnings per share. In the third quarter of '09 in the back half of November is when we were hit hard, started to be hit hard with the current recession. And that certainly continued in December. On a sequential basis going from the second quarter of '09, we decreased in daily sales per day by 4%, and our same store sales over the prior year had declined to 1%. The volumes decline continued into the fourth quarter and as well into the first and second quarter of '010. And you can see that we had in the fourth quarter, our same store sales declined by 13% year-over-year and increased to 17% and 19%, again same store sales basis year-over-year in the first and second quarter of our current fiscal year. But despite that significant decline in same store sales revenue, take a look at our EBITDA margin. I highlighted the first two quarters of last year compared to the first two quarters of this year. And in aggregate, we've actually expanded our EBITDA margin in the current year despite having a reduction in same store sales of 18%, so a pretty strong performance relative to reacting to the environment that we're in. And helping that, retain those EBITDA margins was certainly a favorable shift to gas and rent in our sales mix, also helped by the stability of our rental stream. Or hardgoods dropped further than our gases which carry lower gross margins. And we acted very quickly and effectively on our expense reduction program. And I'll make a few more specific comments on the next slide. The other point, and in addition our strategic products and strategic accounts which Mike highlighted earlier, certainly outperform our core industrial products. And the diversification of our product mix and end customers certainly paid dividends during this difficult time. If you look at the sequential change, our most dramatic decline on a sequential basis was in our fourth quarter of last fiscal year where we dropped on a sequential basis by 10%. That decline mitigated to 3% in our first quarter sequentially and 2% in the last quarter that we reported publicly. And if you look at the absolute EBITDA dollar amounts that are circled, and if your eye drifts to the EPS, it does appear that we have somewhat bottomed out. We're seeing some signs of bottoming out with respect to revenue and volumes. Our quick and effective management of expenses and our asset management certainly helped to preserve the EBITDA margins I reviewed on the prior slide. Between December of 2008 and September of 2009, we reduced our operating expenses by $57 million on an annual run rate basis. About half of those reductions were in full time staffing positions, with the balance related to areas such as overtime, temporary labor, and discretionary expenditures such as D&E. And we will be very diligent and careful in tightly managing the add back of those expenses as our volumes return and the economy recovers. Our operating efficiency programs which were over and above the expense reduction initiatives, as Mike had highlighted earlier, are well on target. We have achieved the $10 million run rate we set out to achieve this year. And on a cumulative basis have earned over -- have reduced our expenses by over $25 million. We also established new targets of $10 million additional expense reduction per year from these productivity improvements. And as Mike highlighted, they relate to the bulk and cylinder distribution logistics, our cylinder fill plant and testing efficiencies, and optimizing further optimization of our hardgoods supply chain. We did a great job of reducing capital expenditures this year and pulling in our working capital in response to the declining sales environment which generated some record free cash flow and our ability to significantly pay down debt. And very importantly as the last bullet, we have an infrastructure that is currently able to handle a significant increase in expense which is going to allow tremendous flow through and enhance our profitability as we move forward. This is a slide that I'm sure most of you were very accustomed to seeing. We generate significant and strong stable cash flow. Oriented to the slide, the shaded area between the operating cash flow line and the CapEx line is our free cash flow as measured on the left axis. We overlaid our distribution same store sales which is the red dotted line, and that refers to the right axis. One of the points that we make relative to layering on the same store sales is that during periods where our sales growth rates decline or moderate, we're able to generate incremental free cash flow from reducing capital expenditures and our investment in working capital. And you can see that fairly clearly in the expansion in fiscal '08 and '09 as we came down from the very strong and high growth rate levels in fiscal '05 through '07. You see a similar expansion on the left side of the chart as well. Over this time frame, we increased our operating cash flow from $130 million in fiscal '01 to over $660 million in our last fiscal year '09. That's a 23% annual compounded growth rate in operating cash flow, and very consistent with our strong sales and earnings growth over the same period. In our fiscal year ended 2009, it's depicted in the box to the right, we generated $328 million of free cash flow. This was the second consecutive year in a row that our free cash flow exceeded our net income which I think speaks very highly to the quality of our earnings. We use our free cash flow to make gross capital expenditures to invest in acquisitions, to pay down debt, to pay dividends, and to opportunistically make share repurchases. On the right side of the chart, I listed the free cash flow for our trailing 12 months ended September 2009. And we generated over $439 million. And you can see what we used that money primarily for listed on the slide. I think this slide really speaks to the quality of our business model. In that we're able to generate the cash that's necessary to fund our strategic growth initiatives, which in turn generates incremental profits and cash, which allows us to effectively reduce our leverage following either acquisitions or investments that we make related to our growth initiatives. I think it's particularly evident as you look at the right side of this graph is from March of 2007 to September 2009, we've spent over $1.2 billion in acquisitions and over $750 million in capital expenditures, and yet during that same time frame, reduced our debt to EBITDA ratio, and these are not on a pro forma basis, from 3.3% to 2.7%. In relation to our capital structure, this past summer we were upgraded to investment grade. You can see the ratings there. And I find that particularly rewarding that we've got upgraded to investment grade during the most difficult economic period since the Great Depression. We also were added to S&P 500 during this same time frame, which I think is a very rewarding affirmation of the success of our long-term strategic plans and goals and the execution related thereto. And based on our strong and stable cash flow, and the scale of our operations, we are revising our capital structure guidelines. And our new guidelines are listed here. Our debt to EBITDA of two to three times, formerly it was 2.5 to 3.5. Our debt to capital ratio is revised to 45% to 60%, previously 50% to 65%. And we believe that these more conservative guidelines will not in any way impede our ability to finance acquisitions or reduce our ability to return cash to investors through share repurchases or dividend increases as appropriate. We have a couple of financial instruments. Our credit facility and our AR securitization program that need to be refinanced over the next 18-month period. And we remain very confident in our ability to refinance these. We most recently had a very successful five-year note offering in September. Had a 4.5% coupon rate that was more than five times over-subscribed. And we continue to enjoy great relationships with our bank. The current refinancing rates are higher than our existing credit facility which is at LIBOR plus 50 basis points. But as our credit profiles and credit ratings continue to improve, we will have more options and levers to pull to reduce and manage our borrowing costs. And now the slide that everybody has been waiting for. Right here this chart lays out some mid-term financial goals. It's based off on the left side of the chart is our trailing 12 months as of September 2009, our last publicly reported period where we had sales of $4 billion, operating margins of 11.5% and return on capital of just under 11%. As you heard today, we are -- you heard a lot about our customer segment, about our markets, about our products, about our service offerings and about a lot of growth accelerators that we're focused on and very confident we're going to drive above market growth. On the right side, we set some targets out in a three to four-year time horizon. It's very difficult in this environment to predict the timing, the pace and the extent of a broad US economic recovery, so we're putting these out, kind of as part of the shoot for and think about in the three or five -- three or four-year time horizon. We're expecting that on an average, we're going to grow on a compounded basis, 8% to 10% revenues. 3% of that growth is going to come from acquisitions. We've made an assumption that we'll require approximately $150 million of acquired revenue per year. Our same store sales for organic growth will be, on average, 5% to 7% over that time frame. And the result of that will be sales in excess of $5.5 billion over that time frame. From an operating margin standpoint, we're targeting significant expansion of operating margins, from 11.5% to 13% to 14%. Approximately 70 to 90 basis points are going to come from execution of our operating efficiency programs and some other cost saving initiatives. We feel very confident in our execution and think we have proved that over the years and we can deliver on that. And that's unrelated to economic conditions. The balance of the margin expansion is going to come from leverage on our strong sales growth, which will deliver about 100 to 150 basis points expansion on our operating margins. Return on capital will expand from approximately 11% to 14.5% to 15.5%, driven by the revenue growth, the significant operating income margin expansion and continued discipline relative to our capital expenditures, which we're targeting to be in the 5% to 6% areas relative to the strong sales growth. All of this is in the background of assuming that on average, during this time frame, the GDP and non-tech industrial production will average annual growth rates in the 2% to 3%. So, we're very excited and very confident that we can generate significant shareholder value by delivering above-market sales growth and by significantly expanding our margins and that we have the people, the resources and the strategies to effectively execute against these goals. I'll now turn it back over to Peter.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [4]-------------------------------------------------------------------------------- Thank you, Bob. I'll try to wrap this up pretty quickly so we can get to the question and answers. The next slide is number, oh, I don't know, 117. And it's here because it's my favorite slide. But it's also here because I think it reflects the way we look at our business and all of our executives look at the business. We look at it from the long-term perspective. And it demonstrates a few things. It demonstrates our ability to grow and evolve over the years. It shows that we've maintained our operating and our investment discipline over many years. And it shows that we've run Airgas for its shareholders. You've seen our mid-term financial goals and we're all excited to see how this graph is going to look in the next year or two. Let me just recap the investment highlights one more time. We have good organic growth prospects. They'll come from leveraging our infrastructure and our customer base and from the growth accelerators that you heard described today. We have good acquisition growth opportunities. One half of the $13 billion package gas and welding market is still in the hands of independents. We have an organization and a culture that has become customer-centric and this will advance our growth, I really believe it's a game changer. Our strong cash flow promises to be significantly enhanced by our internal growth, by acquisitions, by our efficiency programs and by the significant unused capacity that we can deploy once the economy returns to normalcy. We have a diverse customer base that's getting larger every day and we have a proven track record in operations, in finance, in acquisitions and in value creation. We've returned 18% per year compounded on our initial public offering price, going back to 1986. There are not too many companies in that fraternity. One final point, and I think the most important point. And for that I call on Shakespeare's Henry V. In that play, Exeter, after the battle of Agincourt is discussing the difference between the old Prince Hal and the new Henry V to the French king. Exeter says, "Be assured, you -- you'll find a difference, as we, his subjects, have in wonder found between the promise of his greener days and these he masters now." In other words, this isn't your father's Oldsmobile. Airgas has undergone an incredible transformation in recent years and our future is brighter than ever. Thank you for your attention. I'll now take questions. I'll act as the moderator. Please wait until you get the mic as we're webcasting this conference.Questions and Answers-------------------------------------------------------------------------------- John Roberts, Buckingham Research Group - Analyst [1]-------------------------------------------------------------------------------- Peter, John Roberts here, Buckingham Research. There's been a shift in the past several years towards more manufactured gas than purchased gas. And I think it's not just the Linde acquisition, but -- you've added. Has that been because you haven't had the opportunities to buy on as good an economic terms as build? That there used to be a buy versus build decision and it doesn't seem you've had as much opportunity to buy economically out there as you've had to build economically. And I wondered if you might comment on that trend and whether it continues?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [2]-------------------------------------------------------------------------------- Well, we do go through that buy versus build decision process all the time. And we have no interest in populating the world with air separation plants because they're very expensive. And we want to be disciplined. We hope the industry in general is disciplined. The two plants that we did build over the last 24 months, the one in Illinois and the one in Kentucky, were built partly because we are having trouble sourcing products, capacity utilization was very high in the industry and our bulk business was growing very quickly. So it wasn't so much price as it was availability. We have long-term contracts with some major gas companies and the pricing goes up and down based on energy costs. But it was more about availability and we're in a good position because we buy 70% of our molecules. And we have significant baseloads in many, many markets across the United States. So as Tom mentioned, in his presentation, if we find a pipeline customer and we add that to our baseload, we could have some attractive investment opportunities and we will build if we have to. David?--------------------------------------------------------------------------------Unidentified Audience Member [3]-------------------------------------------------------------------------------- Thank you, Peter. On pricing going forward, what do you assume in that '13 to 2014 assumption for top line? I mean for sales growth, annual price increases?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [4]-------------------------------------------------------------------------------- We elected not to show annual price increases and volume growth in that number and that number is more of a reflection of what we think will be a return to normalcy in terms of pricing. And we don't have a breakdown.--------------------------------------------------------------------------------Unidentified Audience Member [5]-------------------------------------------------------------------------------- (inaudible question - microphone inaccessible)-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [6]-------------------------------------------------------------------------------- We assumed some pricing gains going forward in those sales numbers, yes. Bob, maybe I -- you should supplement that.-------------------------------------------------------------------------------- Bob McLaughlin, Airgas - SVP and CFO [7]-------------------------------------------------------------------------------- Thank you, Peter. And if you look, David, at kind of the breakdown of our price historically, during years where we've had growth of that magnitude, at least on the GAAP side, it was fairly well balanced between volume and pricing.-------------------------------------------------------------------------------- Mark Gulley, Soleil Securities - Analyst [8]-------------------------------------------------------------------------------- Mark Gulley, Soleil Securities. Two questions, Peter. If I go all the way to the last slide, where you have a reconciliation, you're showing a EBIT in the out-year of 750. That suggests some pretty strong free cash flow over the next couple of years. Do you see the pattern of returning cash to shareholders changing, more of a dividend, more of a share repurchase or something like that? It's very suggestive of a very strong free cash flow. And my second question, Peter, was this. In terms of returns on capital, do you have to do anything to make the company more asset light to get to that? Or is that just the execution of your current strategy?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [9]-------------------------------------------------------------------------------- Well, the first question is -- the answer to the first question is that we review our dividend policy and our share repurchase policy every single Board meeting. And we hope that our free cash flow growth will accelerate with our sales growth and with our efficiency programs and the other things we mentioned. And that we'll be able to increase our -- both our dividends and make opportunistic share repurchases. And certainly if we meet our goals, we should be able to do that and stay within the credit guidelines that Bob laid out for us a few minutes ago. And the second one was?-------------------------------------------------------------------------------- Mark Gulley, Soleil Securities - Analyst [10]-------------------------------------------------------------------------------- (inaudible question - microphone inaccessible)-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [11]-------------------------------------------------------------------------------- Right.-------------------------------------------------------------------------------- Mark Gulley, Soleil Securities - Analyst [12]-------------------------------------------------------------------------------- (inaudible question - microphone inaccessible)-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [13]-------------------------------------------------------------------------------- I would say no. I'd say we have a lot of unused capacity. I can count on two hands the number of our fill plants that operate two shifts in the United States and we are operating at about 73%, 74% of capacity at our ASUs, probably 80% in our CO2 plants and we just have a lot of capacity. So I think that we can drive returns on capital higher and still make significant investments when we're presented with them.-------------------------------------------------------------------------------- Bob McLaughlin, Airgas - SVP and CFO [14]-------------------------------------------------------------------------------- I would agree with that, Peter. And one point to note, Mark, that prior to the recession, we had reached 13.6% in return on capital. So the stretch relative to -- from that point, you get a different perspective. As we had also hit in terms of the second quarter of '09, operating margins of 12.5%. So we have it within the system to generate those types of returns.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [15]-------------------------------------------------------------------------------- For the last three fiscal years, we spent over $1 billion in CapEx. And a lot of that was upgrading facilities like Mike pointed out. It was building air separation plants and CO2 plants. And actually, even during this year, we had the tail of several large projects carry over into this year and ASUs were still -- a new CO2 plant and several of these large fill plant renovation or reconstruction projects. So our CapEx was -- did carry over into this year. So, we have a lot of unused capacity.-------------------------------------------------------------------------------- David Manthey, Robert W. Baird - Analyst [16]-------------------------------------------------------------------------------- Hey, Peter. It's David Manthey with Baird. I was just wondering if -- from where we stand today, would you say that increasingly from this point forward, your focus will be more on adjacent acquisitions instead of traditional acquisitions, given what you've done to this point?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [17]-------------------------------------------------------------------------------- No, I wouldn't necessarily say that. There are a lot of opportunities in our core business out there, over 900 of them. And there are areas where we could use additional density. And for the small customer acquisition, it's much better to acquire than it is to grow internally because it's expensive to get at those small customers, as Les pointed out. However, it's nice to be in the position that we don't have to acquire. So, I -- but if I had to take a stab at it, I would say that most of our acquisitions will be in our core business going forward and then we'll take the existing adjacencies and add them to the acquisition. And then I do think we'll make a number of adjacency acquisitions, some in the adjacencies where we already have a presence, like ammonia and processed chemicals and refrigerants. And then possibly a few -- some new adjacencies that we haven't entered yet.-------------------------------------------------------------------------------- Kevin McCarthy, Bank of America/Merrill Lynch - Analyst [18]-------------------------------------------------------------------------------- Thanks. Kevin McCarthy, BofA/Merrill Lynch. Peter, on slide 109, you show sales per day on a sequential basis. And I was wondering if you could comment on when we might expect that particular metric to turn positive? And related to that, maybe you could provide a little color on what you're seeing in recent months, in terms of same store sales for hardgoods and gas and rent.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [19]-------------------------------------------------------------------------------- Bob, do you want to take that one?-------------------------------------------------------------------------------- Bob McLaughlin, Airgas - SVP and CFO [20]-------------------------------------------------------------------------------- Well, again, visibility relative to when exactly and the extent that the economy's going to pick up has kept us away from being specific in terms of looking out a quarter or two. But as I had mentioned, we certainly have seen that decline moderate. And as you can see on that slide. And I think as Peter and Mike may have mentioned in some of theirs, it seems like the -- again, we've hit the bottom and that we're seeing some signs of hope with respect to the daily sales rates.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [21]-------------------------------------------------------------------------------- Accountants talk about the declines are moderating because they compare it to a prior period. Our sales have had slowly, but steadily increased, since the May, June period on a daily basis. It's not the robust recovery that we all hope and wish for, but it's a recovery. However modest. And so, let's hope it keeps going and it doesn't get sidetracked by the holiday period. And hopefully when, I guess, many of us are hoping that after we get past the new year that the economy will get more serious about the recovery. But it's been slowly picking up since the May, June period.-------------------------------------------------------------------------------- Mike Harrison, First Analysis Securities - Analyst [22]-------------------------------------------------------------------------------- Peter, Mike Harrison with First Analysis. I have two questions for you. First one on the $40 million in cost savings you expect over the next four years, as well as looking at the operating margin target for FY '13 and '14, it doesn't seem to include any contributions from the SAP implementation. I was wondering if you could talk about, on either operating margin or cost savings, what kind of contribution we could expect from that. And then a question maybe more for Les, related to your acquisition history, if you look at that chart that you guys provide, historically you had been involved in much smaller acquisitions and then recently you've been doing much larger acquisitions and then Les today kind of outlined a strategy to return to smaller acquisitions and I wonder if we could just maybe get some more details on what's driving, maybe, that strategic shift.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [23]-------------------------------------------------------------------------------- Okay. Well, let me just say about SAP, we don't have efficiencies, cost savings, revenue enhancement, pricing enhancements, any of that built into our plans from SAP. What we do have is the expense associated -- what -- the expense we think will incur, associated with the SAP implementation. And we have our fingers crossed. We feel like we're in really good shape, but if SAP goes really well for us, that could be upside. And then, I'm going to ask Mike to address the $40 million and efficiency savings. And then Les can speak to the acquisition question.-------------------------------------------------------------------------------- Mike Molinini, Airgas - EVP and COO [24]-------------------------------------------------------------------------------- The $40 million is fundamentally the same kind of stuff we've been mining, but continue to mine. There's other types of cylinder maintenance. There's medical cylinder refurbs. There's logistics. We're just scratching the surface of logistics. Things like that because we're doing a phased implementation of SAP, those potential SAP benefits, if there are -- if they're there, really don't start to kick in until the end of the planning period that we're speaking about now. So rather than confuse this and make it sound like we've back-end loaded it because of some great SAP benefits, which we think there's some potentially really interesting benefits, in a number of areas besides operating expense, there's virtually nothing in what we talked about today, of benefit. Our mission today is get SAP -- get the corporation on one platform with one process and have happy customers. Then, we'll go to the second phase.-------------------------------------------------------------------------------- Les Graff, Airgas - SVP - Corporate Development [25]-------------------------------------------------------------------------------- Your question regarding the acquisitions. Really, our focus, if you look at the last six or seven years, have focused on the large acquisitions. That was really major gas producers divesting their package gas businesses, were forced divestiture of Linde's bulk business to clear antitrust. So those were kind of -- that's kind of run its course. We don't -- there aren't more assets like that out there. While we are doing those more complex transactions, we didn't do as many independent distributor acquisitions. So it's not really a change in strategy. We always have liked the small distributor acquisitions. They're good companies. They're easy for us to tuck in. Usually there's good customer relationships, good assets, and they're very, very accretive. Because we can really move their operating margins pretty significantly when we fold them into ours -- into our business. So it's not really a change in strategy, it's just that we wanted to point out that those are valuable acquisitions and if we do enough of them, they're -- they do move the needle.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [26]-------------------------------------------------------------------------------- Sorry.-------------------------------------------------------------------------------- Laurence Alexander, Jefferies & Co. - Analyst [27]-------------------------------------------------------------------------------- Laurence Alexander at Jefferies. Peter, can you update your thinking on international acquisitions and like your 4 to 5-year expectation for on-site revenue as a percentage of sales? And Mike, would you mind clarifying with the DEF market, if it does hit 800 million gallons, what would be the revenue opportunity for Airgas?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [28]-------------------------------------------------------------------------------- International acquisitions, on-site revenues, you mean like pipeline revenues?-------------------------------------------------------------------------------- Laurence Alexander, Jefferies & Co. - Analyst [29]-------------------------------------------------------------------------------- Right. Yes, the on-site projects?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [30]-------------------------------------------------------------------------------- Well, we continue to look internationally. We're looking in China, in India, in South America, Canada, Mexico and the Middle East. But we haven't found any opportunities yet that we really like. And I know everyone is excited about growth in China, but we -- one of our guys just came back from meeting a number of companies and their sales are all off 30 and 40%. So I don't know where these 8.5% to 10.5% GDP numbers are coming from in China, but the industrial gas companies that we're talking to, that have a pretty wide, diverse customer base are way, way off. I hope that this will open up some opportunities. I think we could do a really good job in some of these countries where the package gas business is fragmented, if other things came into place, like the rule of law and things like that. But in terms of on-site revenues, I don't know how many pipeline customers we have now. Maybe it's 12 or something, Tom? Somewhere in that neighborhood. And I don't think that it's going to be a huge number. Actually, if you take our -- the generators we have, we have three or so of them on top of our pipeline ASU customers, but you know the right answer on what the revenue is?-------------------------------------------------------------------------------- Tom Thoman, Airgas - SVP - Tonnage and Merchant Gases [31]-------------------------------------------------------------------------------- It's a hard thing to guess and there are opportunistic things that come up and we'll address them when they come up.-------------------------------------------------------------------------------- Mike Molinini, Airgas - EVP and COO [32]-------------------------------------------------------------------------------- If the hydrogen economy takes off and the hydrogen fuel cell thing takes off, like it might, I mean, it's widely variable right now. DEF. Let me just answer the DEF piece.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [33]-------------------------------------------------------------------------------- Right.-------------------------------------------------------------------------------- Mike Molinini, Airgas - EVP and COO [34]-------------------------------------------------------------------------------- For this planning purpose, I think we've assumed that at the end of this, we'll be at the $50 million range in DEF sales. This is going to grow slowly and then it's going to really ramp up as more and more engines replace the old engines.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [35]-------------------------------------------------------------------------------- Yes?-------------------------------------------------------------------------------- Miles Lewis, Bishop Rosen - Analyst [36]-------------------------------------------------------------------------------- [Miles Lewis], Bishop Rosen. I'm looking back at the pie chart in slide 99. How do you see those proportions changing in the next five or ten years? Particularly as it relates to the independents?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [37]-------------------------------------------------------------------------------- Well, I think the industry is going to continue to consolidate. I mean, most of the world in the mature economies, anyway, the package gas business is controlled by vertically integrated producers and there are two or three, sometimes four, strong package gas players in each market. You can just go across the border into Canada, where there's two or three. Or go to Europe. 50% of the worldwide profits of the industrial gas company come from the package gas business. And so maybe its wishful thinking, but I'm hoping for more consolidation in the future. It's not a very efficient distribution system to have such fragmentation. And so we're doing our best to consolidate it and there's some other companies out there that have been buying independent distributors. I would say, in ten years, the independents might be down to 30%, 25%, 30%. And I think there'll be a lot of really small ones. The medium-size ones will be acquired, choose to sell and there'll be two or three significant players, is my guess. But it's a guess. Don?-------------------------------------------------------------------------------- Don Carson, UBS - Analyst [38]-------------------------------------------------------------------------------- Yes. Don Carson with UBS. Peter, a couple of questions on mix and the impact on margins. You mentioned that you have been lucky enough to -- well, with hardgoods sales coming down, that's helped the margins. For your 13% to 14% margin goal in a few years out, is there an benefit there from a change in mix? And if the economic recovery does accelerate, will that lead to a short-term decline in margin as hardgoods sales pick up? Or do you expect enough operating leverage on the gases and decide to more than offset the increased hardgoods sales?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [39]-------------------------------------------------------------------------------- Well, I think we have enough operating leverage to make up for that and we should get some pricing as the economy comes back, which would offset the dilution from the faster growing hardgoods. What was the other question?-------------------------------------------------------------------------------- Don Carson, UBS - Analyst [40]-------------------------------------------------------------------------------- How much of your margin improvement for 2013 and '14 comes from a change in mix, if any? Or is that you're assuming the same mix of business as you have now?--------------------------------------------------------------------------------Unidentified Company Representative [41]-------------------------------------------------------------------------------- No dramatic change relative to that long-term view, relative to the gas and hardgoods. It will probably be a little bit more balanced in terms of -- hardgoods is going to come back. It fell much further, much deeper. It'll come back. So there will be a little bit of a slight shift towards hardgoods, but it won't have a dramatic impact and it's factored into the numbers that we shared with you.-------------------------------------------------------------------------------- Holden Lewis, BB&T Capital Markets - Analyst [42]-------------------------------------------------------------------------------- Good afternoon. Holden Lewis with BB&T Capital Markets. There's a number of programs that are out there that are sort of external to you, whether it be cap and trade or green and efficiency coming out stimulus and those sorts of external effects that impact your business. I was just sort of curious if you can talk about how much of the revenue that you guys currently have would be impacted by these type of external impacts? How much that -- is that revenue that is impacted by these external items? Does that tend to grow faster or are there some issues that might cause it to grow slower? I'm just trying to get a sense of what federal policy or what have you, whether that's a net positive, net negative and to what degree it is on your business mix?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [43]-------------------------------------------------------------------------------- Well, I would say that if the Fed policy has a negative impact on industry in general, it's going to impact us. And specifically though, with regard to climate change, for nitrous oxide, we're going to have be purchasing allowances, but there's only two producers in the United States and I'm confident we'll be able to pass through that increased cost. In terms of -- Mike mentioned the returnable cylinder movement and the fact that it's in the Senate bill now and we hope it survives. It's certainly refrigerants are ozone depleting chemicals and that heel does escape to the atmosphere. The rest of the world's on returnable containers, including the US Military. That could be a significant business for us because we're in the refrigerant market now. We have the platform for returnables, the current distributors that handle the disposables don't have that kind of capability, cylinder tracking, cylinder filling capabilities. That could be something big for us. I think Jim Muller talked a little bit about environmental regulations. We're definitely seeing more environmental regulations. Mike did too, with the DEF product. DEF is going to be moving into ships as -- in 2013, I think. Mercury standards for protocols are on the way. So I think that the spec gas business will be -- and some of the other businesses, will continue to benefit from environment regulation.-------------------------------------------------------------------------------- Holden Lewis, BB&T Capital Markets - Analyst [44]-------------------------------------------------------------------------------- (inaudible question - microphone inaccessible)-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [45]-------------------------------------------------------------------------------- Well, it's hard to do that. I mean, I can come up with a lot of examples, like the wind tower production. The -- we've got some big wind tower customers and uranium reprocessing and things like that. But our industry serves -- almost any kind of business activity uses some kind of gases and other products that we supply. And it's pretty hard to pinpoint it.-------------------------------------------------------------------------------- Holden Lewis, BB&T Capital Markets - Analyst [46]-------------------------------------------------------------------------------- (inaudible - microphone inaccessible).--------------------------------------------------------------------------------Unidentified Company Representative [47]-------------------------------------------------------------------------------- Excuse me, but it depends on exactly how far the government policy goes. I mean, there is some, on the surface, cap and trade is going to raise our electrical costs. Now it may raise other industries' electrical costs to the point where it shuts them down. I mean, there's a point -- there's a tipping point to where it's so much that industry can't bear and forget it, let's just leave town. So as a general rule, environmental regulations, pollution control, things like that are generally good for us. Subject to the point where you kill the baby. And that's what we know, medical, healthcare, on the surface, should make a lot more people eligible for healthcare. And would be good. Subject to the point where you can't pay for it and there's no jobs for the people in the first place. So it's very hard to answer. I mean, we're optimistic that reason will prevail and this won't get like really crazy. But some of the scenarios are pretty draconian.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [48]-------------------------------------------------------------------------------- But I think, overall, none of these things are distorting our sales picture and -- number one. Number two, the US economy isn't going away. In fact, we're seeing a resurgence in manufacturing and investment in different sort of high-tech manufacturing methods. Automation and things like that. So, that -- it's not my -- it's above my pay grade to determine what the impact would be.-------------------------------------------------------------------------------- Mark Gulley, Soleil Securities - Analyst [49]-------------------------------------------------------------------------------- Yes, Peter, Mark Gulley again. A similar question, but maybe be a little bit more specific, Obama care. Let's assume that the bill pretty much passes as it is. Are there pluses and minuses, net pluses, for Obama care in terms of your medical business, which is about 7% of your sales?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [50]-------------------------------------------------------------------------------- Well, I definitely think that any legislation that provides medical care and insurance for more of the population is going to be a net positive for the healthcare industry, including Airgas Puritan, which our medical gas division. And there's no question about it. And then, well, no question will be a positive, we think. And we don't -- we're not in the business of getting directly reimbursed by the government, so we don't have -- they don't have any price lever on us and so I think we're in a good position to grow our medical business in the years ahead.-------------------------------------------------------------------------------- Mike Sison, KeyBanc - Analyst [51]-------------------------------------------------------------------------------- Mike Sison, KeyBanc. Peter, you've geared the presentation today, and it sounds like, for growth. A lot of the focus is areas where you're going to grow. How much of your same-store sales growth through 2013, 2014 is really sort of driven internally by the strategic growth platforms? And in the event that the US economy falters, down the road, how does the plan change?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [52]-------------------------------------------------------------------------------- Well, we're pretty dependent on the US economy, there's no question about it, and -- but also we've been very resourceful in finding places to grow over the years. If you go back to the late '90s, when we saw metal fabrication was, in the US, was waning, we decided to establish our strategic products categories because they could grow faster, because of demographics or cross-sell or regulation. Or just like the food and beverage, CO2 and dry ice, it was a 2x GDP. And then we also established our strategic accounts program back then. And the strategic products grew at double-digit rates for all ten years leading up to this collapse and so did our strategic accounts program. The great thing about this platform and this big customer base, and we try to show it in some of those eye charts, is there is so many places where we can find growth opportunities. So, this was an effort that was started about 18 months ago that we all engaged in where we tried to figure out how are we going to enhance, get growth faster than non-tech industrial production. And these are the areas that we've come up with. And some of them are small, but they're very, very important. Like spec gas is -- that's not a huge market. But if you lead in that market, then you have a lead product to go into a utility, like in protocols. That's a high value product, it's the most important product in our portfolio in terms of the utility customers. So we go in there with nine products, leading with EPA protocols. We also use technology in our spec gas business and -- because that's a technology-driven market. And then we're able to take that technology and bring it across the whole market. Retail, that's -- we want to grow from $40 million to $80 million over the next three or four years. Now if you're a $4.3 billion company, that doesn't seem like a huge amount of growth. But it's important growth. Because that's basically helium business. And we can -- and micro bulk CO2. There are a lot of other products that we think that we can add to the helium. Plus, that growth program will prevent the deconsolidation of the industry because a lot of small people's distributors, they grow on these onesies, twosies. They're very profitable customers if you can -- if you have the right channels to handle them and so that was our approach there. But we've spent a lot of time thinking about this and our organization is evolving and I think we're -- I think we've got the right focus in the right areas. And I neglected to mention strategic accounts and how we've evolving to a sort of a market focused sales and marketing organization and how that's impacting that program. I think that's going to very, very important and a big growth contributor. One more. All right, two. The fellow in the back of the room has had his hand up, David, about 10 times.-------------------------------------------------------------------------------- Amy Zhang, Goldman Sachs - Analyst [53]-------------------------------------------------------------------------------- Thank you. This is Amy Zhang from Goldman Sachs. I have a question regarding your -- the normalized cost inflation forecast to bake in your near-term financial growth targets. I think on slide 115, and then you didn't really spell out what kind of cost inflation you'd expect going forward, because we have heard a lot of discussions, in particular from your -- the large cap competitors. They're talking about inflationary pressure from electricity, power and then transportation costs and some of them already implemented pricing and then in the near term. So my question is what's your pricing strategy over the two, three quarters? Because Airgas used to be the pricing leader in this industry. And then second, what kind of caused the inflation forecast is being baked in your mid-term growth target?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [54]-------------------------------------------------------------------------------- You should follow us instead of those other big competitors, because we had a better growth rate on earnings and cash flow. But we do see the same thing. We see power rates going higher and over the next several years. There's no question about it. And we have some pricing built into our model to offset cost increases. Bob, do you want to supplement that?-------------------------------------------------------------------------------- Bob McLaughlin, Airgas - SVP and CFO [55]-------------------------------------------------------------------------------- I think relative to the three or four-year view of it, certainly we have been very successful in terms of passing on costs that impact our purchasing of gas products. We've been very successful and anticipate being successful. So if there is increases in costs related to the gas, be it utilities or whatever, then they will move in sync and not have any meaningful impact on our projections, if you will.-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [56]-------------------------------------------------------------------------------- And in terms of -- I think you said, Amy, that we used to be the price leader in the industry? Is that --?-------------------------------------------------------------------------------- Amy Zhang, Goldman Sachs - Analyst [57]-------------------------------------------------------------------------------- (inaudible question - microphone inaccessible)-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [58]-------------------------------------------------------------------------------- Well, we make our pricing decisions independently and, of course, because the law requires that. And we haven't announced a price increase this year, across the board, but we've been striving for tactical price increases, eliminating discounts and lower rental rates and things like that. And we've had some success there and when -- we'll -- we look at this at every month and when the economy recovers, we expect to be able to resume getting pricing on a regular basis. Because we've had -- we've done that throughout our history and we have -- and we don't really think the world's going to change forever.-------------------------------------------------------------------------------- Bob Roe, SBS - Analyst [59]-------------------------------------------------------------------------------- Hi. My name is [Bob Roe], SBS. In slide 87, you show a tremendous number of opportunities and low penetration rate in the New York metropolitan area. Do you see similar types of numbers in other major regions of the country or do you view the New York area as particularly exceptional?-------------------------------------------------------------------------------- Peter McCausland, Airgas - Chairman and CEO [60]-------------------------------------------------------------------------------- No, that was just put there as an example. There are a lot of places around the country and when you're in the retail business, you need a good service model, like we have with SKIL and the Techwood combination and you need density. You need density and this is certainly a dense market. There are a lot of dense markets, though, in the United States where this model will yield good results. The model isn't as good in the really rural areas because you have to drive much longer distances to drop off 1 or 2 cylinders. So our approach to that market will be more opportunistic in retail. Thank you very much for coming today. We appreciate your time. We apologize that it took so long. Thanks.-------------------------------------------------------------------------------- Jay Worley, Airgas - VP, Communications and IR [61]-------------------------------------------------------------------------------- That concludes today's webcast presentation. Thank you very much.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** January 18, **2010**

**LANGUAGE: ENGLISH**

**TRANSCRIPT: 121509a2599747.747**

**PUBLICATION-TYPE: Transcript**

Copyright 2009 Roll Call, Inc.

All Rights Reserved.

Copyright 2009 CCBN, Inc.

All Rights **Reserved.**

[Return to List](#cite_id_2)

FOCUS - 2 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

December 9, 2009 **Wednesday**

**Airgas at Bank of America Securities Merrill Lynch Industrials Conference - Final**

**LENGTH:** 6149 **words**

Corporate Participants

\* Mike Molinini Airgas - EVP, COO

Conference Call Participants

\* Kevin McCarthy Bank of America/Merrill Lynch - Analyst

Presentation

KEVIN MCCARTHY, ANALYST, BANK OF AMERICA/MERRILL LYNCH: Welcome back everybody to our 2009 Global Industries Conference. For those of you that don't know me, my name is Kevin McCarthy. I cover US chemicals stocks at BOA/Merrill Lynch. I'm very pleased to welcome our next presenting company, which is Airgas. Some of you know Airgas is a leader in the US packaged gas market and has a growing presence in merchant gases as well.

Representing the Company today we have Jay Worley from Investor Relations, as well as our speaker, Mike Molinini. You may have a different speaker on your docket there. We had expected Bob McLaughlin; unfortunately, Bob's a little bit under the weather today. So we're very fortunate to have Mike with us. Mike is Executive Vice President and Chief Operating Officer of the Company. So, Mike, thank you very much for pinch hitting today and we look forward to your remarks on Airgas.

MIKE MOLININI, EVP, COO, AIRGAS: Great. Thank you, Kevin. Good afternoon, everyone. It's good to be here, and take the next 20 minutes or so and give you a crash course in **Airgas**.

I'll start with our forward-looking statements. Okay, let's talk about Airgas. We are a leader in the US in what's called the packaged gas market. We have a leading position in the packaged industrial, medical and specialty gas markets, and I'll explain those a little bit in a minute; significant position in the US bulk market, or merchant market as many people call it; leading platform in the US for refrigerants, ammonia, and also some process chemicals.

Although we distribute all those gases, we also produce some of those gases. We probably produce on the order of about 40% -- 30% to 40% of what we need and we purchase the rest and distribute. Fifth largest producer of atmospheric gases. We've got about a 10% share of manufacturing of industrial gases -- oxygen, nitrogen, and argon. Leading US supplier of carbon dioxide, liquid carbon dioxide and dry ice, and a leading US producer of nitrous oxide.

About 35% to 40% of our sales, depending on the state of the economy, is not in gases, but it's in what we call hard goods, which are all those non-gas items that are used by customers who are using the gases. Many of those are used in welding and various manufacturing cutting processes, metal-working processes, as well as a full line of safety head-to-toe safety products.

We also have a Company which is called Red-D-Arc. We're the largest Company that rents welders to contractors in the US with about 45,000 rental units in the fleet. We go to market through a number of platforms. The primary one is branch-based field sales -- we'll talk about that in a minute -- and retail stores, but we also serve distributors. We have a telesales arm catalog in eBusiness.

We've used this slide for like the last 10 years to describe our strategy. Our strategy is very simple. The Company is 28 years old. It started as an acquisition Company. It started as a $3 million acquisition in Connecticut 27, 28 years ago and we grew the Company initially heavily through acquisition -- about 375 acquisitions.

Rolling up the industry, we migrated to an operating Company and our strategy is simple -- to drive internal growth in core and strategic products and new product and service offerings that leverage our infrastructure and customer base. We continue to make acquisitions and I've got a slide that will show you the opportunity there. We need to provide outstanding customer service to all of our one plus million customers and we're always on the hunt to improve our operating efficiencies.

We've taken a disciplined approach to growing the business. This is our run since fiscal year 1989. It's been a really good run and as we continue to build out the platform and increase density, we've reaped the benefits of that and expect to continue to do so.

The values created here since our FY '05 through FY '09, which would have ended last March 31, we delivered 29% earnings per share growth and 16% sales growth. Our operating margins increased during that period as we built out the infrastructure and leveraged the platform from 8.6% in FY05 to 12.1% in FY09. Return on capital increased from 10% to 12.7% during the same period, so it was a good period for us.

We have multiple earnings levers. A year ago -- a week before Thanksgiving a year ago, something very strange happened. All of our customers stopped buying things. And the week before Thanksgiving really was the first time we noticed it. Up until that time, our business had held up very well. The week before Thanksgiving, it stopped. The week after Thanksgiving, it was still bad and the first week of December we met to make our first reductions.

So we reacted very quickly. We've taken out through December and September $57 million in annual cost savings including reductions in staff, other personnel expense, discretionary spending, things like that, and it came out mostly in the January, February, March period when business continued to decline. Beyond March, we took out another $12 million or $15 million, something like that, and we have experienced the reductions.

All the time that's been going on for the last three years, we had a target savings for operating efficiencies, which were programmed of taking out $25 million in operating expense over three years and we got a $10 million. In the year we're in, we're expecting to take out another $10 million in operating efficiencies through bulk and cylinder logistics, cylinder fill plant testing efficiencies, and optimizing the hard goods supply chain.

Our maintenance CapEx in the period of high growth was probably in the 7% to 8% range because we had made a bunch of acquisitions and we were buying lots of tanks and cylinders. This year, it's dropped about five. We're finishing off a number of projects that are in the pipeline, but we expect the maintenance CapEx going forward in the 3% of sales range.

What we find very encouraging about our business and weren't sure we could really do this, is for the first six months of our fiscal year that ended September 30, 2008, we posted sales of $2.279 billion and had $388 million of EBITDA, 17% EBITDA margin. And this year, we've delivered sales 15% less at $1.9 billion and delivered $332 million of EBITDA and actually increased the EBITDA margin.

So our operating margin, which was 12.1%, dropped last quarter. It was about 11.4%, 11.5%. And if you go back and look, most of that drop was related to several new large air separation plant investments that came online in this fiscal year and the depreciation we've had to absorb at the same time. So had we not had that investment, we probably would have maintained the operating margin right about the same level it had been. So we feel pretty good about that.

We're the US packaged gas leaders. We figure we've got about a 25% share. It's very tough to quantify the market because it's not only packaged gases and welding hard goods, but we kind of overlap into the safety market; we do some other MRO things; we also play in the pipeline and large bulk business.

We have several -- a few large national competitors like Praxair and Linde, Air Liquide, but most of the market -- at least half of the market -- is still in the hands of 900 independently owned distribution companies, okay? Back when Airgas was founded 28 years ago, that would have shown probably on the order of 2,000 plus independently owned companies.

The thing to know about our market is that we basically distribute very heavy containers, steel containers, that hold small quantities of gas. And as a result of that, the distribution radius around our stores is very small. Although we are a national business, we're really the aggregation of hundreds of 50-mile radius war zones around our branches.

So it's very important for us that we continue to build density inside each of those 50-mile radiuses. And there are many, many distributors -- independent distributors -- that are still opportunities for acquisition that still make up half the market, which are targets of opportunity for us.

We like to say that we offer a full range of supply modes for gases for our customers. We like to grow with our customers. The bulk gas customer, the merchant customer today was the cylinder gas customer of yesterday.

We like to say we can go from the smallest of small in cylinders up to the largest of large. The two new plants we built -- one in Kentucky and one in Indiana -- both are on the property -- one's on the property of Dow Corning and one's on the property of ArcelorMittal. And so that end of the spectrum we supply pipeline gases from those manufacturing plants across the yard to a steel mill and to a large chemical complex on that side.

On the small side, we're in the process of rolling out supplying one to two cylinders to each of 7,000 Dollar General stores so that they can start supplying their customers with helium-filled balloons. So we can take the big with the big of the big and individual applications that are small as the small and we try to focus on everything in-between.

We have a comprehensive offering of packaged gases -- industrial gases, medical gases, specialty gases. Medical is hospital; specialty gases are labs, universities, research centers; refrigerants, ammonia and the bulk gases at the air separation plants, very large bulk and micro-bulk.

Micro-bulk would be an application where you pull up to a McDonalds and you go through the drive-thru and you look in the back and you see a small tank for CO2, which is used for running their carbonation drink machines, okay? We've got 25,000 beverage carbonation customers across the country who are putting the fizz in the drinks, as well as hundreds and hundreds of small bulk oxygen and nitrogen and argon accounts.

Welding hard goods, the range of products ranges from welding machines, which are generally capital purchases in the eyes of the buyers; filler metals, which are the alloys that are used when you try to weld and join pieces of metal together; abrasives, which are used to finish the metal once it's welded and make it look pretty; Red-D-Arc, the welding division; positioner rentals; and the safety area is head-to-toe protection from hard hats to safety shoes and everything in-between, respiratory protection, fall protection, and we have a Company called Oilind Safety which does confined space breathing support services for contractors that are working inside of confined spaces like tanks and columns and things like that.

We're known locally nationwide, 1,100 locations -- 850 of which are stocking locations; 325 fill plants where we fill high-pressure cylinders from bulk sources; 16 air separation plants that produce oxygen, nitrogen, and argon; 19 acetylene plants where we generate acetylene from calcium carbide; seven liquid CO2 production plants; 65 regional specialty gas labs where we make labs for research and universities; nine national specialty gas labs where we make the hard stuff and the toxic stuff; six hard good distribution centers.

We have a gas supply chain, we have a hard good supply chain. Those kinds of products are very, very different. They come together at our 850 retail stores, which is where they meet for local delivery to our one plus million customers.

Used to have 14,500 employees, now we have 14,000 employees, 1,500 of which are sales people, 25% are specialists and you'll see in a minute why we have to have specialists, about 5,000 are drivers. All gases, industrial gases, are hazardous materials as classified by DOT. You don't ship industrial gases by UPS; you deliver them on your own trucks with HAZMAT and certified drivers.

We run the sixteenth or seventeenth largest private fleet in the US with the number trucks and the number of miles that we run. We own 10 million cylinders, of which 8 million are in the hands of our customers, 13,000 bulk tanks and about 5,000 trucks.

We serve all kinds of industries, and this is a very busy chart, but it's probably one of the more important pieces that is in the deck here. Across the top, you see the primary markets that we serve. And there are what we would consider GDP markets like industrial manufacturing, maintenance repair, and then there's GDP plus growth markets, which based on their characteristics we think are going to deliver higher than GDP growth.

Underneath each of those, you will see the percentage that that segment makes up of our total sales. So in the morning, we're delivering to the largest hospitals in this country. Then we may be delivering to universities and nanotechnology centers or life science centers, cryorepositories, things like that. Then we might move into the energy and infrastructure construction and deliver to a power plant that has all types of applications from specialty gas calibration mixtures to ammonia for DeNOx to maintenance gases and on and on.

And then we might be delivering to a Caterpillar plant somewhere in the US for their cylinder gases and all their hard goods to use in their manufacturing. So when you look at our fleet and you look at our drivers and you look at where we're delivering, we are delivering to -- and we might stop at a Dollar Tree and drop off a couple of cylinders of helium for balloons on the way back.

So again, you look at the million customers, the variation and the different markets, and one of the things that's so interesting about Airgas is that generally these markets are all at some different stage of activity and gives us a tremendous number of levers to pull as to where we're devoting our time and attention.

If you go down the left-hand side, you will see our products, okay? Gases and rent, that is rent on the eight million containers that are in the hands of the customers, make up 61% of our sales. And we have industrial products, which account for 33% of our sales. We have another group of products that we call strategic products and I'm going to talk about those in a minute separately.

But bulk gases, for example, is 10% of our sales; medical gases are 7%; specialty gas, 6%, and you can see. Then we get to the hard goods -- 12% of our sales are safety products; 10%, filler metals; equipment is 5%; and another big category of miscellaneous hard goods is 12%.

If you go across then and start matching the families of products with the industries, you can see that in some cases -- in the case of medical, it's really one product for one market. But if you look at all the other products, we have gas products that touch many, many markets and in some cases, the applications are very, very large, and we've tried to indicate that with the bigger dots.

Customer segments, we have over a million customers, no customer greater than 0.5% of sales in just about every possible industry. In fact, I found out last week that one of our larger retail customers is the Sports Authority who buys lots of CO2 for recharging paintball guns. So there's all types of applications in the industrial gases arena and many of which we never even knew existed.

You get into food, and we'll talk about that in a minute, but when you go to the grocery store and you don't want to clean and chop the lettuce, you want to buy the lettuce already in the bag, already chopped, and you pick up the bag and you squeeze it and it feels like there's a gas in there, there is, and it's to keep the lettuce from turning brown. It's a gas mixture that's used as a food preservation mixture. So you run into these industrial gases in all kinds of applications and a lot of places you never expected to find them.

Strategic products. A number of years ago, we identified some products that we felt that for a number of reasons had the potential of growing faster than some of our other products. Today, those products represent 40% of our total sales and have strong growth profile due to favorable customer segments or counter-cyclical segments they're in. The application development in those segments, increasing environmental regulations or strong cross-sell opportunities.

Total strategic products had a three-year compounded growth rate prior to this year of 8% and in the second quarter of fiscal 2010 we had organic growth of -9% and compared to our total same-store sales at that point of -17%. So although the sales weren't great, they were not nearly as bad as the rest of the core business.

Strategic products, safety products, very strong cross-sell opportunity. Anybody that's using industrial gases is buying safety products from somebody because they are dangerous and people can get hurt. And our goal is to have them buy them from us and this has been a double-digit growth product line for the last 10 years. And even today, only 15% of our customers that buy industrial gases from us buy safety products from us. It's going to be a good growth engine for a long time.

Bulk gases, application growth, more and more uses of bulk gases. We provide -- with one of our acquisitions, we acquired a good, really strong department on application support for customer applications and in food freezing and metal deflashing and things like that. That has really, really helped us and the sales force presence -- those 1,500 sales people we have out and about that are all heavily incented -- find their way into more places than you can imagine, so our bulk pipeline is very, very robust.

In medical, the population demographics for respiratory therapy are definitely in our favor. The percent of the population that is aging continues to grow and more and more people as they age are going to need respiratory therapy. Full range of supply modes -- cylinder oxygen, bulk oxygen, micro-bulk oxygen, nitrous oxide, medical CO2, medical devices, medical mixtures -- a very, very good opportunity and continues --. In fact, this particular segment never went negative in this recession, okay? It got to a point where growth was just slightly positive. It was our only product segment that didn't go negative.

Specialty gas, fueled by application growth, environmental regulation, and enhanced capabilities. Environmental regulation means more and stricter pollution control regulations, as to what can be emitted from stacks, what can be emitted from diesel exhaust from cars and trucks. The more regulation there is, the more EPA pollution regulations there are, the more robust of an opportunity the specialty gas area is for us. CO2 and dry ice are very big in food production applications and the beverage market.

Competitive advantage is driving growth, a very, very comprehensive product and service offering. If you look at the breadth of our gases and the breadth of all the supporting hard goods, nobody has the lineup of products and services with the strong supply chains -- it's not even really a close second.

Strategic products, core products, the ability to cross-sell products and leverage the customer relationships we have is very, very strong. Our eCommerce capability -- I saw the other day a stat that says that greater than 4% of our over 1 million customers are online monthly and we're up to something like 325,000 visits to our website per month, which is a dramatic increase over even just two years ago.

The national footprint, the most comprehensive network in the business. We are especially attractive to customers that have multiple locations across the country. In the past, before Airgas was created, if they had 10 plants, they needed to have 10 buying relationships with 10 independent companies with 10 sets of pricing and 10 sets of invoices and they were all over the place.

We offer them a full range of products and services, single point-of-contact, national pricing, consolidated billing, all the things to make their life a lot easier in a real pain-in-the-neck kind of product for these guys.

Solution selling, engineering the right solution. We like to say it's about more than just the molecules. This is not a commodity business. We have a lot of customers that are requiring our help in optimizing the process as they use these gases. That's why we have specialists -- bulk gas specialists, specialty gas specialists, certified welding inspector welding specialists to help manufacturers, and a whole group that is providing supply chain management services.

Because we're getting more and more customers -- I think we're up to about 70 employees that are full embedded in the customer's property to manage the cylinder gas supply chain inside the fence of that customer because it's something they really don't want to do, don't do very well, and have outsourced to us.

We want to ensure a superior customer experience. One of the things we've learned from competing with the thousands of independently owned distributors that we compete with that have half the market is they are tremendous customer service providers. They're fast, they're flexible, they're creative, and we have to be just as fast, flexible, and creative as they are.

So we're all about providing a superior customer experience. We've now implemented a program at Airgas that we call Core Strategy II, which surprisingly enough follows behind Core Strategy I, which we did several years ago, which was really targeted to stock the right products in the right place and technical training for our customer-facing people.

Now it's more about eliminating costly rework, increasing customer loyalty, generating higher sales through better retention and cross-selling, and it's really helping firmly establish a single culture of customer service in the Company.

Acquisition opportunities remain good, still highly fragmented. More than 900 packaged gas distributors remain. Independent is about 50% share. It's a very local service intensive business, competing in a geographic radius of 50 to 75 miles. Very important point, people say to me, "Why do you even fool around acquiring some small distributor?" And the answers are very, very simple. Everything happens inside that 50 miles we want.

As a distributor, we want every possible customer we can find in that 50-mile radius, number one. Number two, the fewer people we have challenging our need to get reasonable prices, the better. And number three, if you look at the Airgas customer makeup, we probably have a half million customers that buy $1,000.00 a year or less from us. But what they do buy from us is very profitable. They buy gas and they rent cylinders, okay? Our two most profitable products.

You can't afford to even send a salesman out to find a $1,000.00 a year account, okay? You can't do it. And so the best way to secure that density of that base of small accounts that are very profitable, many of whom actually come into your own store to change out -- you don't even have to deliver it to them. It's the farmers and the small shops [newstore] acquisition.

So as a result, we're as interested in the $5 million distributor in that circle as we are in the $25 million distributor who might be in 12 locations, okay? Very, very important because we want to build density and we want those profitable customers who rent cylinders.

The heart of the business is the cylinder. It's integral to the business, costs you about $150.00 to buy them, you rent them for $60.00 about approximately a year. You have to have about 20% extra to maintain a working stock in your plants and your branches. People say how long do they last? They last a really, really long time.

If we were to go visit one of our production plants today and just randomly walked into the pile and started to look at manufactured dates, we would find cylinders made in the 1930s, probably within the first five minutes. '30s, '40s, '50s, '60s, they're all out there. We've toyed with the idea of having a contest at Airgas to see who can find the oldest cylinder of the 10 million that we have. We're afraid all of the employees would spend all their time checking dates and not making deliveries to customers.

They have to be requalified every five or ten years, depending on what you have in them. The DOT requires requalification, so we take them out of service for an hour, two hours, we strip the paint off, we requalify, which means we check using acoustic emission, we check for flaws in the steel and imperfections, gouges, dents, other imperfections and brittlement, things like that. We take the paint off, we put a new coat of paint on, and we say I'll see you in five or ten years, good luck out there, and put them back to work. It's one of the greatest assets you could have.

Very, very strong cash flow. As our business slows, our cash flow historically has expanded. Our FY09 free cash was $328 million. If you look down at the bottom, our trailing 12 months of September 30 through September 30, we had free cash of $439 million. So again, those cylinders, even in a downturn, I think our same-store sales were down overall.

KEVIN MCCARTHY: Gas or overall?

MIKE MOLININI: No, in total.

KEVIN MCCARTHY: 17% --.

MIKE MOLININI: 17% in the last quarter. It was the worst quarter we expect we're going to have and our rental income for cylinders was down 3%. So again, it's one of those streams -- it's an annuity stream and it's very, very resilient, even when sales decline and it's obviously very profitable.

Strong cash flow reduces leverage following acquisitions. You can see when acquisitions slowed at the end of last year and our cash flow expanded, one of the things we began to do very aggressively in an uncertain financial market is we aggressively started paying down debt. You can see we've paid down about $300 million since last December.

And we have said historically that we're trying to keep our leverage between 2.5 -- debt to EBITDA of 2.5 to 3.5 times. And for years we were kind of right in the 3 range and we'd kind of bump up and down, but at this point we're rapidly approaching the lower end of the range and we'll need to provide some additional direction on what our plans are to use the cash for.

The last recession in the early 2000s was a tough one for Airgas. We were going through repositioning, we were standardizing computer systems, there were a lot of moving parts going on in the Company building infrastructure. So when the last recession hit, we really got walloped.

And there's been a lot of concern that -- well, why isn't that going to happen in this time? And I think we're kind of past that now that we've seen the results and what we've been able to do. But the differences between -- and I'm not going to go through them all -- the differences between the platform and the robustness of the Company today versus 2000, it's not even like it's the same Company. We have really built out the platform and it's really strong and it has really, really performed well in this downturn.

So, our key investment highlights, we think we've got many, many growth opportunities. We have an investor conference next week. We're going to talk a lot about organic growth opportunities. The acquisition growth opportunities are still strong, a very, very diversified customer base.

We continue to leverage the infrastructure that we've built every day. The cash flow is very, very strong. We've returned value to shareholders. Dividends has continued to increase. We've done some share repurchases and we think we've got a really proven track record. So with that, I would be happy to take any questions. Thank you.

Questions and Answers

KEVIN MCCARTHY: If anyone has a question for Mike, just raise your hand and we'll bring a microphone right over.

UNIDENTIFIED AUDIENCE MEMBER: Mike, I believe you said that only about 15% of your gas customers currently buys safety products right now? Where would you say that was a few years ago and where do you think that can go in the next few years? Just trying to gauge how large --

(inaudible - multiple speakers)

MIKE MOLININI: I think the -- we should not be satisfied with anything less than 10% per year compounded growth going forward for a long time. And to think that there's another $50 million or $100 million of safety sales growth over the next five years is very reasonable.

Our offering, by the way, in safety is very complete and our supply chain and reliability is bulletproof, which is why I say that. Not just because we have it, because we're actually pretty good at it.

UNIDENTIFIED AUDIENCE MEMBER: What can you say about business without stealing the thunder of next week's meeting?

MIKE MOLININI: No, I --.

UNIDENTIFIED AUDIENCE MEMBER: And whatever you can say about it by vertical as well as --

(inaudible - multiple speakers)

MIKE MOLININI: Let me just talk about it in general because I'm not ready -- I don't have good data to talk about it in individual segments. We've been classified as a lagger, if you will, a one to two quarter lagger on what's going on in the economy. And the inflexion point of where the bottom ceased to be the bottom and started to get a little better for us was September.

September was definitely a better than -- June was bad. July is usually bad, but it was not as bad -- it was about the same level as June. August is usually not very good because of vacations, but it too was about the same. But we did see a noticeable bump in September, and that level -- it's not like it's going through the roof, but that level that we saw in September, to that level and maybe even a slight tick-up has kind of continued.

So we believe that we've passed the bottom, but that it's going to be a long road back in many of the manufacturing and some of the other segments that have been really hard hit.

UNIDENTIFIED AUDIENCE MEMBER: On hard road back, how is the welding area, because it was hit pretty hard? The welding area?

MIKE MOLININI: The welding area is one that's got a long road back, okay? Welding hard goods were off on the order of probably 40%. They were way off. Now there are some signs of life. The really, really, good news for that is that in the 2002 recession, every week we were being appraised of companies that were closing their doors and leaving the country -- manufacturers that were moving somewhere else.

And this time around, we don't see that phenomenon nearly like we did before. But now, it's more along the lines of we're furloughing, we're shutting down for a month, we're seeing that. So I'm actually one of the more bullish people on US manufacturing working its way back.

There's some interesting investments of foreign auto plants that are going in. There's a steel mill going in. There's big investments going in for building windtower frames, which is a big metal-working project. There's big polycrystal and silicon plant constructions that are going to go in Tennessee. I wouldn't give it up yet. It's got a long way to come back. We don't see it coming back real quick, but I don't think it left the country.

UNIDENTIFIED AUDIENCE MEMBER: Mike, could you update us briefly on some of your information systems?

MIKE MOLININI: Yes.

UNIDENTIFIED AUDIENCE MEMBER: I think you were evaluating an SAP implementation.

MIKE MOLININI: Like the SAP project.

UNIDENTIFIED AUDIENCE MEMBER: Exactly.

MIKE MOLININI: We decided a year ago-ish to move the whole Company to SAP. We're currently on 20 separate data sets. Same software, but 20 separate sets. And we are where we are because that's where we are, and that's a whole other story that we don't have time to talk about.

So we've decided to migrate to a single platform to SAP. We began the project in January in earnest. We have about -- many people, probably 100 or more people full time on it. We've brought in Deloitte. Deloitte is our consultant to help us with this. We chose Deloitte because they were the lead implementation consultant for Graybar Electric and Grainger, two big distribution companies.

We were much more interested in getting people that understand distribution than people that understand industrial gases, because we're much more like a distributor than an industrial gas manufacturer. The first -- it's going well. We've engaged 250 field subject matter experts to help us design and configure it to make sure it's customer sensitive, because it's got to be customer focused or it's not going to work for us because so much of our culture is dedicated to taking care of our customers.

The configuration is in tests. And in late spring of this spring, the business unit will go live. And once that happens, it's probably a two to three year phase rollout where we'll take a couple of business units every three months and we'll start all rolling them on to the common platform. And so far, I'm feeling actually really good about this. I think the end result when we finish this is going to open up a whole new horizon for us of cost reduction and efficiency opportunities as well as selling opportunities, particularly for our larger, multi-location customers.

UNIDENTIFIED AUDIENCE MEMBER: You currently purchase about 40% -- you produce in-house 40% of the molecules. Long-term where do you see that shifting or --?

MIKE MOLININI: We don't have a preconceived plan. We're a reluctant producer. When our suppliers tell us they don't have any more product to sell, that's when we start looking for opportunities to produce. And we're always on the lookout for opportunities like we had in Kentucky and Indiana where you can share the production of a plant with a big on-site load. There aren't a lot of those. If we found another one of those and it was in the right spot.

You also have to back up your plants, so we don't need an orphan like 5,000 miles away from the rest of the family. So if the shoe fits and we found the right situation, we'd probably build. But right now, we're getting plenty of product from our suppliers and we're very happy with those relationships and we don't have any big plans to do that.

UNIDENTIFIED AUDIENCE MEMBER: Can you just address the magnitude of the outlays or the impact on profitability of your investment in SAP?

MIKE MOLININI: Oh, time's up. I knew that was going to happen. No, actually, just to answer that real quick, it's because it's going to be much less than you might think. And I'm not going to give you a number, but I'm going to --. In the Linde acquisition, when we acquired the Linde packaged gas business and bulk business, we got a functional SAP system from Linde. And one of the big challenges with any system for us is designing a module to handle the ships and returns and keep track of the cylinders. That's always been the tough part.

The Linde software, Linde has conquered that. So the biggest complexity to going to SAP, we got working software with a working cylinder module and we also got about 15 very knowledgeable SAP people, IT people. And we didn't need them, but we kept them and we kind of put them in the skunk works working on developing the Airgas configuration.

So we got pretty far down the road, much further down the road, and then some of the numbers you hear other people say on what it cost them for SAP.

KEVIN MCCARTHY: I'm afraid we're at the end of our allotted time. Mike, thanks very much for joining us today, especially on short notice. We appreciate it.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** December 14, **2009**

**LANGUAGE: ENGLISH**

**TRANSCRIPT: 120909a2585560.760**

**PUBLICATION-TYPE: Transcript**

Copyright 2009 Roll Call, Inc.

All Rights Reserved.

Copyright 2009 CCBN, Inc.

All Rights **Reserved.**

[Return to List](#cite_id_3)

FOCUS - 3 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

November 17, 2009 **Tuesday**

**Airgas at Oppenheimer & Co. Industrials Conference - Final**

**LENGTH:** 5355 **words**

Corporate Participants

\* Peter McCausland Airgas - Chairman, CEO

Conference Call Participants

\* Ed Yang Oppenheimer & Co. - Analyst

Presentation

ED YANG, ANALYST, OPPENHEIMER & CO.: Welcome, I'm Ed Yang, I'm the chemicals analyst at Oppenheimer, and this is our fourth annual industrial conference. Thank you for your interest. With us today we have Peter McCausland, from Airgas. Airgas is the number one distributor of packaged gases, and welding and safety products in the US. They've been able to deliver compounded double-digit growth partly through acquisitions, and leveraging their size advantage as well. And Peter is the founder of Airgas, and has been Chairman and CEO since 1987. And it's my pleasure to welcome Airgas.

PETER MCCAUSLAND, CHAIRMAN, CEO, AIRGAS: Thank you Ed, and thank you for inviting us to your conference. I won't read this forward-looking statement but I'm sure you've all memorized it. Airgas today is the leader in the US Packaged Gas market, and that's the industrial, medical and specialty gas packaged gas market. We also have a significant position in the US bulk market and a leading platform for adjacent products and refrigerants, ammonia, and processed **chemicals.**

We produce many different types of gases. We're the fifth largest producer of atmospheric gases in the US, with about 10% or 11% of US production, a leading supplier of liquid CO2 and dry ice, we're the second largest CO2 producer in the US and the largest producer of dry ice, and the largest producer of nitrous oxide.

We also are the leading supplier of welding equipment and supplies in the US, and the second largest safety supply, field-based safety supply distributor in the US, and we distribute many MRO items such as abrasives and tools that are used by our customers.

We also have the largest rental welder and related equipment platform in North America in Red-D-Arc. And this combined national platform that we've put together supports multiple sales channels. Branch-based field sales, we have more than 1,500 field salespeople in the US, 25% of whom are specialists, either welding engineers or bulk application specialists, or spec gas specialists, or safety specialists, whatever. And, we also have 830 retail stores. We have a very vibrant national accounts program. In fact, the only national accounts program that provides truly national coverage and the broadest product and service offering.

We do sell through distributors or dealers, about 8% of our sales. We have a telesales operation, various catalogues and a vibrant E-business capability.

Our core markets or what we call our core market is the $13 billion packaged gas and welding hardgoods market in the US. That's the area along the bar at the bottom that's shaded in blue. That represents about $7 billion of packaged gases which are cylinder gases and less than truckload quantities of bulk, liquid gases. And about $6 billion of welding hardgoods. Of this total $13 billion market, we have about 25%. The second largest is Praxair, with about 12@, Matheson Tri-Gas which is a subsidiary of Taiyo Nippon Sanso which has about 6% or 7%. We also participate in a large bulk market, which is the $11 billion section on the left side of the bar. We have about 10% or 11% of US production, but a slightly higher share of sales because we only produce 30% of the molecules that we sell.

We also are the second largest field-based organization in the safety/personal protective equipment market which is a $7 billion market on the right side of the bar, and then I also mentioned the MRO markets for abrasives and hand tools and things like that, in which we participate.

We supply the full range of modes, for gases, ranging from the very smallest cylinders to pipeline quantities of gases or tonnage gases, to steel companies and companies like Dow Corning, and Mittal. We, this is the heart of our business, the cylinders and the dewars and the microbulk and the packaged gas side of the business, the containers that generate a tremendous amount of rent. Packaged gases are about 50% of our total sales, bulk gases are about 10% of our total sales.

Our enhanced capabilities give Airgas an unparalleled comprehensive full service offering. No one has our platform or our footprint or our products and service offerings. In the packaged side, we offer industrial and medical and specialty gases, refrigerants, ammonia. On the bulk side we have on-site separation units, large bulk and small bulk, and microbulk. In the welding area we offer welding machines, filler metals, abrasives, the largest rental welder fleet in the US, and in the safety side we offer the full range of personal protective equipment.

We say we're known locally nationwide, because this is a local business. It's how well you take care of the customers on the front lines, it determines your success. We have over 1100 locations, 850 stores, 325 high pressure fill plants, 16 air separation plants, 19 acetylene plants, 7 liquid CO2 plants, 65 regional specialty gas labs where we make the simple mixes and the pure gases and 9 national labs where we make the more complicated mixes and the nasty stuff. We have 6 large hardgoods distribution centers that do automatic fulfillment of our stores through Manugistics. More than 14,000 associates and I mentioned 1,500 field salespeople, 25% of whom are specialists. More than 5,000 drivers, over 10 million cylinders and over 13,000 bulk tanks, generating rentals, and more than 5,000 vehicles.

This chart is an interesting one because it shows the segmentation of our products and our customer segments. And the intersection of the two. What's particularly interesting to me is the strategic products area that is outlined in blue. In 1998, we decided to focus on these strategic product areas, and now today they represent about 40% of our total sales. The box that's outlined in green show the markets that exhibit have exhibited in the past GDP-plus growth, so you can see there's quite an intersection of the products and the growth markets, and about 30% of our total sales are to customers in markets that are growing faster than GDP.

Here's an overview of our strategic products. There are five areas and in 1998 we decided that we needed a less cyclical business, and that we needed to focus on products that grew faster than the economy, and these products do grow faster than the economy, either for us or in general, because of demographics for medical gases, regulation for specialty gases, and applications technology for both gases and CO2 and dry ice, and because of cross-selling for safety products.

So, in 1998 we decided that we would put specialists in each of our regional companies for each of these products, and we've grown these products, they represent about 20% of our sales when we started. And now, they're up to about 40% of our sales, making us much less cyclical than we otherwise would have been.

The heart of our business remains the industrial gas cylinder. We have more than 10 million of these cylinders. They have very long, useful lives, and they represent a very small portion of a customer's total cost of doing business, but a very critical one because they need to be inspected and tested. They carry critical mixtures, the tolerances on which are very, very small, and there's a lot of regulatory compliance wrapped around these cylinders with OSHA and DOT and the FDA and on the medical side. It's an interesting way to grow your business, because you only have to expend the capital when you get the business. It's incremental. It's not like in the air separation business where you have to plop down $50 million to build an air separation plant. And the average rental on these cylinders is about $60 a year. We have over 10 million of them, they cost about $150 and about 82% of these cylinders are in service, charged out to customers at any particular time. The rest are dock stock that are floating through our plants and our trucks.

We also have more than 13,000 bulk storage tanks, most of which are located at our customer's location and our customers pay rent on these tanks regardless of how much gas might go through them at any particular month. So, the rental income stream from cylinders and bulk tanks is a very, very important part of this business in general, and certainly very important to Airgas.

We feel at Airgas that we have a number of competitive advantages. We like to say it's not just about the molecules. We have the strategic products that we offer with specialists standing behind them, and we have our core products which are more in the welding and metal fab areas.

We think our national footprint is pretty special, and offers strategic or national accounts and opportunity to sole source with us regardless of where the facilities are. And, we focus on solution selling and engineering the right solutions for our customers, and we have lots of groups nationally that we can bring to bear at the local level. Bulk gas engineering groups, specialty gas engineering group, welding process specialists and welding engineers and automation specialists, and also we have a whole group of people that we categorize under outlook, our supply chain management group, and we can bring everything from vending machines to total outsourcing of procurement, including gas, cylinder gas management, bulk gas management, at a customer's facility.

We're doing this in refineries, we're doing it at university research centers, we're doing it at major hospitals, we're doing it at major fab shops.

We're very focused now on what we call Core Strategy II at Airgas, which is a program designed to eliminate errors and improve our fulfillment and otherwise give outstanding customer service to our customers, and every one of us is going through multiple versions of training in that regard, and we're making great progress.

We've had a very consistent strategy for many, many years, drive market leading sales growth through first internal growth in our core or metal fab products and the strategic products, and then adding new products and services that leverage our infrastructure and this national platform that we've built, and our customer base. These are products that our customers buy, maybe not regularly but at least seasonally or occasionally, and we feel like getting that additional sales from these adjacencies by cross-selling to our customers is a real opportunity.

And, acquisitions. Acquisitions have been a large part of Airgas. We've made over 400 in our history. Our first priority is core acquisitions in the packaged gas market. The second is these product line or adjacencies. And the third priority is strategic opportunities overseas in our industry.

Providing outstanding customer service and improving operating efficiencies, we always felt like we owe it to our customers to be the low cost supplier. It's a mantra at Airgas, and we've made tremendous progress in that regard in recent years.

In terms of acquisitions, we're focused on that $13 billion market. 50% of that market is still held by about 900 independent packaged gas distributors, and this is a local service intensive business, and it's how well you do in the local market. You can haul cylinders about 50 to 75 miles, in bulk maybe 100 to 125 miles.

And I mentioned these other adjacencies. We've entered some of them. Safety products has been very successful. Refrigerants and ammonia are recent entries that have also been successful, and we continue to evaluate the international opportunities. We like to say that we've done a good job creating value for our shareholders. This is our compounded annual growth rate on earnings, 29% for the last five years, and on sales of 16%. And we've done a good job with cost and price management during this time, and leveraging our infrastructure.

Cash is king at Airgas, and this is a cash flow business. We had as you can see here, last year we had record free cash flow of $328 million. Our free cash flow for the first six months of this year has been $223 million despite the severe downturn in sales, and we have a very good shot of exceeding $400 million in free cash flow this year. Our cash flow from operations last year, which is a different number but a significant one, was I think $653 million. So, this is a cash flow business. We've worked hard for many years to build this platform and it's really generating a tremendous amount of cash right now.

This cash has been used after acquisitions sprees to pay down debt and this chart shows that our adjusted debt to EBITDA has come down tremendously over the years, and now it's down to 2.7 to 1. And I think it was just below 5 to 1 back in 2000. So, despite the fact that we spent a tremendous amount of money on acquisitions, we've also spent $1 billion on CapEx in the last three years, upgrading our facilities.

We always said that we had multiple earnings levers to pull when times were tough, and I think we've demonstrated that. Our earnings in Fiscal 2008 that ended in March were $2.68 per share. Last year, March 31, year ended, we were up to $3.12 and this year we have a range of $2.70 to $2.80. And, when you consider the extreme sales decline we had, the fact that the bottom end of our range is higher than our 2008 earnings is remarkable to me and a tribute to the really wonderful job that the Airgas associates have done reining in costs during this very difficult environment.

In fact, we've taken about $57 million of costs out in two tranches over about the last 18 months, and we've also in Fiscal 2009 generated $10 million in efficiencies, and we're on track to generate another $10 million in efficiencies for the fiscal year that ends in March. Of course, those efficiencies are permanent, and we estimate about half of the $57 million in cost reduction is permanent, through reorganizations and becoming more efficient and effective.

Some of these efficiency programs that I mentioned which will yield $10 million in savings this year and we're on track for that, are bulk and cylinder distribution logistics, cylinder fill plant and testing efficiencies, and optimizing our hardgoods supply chain. Our maintenance CapEx is about 2.5% to 3% of sales, and we've been pretty true to that.

When people ask me what am I missing, well, what's really important about Airgas, I like to tell them that it's remarkable how much progress we've made in the last 10 years at Airgas. And this slide compares Airgas in 2000 to 2009. In 2000 we had just launched our repositioning, where we took 40 hub companies and tried to merge them into 12, and we also tried to convert to the same computer system. We were on different systems, and we had different part numbers, and we had a different uniform chart of accounts, and different cultures and different parts of the country. And we also at that time just started building out our distribution infrastructure, in the late 90s, so we -- that was up, but it wasn't running particularly efficiently. We just started this strategic product effort with the five products that we thought were going to grow faster than the economy.

And gas and rent was about half of our sales back there, and of course that's important because gross profits on gas and rents are around 75% versus hard goods in the high 20s, and we had high leverage. You saw on the other slide, we were just below 5 to 1 debt to EBITDA.

In 2009 we have 12 outstanding regional operating platforms that form our national distribution company. We have 11 strategically aligned product-line companies that complement the core business offering of our regional companies. We have an operating culture that's firmly in place and a scalable infrastructure. Our strategic products capabilities are much greater than they were back then. Obviously, we've been successful, they're 40% of our sales now, but in terms of the quality of the people that are offering these products and the quality of the offering itself, it's light years ahead.

Gas and rent are up to 60% of our total sales. Our balance sheet leverage is down to 2.7 to 1 debt to EBITDA and 8 to 1 EBITDA to interest. Our bulk capabilities are as good as it gets. We have an outstanding bulk applications group in spec gas, we have an outstanding spec gas applications group. We have ammonia, refrigerant, and process chemical offerings. These are seasonal and occasional products that our customers need. We have our [household] products that are usually sold through brokers who don't have a lot of insurance or don't have outstanding safety programs or emergency response capabilities like Airgas.

Our technical expertise and engineering expertise have been fully built out. We have buying centers where we've centralized all of our buying and used demand planning software for automatic fulfillment of our stores. We instituted a private label program in the late 90s, around 2000 we expanded it, and that's been very successful with margins that are twice as high as branded products.

So, when considering investing in Airgas I would urge you to consider our track record, our diversified customer base, the fact that we have an infrastructure or platform now that we think can be leveraged, the very strong cash flow that we generate organic and acquisition growth opportunities, and the fact that we think like owners. A lot of us own stock in the company, and we are committed to growing our dividends with our earnings, and to share repurchases to prevent share creep.

This is the last slide, and generally it is -- a picture tells 1,000 stories, or whatever the saying goes. But this picture, I think, is pretty descriptive of where we've been, and this includes a picture of 400 acquisitions, the building of an outstanding infrastructure, and the creation of a market leader in the US packaged gas market. I'd like to take any questions you might have.

Questions and Answers

ED YANG: [Pierce]? Oh, sorry.

UNIDENTIFIED AUDIENCE MEMBER: You go, you go first.

UNIDENTIFIED AUDIENCE MEMBER: Peter, can you talk a little bit about the SAP installation that you've been undergoing for quite some time?

PETER MCCAUSLAND: Yes, we've been planning -- well first of all, SAP. Yes, we have, we have more than 23 different operating units. Almost all of them are on a platform called CU. It's all the same computer system, but they're all different systems, they all have different data sets. We have uniform part numbers, and chart of accounts, and all that stuff. We use a data warehouse to transmit information back and forth, collect it and slice and dice it.

We've been thinking about an enterprise system for many years. We were looking at both SAP and Oracle, then we ended up buying the Linde Packaged Gas business, and they were on SAP. And they had an 11-person SAP team that'd done, had done all of their customizations especially for cylinder control and things like that, and we decided that what we would do is keep that group in the event that we selected SAP. And it was a couple of years of sunk expense if it didn't work out, but it was a great thing, and we also got the license. And the proprietary software applications, particularly in cylinder control.

And soon after that, we launched, we selected SAP, and we launched a one year program to help design our SAP system using the Linde system as a base and of course, that was several old versions ago. But we hired Deloitte, and we started to work on the design phase. And on April 1, about then, could be two weeks after that, we're going to do our first conversion.

And then, we have a four-year rollout program in place. Hopefully it's not going to take four years so we can do it in a couple years, and I never thought I'd be standing up at a podium telling people that we're going to install SAP, because I know all the horror stories. I've been on Boards that had these horror stories, but I tell you what. I am very optimistic that we're going to do a really good job, because SAP's gotten better. They've really focused on the distribution industry. Granger's gone SAP, Graybar's gone SAP, we spent a lot of time talking to these companies and benchmarking them.

We're very good at computer conversions. We've done like 500 of them in our history, and there's no big bang here, because we're not on an enterprise system now. So, we go one system at a time, one regional company at a time, and when we bought the Linde and BOC packaged gas businesses and converted them to our computer system, we started something called the Buddy System. So, if we were doing a conversion in the Southeast, we would bring people in from Northern California or Nevada or Southern California or Oklahoma and they would stand side by side the counterperson or the accounts receivable clerk or whatever it might be, who has this new system. So, we intend to utilize that Buddy System and hopefully this is going to go pretty smoothly and we'll be able to accelerate it.

UNIDENTIFIED AUDIENCE MEMBER: Thank you.

PETER MCCAUSLAND: Sure.

UNIDENTIFIED AUDIENCE MEMBER: When you look at your retail stores, where do they stand today as far as kind of optimal number of products being put through them? Are they under-utilized? I mean, can you put more stuff so each additional product you get basically has no expense to it, but just profit? You know, and are there things you can do creatively, or maybe you don't buy a product line but you know, JV or partner with somebody that actually use those more fully?

PETER MCCAUSLAND: Well, that's a really good question, and I can say they're totally underutilized. Retail strategy is something that we really haven't focused on very much at Airgas. We've been more focused on building out this national capability, this national platform, and on the gases side of the business, and we -- there's a lot we can do, and there's a lot of interesting retail concepts that we've watched and filed away, and I know that a lot of these industrial stores are selling things that people use in their homes. And so, there's some very interesting concepts. One thing we did do is, basically our retail stores were all welding equipment for many years and we put in a safety zone and I'd say we have 850 stores, we probably have 500 of them have safety zones which are separate and distinct safety equipment and supply sections. And then, about 50 of them have construction zones, which are specialized products for construction customers, and that was launched as part of our construction sales and marketing effort.

But, there's a tremendous amount more that we can and will do when we get to it, at Airgas, on the retail store side.

UNIDENTIFIED AUDIENCE MEMBER: Peter, the dollar's been in the news a lot lately and you don't have a lot of, you don't have any really, direct FX exposure but I would think that a lot of your manufacturing customers would have FX exposure and a weaker dollar helps them. So in the last earnings call you kind of mentioned manufacturing as relatively lagging. Have you seen any improvement in that?

PETER MCCAUSLAND: Well, yes, yes, we've seen some improvement in our sales since June. It's been very bumpy. I just learned that the industrial production team out today and it was disappointing, it doesn't surprise us. Because September was a really nice jump up, and then October kind of settled back. November is back up to September levels, and looking more promising. It's been very bumpy but it's come mostly from manufacturing. And you know, we started with the stimulus efforts, and a lot of the auto companies went back to work or they recalled people. Now, we're seeing the farm equipment people call people back to work. There's some big military contracts like Oshkosh with that vehicle, all-terrain vehicle, that's one of our biggest customers, they're calling back people. So, we're seeing a bunch of callbacks. We're seeing also as I said on the earnings call, some investment in automation that you wouldn't expect at the bottom of this crazy business cycle. But, we're definitely seeing some pick-up now.

I don't know if it's sustainable or not, but we're certainly hopeful. And I, I would say that our people in the field are generally optimistic and I have my own world view about the dollar and US manufacturing. One thing that's different in this recession from the 1998 to 2002 period is that we're not seeing these massive closures of our largest customers. In that period, every month, our regional companies send a report in to headquarters and there's always a small narrative section. And every month, every company would report one or two, sometimes three of their top 50 customers just shutting their doors, moving to Mexico, Thailand, Indonesia, China. That's not the case.

And one of our Board members pointed out at our recent meeting that 50% of the unemployment that's been incurred in the last couple of years has come from businesses with 50 or fewer people, and so I think that's optimistic, because it's easy to start up a business with fewer than 50 people, and that could come back once confidence is restored.

But you know, they're not closing the plants like they did back in the '98 to 2002 period, and in fact there's five new foreign automobile plants under construction in the US. There's two huge fabs that are being built in the US, a uranium plant in New Mexico, a railcar plant in Alabama, a stainless steel mill in Alabama. So, I think that the pendulum swung so far away from manufacturing in the US that it was not sustainable, and I think it's going to swing back and I think the weak dollar is going to help it significantly.

So, I'm kind of a bull, I guess, at least for the next 10 years on US manufacturing, and we all know that the country's under-invested in its infrastructure. Just try driving around to different places or over bridges, and the government's going to have to find the money to invest in infrastructure.

So, I think that's a positive for the US economy as well.

UNIDENTIFIED AUDIENCE MEMBER: And acquisitions has been such a key component of the growth story for the last really 30 years or so, you announced one acquisition yesterday, Tri-Tech, $31 million. What do -- what kind of multiples do you like to pay for business like that, doesn't necessarily have to be specifically Tri-Tech. I would call something like 5 or 6 times EBITDA, does that thinking ever change depending on where you are in the economy? What do you do to integrate an acquisition, like Tri-Tech? Do you keep the management? What happens with the workers and what sort of revenue and expense synergies do you typically see in a normal acquisition?

PETER MCCAUSLAND: Right. Well, the Tri-Tech, well the multiples for acquisitions have tended to range between 5 and 6.3 times adjusted EBITDA, and when I say adjusted EBITDA, it means run rate EBITDA, 6 months back, 6 months forward. It's not like the last three years averaged. So, we try to catch the current economic climate. And it's got positive and negative synergies. Positive if we're closing a plant or a branch and consolidating, negative if they don't have health, offer health insurance to their employees or our benefits are more expensive or we have higher safety standards which requires us to invest in these facilities.

And, basically, some of the bigger deals we've done have been down around the 5 times because they've been owned by big companies who felt the urge to get rid of them quickly for various reasons. And, the ones at the high end of that range are the very best independent companies you can imagine. And of course, we're influenced by where we are in the cycle, too. And I won't say what we paid for Tri-Tech, but it's a very good company and it commanded a good price.

But I will say that we are very disciplined. You've watched us long enough to know that there's been cycles where we've dropped out of the bidding whereas some of our competitors have just kept going and paid large prices. So, I think that acquisitions are going to be coming back here pretty soon. This recession has been pretty hard on these independent companies because they have a less favorable gas/hardgoods mix than Airgas does. And hardgoods have turned down farther. And, I think that some of the efficiencies that we bring customers now are through our supply chain efforts and our national platform, are hurting some of these smaller companies and we're a lower cost supplier.

And so I think that we have a chart that shows the number of sales, the dollar volume of sales acquired in a bar, in each year, going back 25 years, and on top of the bar, the number of acquisitions in that year. And if you put the industrial production curve over that chart, you'll see that these companies don't sell when the economy's bad. The cash flow of these businesses is very good and people wait to sell off higher numbers.

And so, we've been in a dry spell here, and we're glad to have made this acquisition, and we have a number more of them in the pipeline, but the pipeline is not as vibrant as it has been in years past because people are holding out to sell off higher numbers. Did I answer all your questions?

UNIDENTIFIED AUDIENCE MEMBER: I think so. On the international side, do you need to make acquisitions, or would you evaluate, how would you evaluate international opportunities versus domestic acquisition opportunities?

PETER MCCAUSLAND: Well, we've been international before and we were pretty successful, and when the Internet bubble burst we sold off a lot of things that we shouldn't have probably. But, we've gotten to be so big here that when you go overseas now you want to get something meaningful. And I don't mean buying one of the major gas companies, but I mean a large regional player. And we've looked at a few in South America, and a few in China, and a few in India, and we have a full time person now working on international acquisitions in those areas and also in the Middle East. And I get involved in some of them, and our Vice President of Corporate Development is very active, and we'll see what develops. Our first priority is our core acquisitions right here in the US and plus Canada and Mexico, where we're looking in both places. And then the second would be adjacencies that fit really well with our platform, so that we can lever the platform and our $1 million plus customers. And then thirdly, it would be the international acquisitions.

ED YANG: Thank you.

PETER MCCAUSLAND: Thank you for having me.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** November 21, **2009**

**LANGUAGE: ENGLISH**

**TRANSCRIPT: 111709a2525067.767**

**PUBLICATION-TYPE: Transcript**

Copyright 2009 Roll Call, Inc.

All Rights Reserved.

Copyright 2009 CCBN, Inc.

All Rights **Reserved.**

[Return to List](#cite_id_4)

FOCUS - 4 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

November 10, 2009 **Tuesday**

**Airgas at Robert W. Baird & Co Industrial Conference - Final**

**LENGTH:** 4593 **words**

Corporate Participants

\* Mike Molinini Airgas - EVP, COO

Conference Call Participants

\* David Manthey Robert W. Baird & Company, Inc. - Analyst

Presentation

DAVID MANTHEY, ANALYST, ROBERT W. BAIRD & COMPANY, INC.: My name is David Manthey, I'm the Senior Industrial Distribution Analyst for Baird, thanks for joining us. Airgas is the largest US distributor of industrial, medical and specialty gases and welding safety and related supplies. The company also produces dry ice, liquid CO2, nitrous oxide, and other specialty gases and atmospheric gases. Airgas distributes more than 10 million cylinders from over 1,000 locations to more than 1 million customers in a diverse group of industries. With over $4 billion in trailing sales, Airgas is a leader in the $12.5 billion market for packaged gases and welding hardgoods, about a 25% market share.

To speak with us today about the Company we have Mike Molinini, who is the Executive Vice President and COO, and Barry Strzelec, Manager of IR. I'll go ahead and turn it over to Mike, thanks.

MIKE MOLININI, EVP, COO, AIRGAS: Good afternoon, everyone, and I'm going to talk really, really fast, because we don't have a lot of time. So, **bear** with me.

We'll jump right into it. Airgas has developed a very strong distribution platform as a leader in the US packaged gas market. A significant position in the US bulk market as well as the leading platform for refrigerants, ammonia, and processed chemicals.

We produce various gases as well as distribute, the fifth largest US producer of atmospheric gases, the leading supplier of liquid CO2 and dry ice, and the largest producer of nitrous oxide.

About 60% of our sales are related to gases, and about 40% of our sales are related to the products that our customers use when they use the gases, and whatever the process is in the industry they're in. These are primarily welding and cutting related products, safety products, and related MRO supplies as well as rental welders.

We go to market through a whole bunch of channels, and we'll talk about some of those in a minute.

Leader in the US packaged gas industry. We've got about a 25% share. Praxair, the PDI division of Praxair, would be second largest, but about 50% of the business is still in the hands of primarily independently-owned distributors. As many of you know, Airgas was formed 27 years ago with a $3 million acquisition in Connecticut, and 375 or 350 acquisitions later, we're a $4 billion, 14,000 employee company.

We supply a full range of supply modes for gases. Clearly, gases is our primary business. 50% of our total sales are related to what is known as the packaged gas business in this country, primarily made up of cylinders, which you see on trucks all over town, usually, dewars, which are a slightly larger container for cryogenic product at minus 300 degrees, then we move into the bulk gases. MicroBulk is just a small cryogenic tank stationed at a customer's location. The bulk business, or better known as the Merchant business, as we and many others in the industry call it, and then you have the very, very large, Pipeline, Onsite, Air Separation plants, which is known as the tonnage business, and that makes up about 10% of our sales.

A very comprehensive offering, gives us an unparalleled comprehensive, full-service offering. Packaged gases in the industrial, medical, specialty gases arena, as well as refrigerants and ammonia. In bulk gases, we have the small bulk tanks, large bulk tanks, and on-site air separation plants. Welding hardgoods, welding and cutting machines, filler metals which are all the metal alloys that are used in joining metal, abrasives and other products used to prepare or finish metal after it's been worked, as well as the welder and positioner rentals, and the safety arena, head-to-toe protection, respiratory protection, fall protection, and a new business we acquired called Oilind Safety, which provides confined space breathing services and support to contractors.

We're known locally, nationwide. Over 1,100 locations, 850 retail stores. Cylinder gases are very heavy, it's 110 pounds of steel containing 5 pounds of gas on a truck. And, as a result, they don't travel very far. So, if you're going to be in the packaged gas business, you're going to have many, many, many locations from which to distribute, because the effective distribution radius is only about 50 miles.

So, as a result, our 850 retail stores is where our packaged gas, cylinder gas supply chain meets our hardgoods supply chain. They come together in a retail store. About 15% of our business is transacted over the counter by people that walk in the front door and about 85% of our products are delivered.

All gases that we supply are heavily regulated. Every governmental agency you could imagine has their fingers in the pot, whether it be FDA, EPA, DOT or Homeland Security, which is why we do most of our delivery of products with our own drivers. We've got 16 Air Separation plants where we take air from the atmosphere and convert it into pure oxygen, nitrogen and argon at cryogenic temperatures in the minus 350 degree range, 19 acetylene plants where we generate acetylene, seven liquid carbon dioxide production plants where we manufacture CO2. We produce regionally, specialty gases in 65 labs, nine specialty gas labs, and six hardgood distribution centers, which are the backbone of our hardgoods supply chain.

14,000 associates, about 1,500 of which are sales people. 25% of those are specialists in things like food and beverage, medical, specialty gases and universities, things like that. 5,000 drivers, we operate the 15th largest private fleet in the United States, and we drive I don't know how many times back and forth to Mars equivalent every year with our fleet. 10 million cylinders, 13,000 bulk tanks, so it's a pretty good size organization.

About 8 million of the 10 million cylinders are in the hands of our customers. About 2 million of the 10 million are in our possession at our plants somewhere in the process of being maintained, refilled, processed, or shipped to our branches for redelivery to the customers.

This is a very important slide, probably the most important one in the whole deck. We supply all kinds of markets. I like to tell people that on one end we may be supplying a steel mill, via pipeline, and on the other end we may be supplying helium cylinders to 7,000 Dollar Tree stores so you can get balloons for your kids' birthday parties, and everything in between. And so, we supply markets that we consider GDP plus growth, and we supply markets that we consider to be GDP.

About 30% of our markets we would consider to be faster-growing segments -- Energy and Infrastructure, Construction, Medical, Food and Beverage, and Analytical. Below though, each segment you see the percent of sales that it represents of our business. Our industrial manufacturing business, which is the piece that has most heavily been impacted in this recession makes up about 25% of our sales, and we're also in maintenance and repair, petrochemical, wholesale, retail, utilities, transportation, and the miscellaneous.

If you go down the side, gases and rent are about 61% of our sales, and hardgoods are 39% of our sales. We have a group of hardgoods -- the biggest segment of gases and rent would be our industrial products, industrial oxygen, nitrogen, argon, acetylene, things like that make up 33% of our sales. We have a block of products that we've highlighted that we call "strategic products." I'll talk about them in a minute individually, but those are the products that for whatever the reason, offer us greater growth potential for some reason and I'll cover those individually.

In the hardgoods arena, the big segments are safety products, filler metals which is a whole raft of metal alloys in electrode form or in wire form, equipment which is welding and cutting equipment, power supplies and things like that, and then there's a large group of miscellaneous other products which are used to support welding and cutting.

So, one of the things that's interesting about us is that we touch everybody, and as you'll see in a minute we have customer segments who in this recession have declined dramatically. We also have customer segments that in this recession have never declined at all.

Strategic products overview, the strategic products, I'll talk about the first one is safety. For the last three years, our comp had an annual growth rate with 6% for the quarter. Second quarter of our fiscal 2010, same-store sales for safety was a minus 15%, which unto itself sounds pretty bad. Except, when you look at our overall hardgoods same-store sales, which were minus 27%, safety performed rather well.

The reason we like safety products unto itself was not a growth industry, but anybody that uses industrial gases is buying safety products. We just would like them to buy their safety products from us. So, we use it as a very strong cross-sell. We have a very good, strong supply chain and a broad product offering.

Bulk gases three-year growth rate of 12% for the quarter was minus 9%. Our overall gases, same-store sales for the quarter was minus 12%. Very good growth opportunities in places like food freezing, oil field services, and things like that, but again it was hampered by the metal fabrication component that was really severely impacted.

Medical sales, this is primarily hospitals, nursing homes, surgery centers, first responders, primarily -- the main product is oxygen. Three-year compounded growth rate of 8%, and in the second quarter it was down at 1% but has never gone negative, and we really don't expect it to go negative. We have very good demographics going on here with the aging population.

Specialty gases, 9% three year compounded growth rate, minus 13% for the quarter. We have a core group of products in this arena which are very resilient, and showed almost a very, very slight negative performance. The overall performance was negatively impacted by a comp with some very high value -- Xenon, one of the rare gases that was sold in the period on a spot-basis a year earlier. CO2 and dry ice, 6% over the last three years, minus 8% for the quarter. Very difficult comp, again, because when we have hurricanes, we basically ship as much dry ice as we can possibly make into the affected region, and a year ago if you recall in the August-September period, we had the big hurricane that hit in the Houston area and around there. So, we had a really difficult comp. We didn't have any material hurricanes this year.

But overall, good long term prospects in food product applications and the beverage market. So overall, three-year compounded growth rate for these products was 8%. Our second quarter averaged negative 9%. Our overall same-store sales for the same quarter were negative 19%, so it was about half as bad as the rest of the products, again heavily impacted by the manufacturing sector, which was also the sector that takes a lot of our hardgoods. Hardgoods same-store sales for the quarter were minus 27% overall.

So, we spent a lot of time and spent a lot of focus on these products, as well as some of those higher-growth segments because the diversification we have now versus what we had at the last recession has really helped us a lot in mitigating some of the damage.

The heart of our business is the cylinder. We have a $150 asset that we buy. We rent it for about $60 per year, and we have about 8 million of them in circulation. If I was to take you into any of our cylinder filling plants, and just randomly walk into the empty pile or the full pile and started picking cylinders at random and started looking at the manufacture dates that are stamped into the side of the cylinder, there is a 100% chance that within 10 minutes, we would find cylinders manufactured in the 1930s and the 1940s, that are still out there generating rental revenue for us. So, this is the gift that keeps on giving.

Our rental revenue is much more stable than our gas sales and our hardgood sales. In the second quarter, our rental revenue was down about 3%. So, this is the cash flow engine that really powers the real strong cash flow that Airgas experiences.

Competitive advantages we like to say, it's not just about the molecules. We're very big on bringing a comprehensive product and service offering and helping customers create efficiencies within their supply chain. The national footprint is something that no one else has, and our ability to attract large customers with multiple locations across regions through our strategic account program has been tremendously successful, and we will continue to push that.

We spend a lot of time solution-selling to engineer the right solution to complex customer problems, which is what bonds the customer to us and creates long-term relationships, and of course it's very, very important, since we compete with 900 independently-owned entrepreneurial distributors, that unless you're providing superior customer service, you're not going to win in this kind of market.

This strategy hasn't changed. This slide hasn't changed in the last 10 years, and it's absolutely core to what we're all about. We're attempting to drive market leading sales growth through internal growth and core and strategic products, and new product and service offerings that leverage our infrastructure and customer base. Over the last five years, we've made tremendous strides in leveraging the platform that we have built to sell more and more products and services to this group of customers using that platform.

We make acquisitions. We've made a lot of acquisitions. We will continue to make acquisitions, both core acquisitions, product line acquisitions, and strategic opportunities. We're all about providing outstanding customer service to over 1 million customers, and we are constantly on the move these days to work on operating efficiencies that will stick to our ribs when this recession is over, and we'll really improve the way we do business.

Acquisition opportunities in the long term are still very good. We're focused on the US packaged gas and welding hardgoods business. Still highly fragmented, more than 900 packaged gas distributors out there, that represent about half of the market. Again, it's a local service-intensive business, and what we have to do to be successful is win. I like to say we have 850, 50-mile radius war zones, and for us to be successful in our business we have to win in every single one of those, branch by branch, market by market.

So, we're very interested in continuing to acquire distributors within those areas, especially where they lay right on top of us.

Other opportunities exist in adjacent businesses, and we've had really good success in areas such as safety products, refrigerants, and ammonia, and we continue to cautiously evaluate international opportunities.

For the last five years, we've delivered 29% EPS growth and 16% sales growth compounded. For a whole raft of reasons, of leveraging the footprint, same-store sales growth, price and cost management, it's been a very good run.

Strong cash flow is the trademark of Airgas. We do have a history that when same-store sales slow, and acquisitions slow, and we're not spending capital on new plants and new bulk tanks and things like that, our cash flow expands dramatically. Last year, we had free cash of $328 million, and I think through two quarters of this year we're at $223 million? $223 million through two quarters.

So, we've been in a period now of dramatically paying down debt. You can see that's our history. We've tried to keep our debt in the 2.5 times to 3.5 times EBITDA range. We're rapidly approaching the 2.5 bottom end of what that range has historically been. Since December of '08, through September of '09, we've paid down $300 million in debt with our free cash.

But, the history has been acquire, borrow, pay it down, borrow, pay it down, it's been a consistent story for 27 years.

Multiple earning levers. We talked this morning, somebody was asking me, "Wasn't it about October or so when the bottom dropped out last year," and I corrected them and said, "No, it was the week before Thanksgiving," because it was like a light switch for us when the manufacturing sector shut down for our product line. First week of December, when we realized it was not a temporary shut-down, we immediately took action and took an immediate $45 million in annual cost savings out of the business through reductions in staffing, other personnel expense, discretionary spending, etc., etc. When we realized at the end of March that the bottom was still not reached, we took another $12 million in annual cost savings out, all of which have been fully implemented at this time.

In addition to that, we've had ongoing operating efficiency programs targeted to take out about $10 million a year, and we were going to take $10 million out in FY '10 through improved logistics, cylinder fill plant and testing efficiencies, and that program's going very well, and CapEx which was about 8% of sales is now down around 5%, and is heading towards the -- as we work out the tail of projects that had already begun, is heading towards the maintenance level of 3%.

Business continues to evolve. For those of you that knew Airgas in 2000 in the last recession, the comparison to then and now is dramatically different. The Company is completely different than it was then, both in size, depth, talent and expertise. Key investment highlights for us, a proven track record, diversified customer base and infrastructure that can be leveraged. A very strong cash flow, continued organic and acquisition growth opportunities, and value returned to shareholders through dividend growth and share repurchases.

We've taken a disciplined approach to growing the business. Sales have continued to grow, interest expense has remained under control, shareholder equity and EBITDA continue to grow and we're -- we really believe that we are going to exit this recession in a stronger position than when we entered.

So, I believe I did it, so with that I'll be happy to take any questions.

Questions and Answers

DAVID MANTHEY: Nicely done. Actually, yes, 10 minutes early, so we have plenty of time for Q&A, unless you have something else you want to cover. All right, right here.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible question -- Microphone inaccessible)

MIKE MOLININI: No switch. We did see in July and August, are usually our worst months of the year with plant shut-downs and holidays. April was worse than March, and May was bad, and June was worse. But, what was interesting is, the July and August were about the same daily run rates as June. So, that was the first inkling that we got that well, maybe we're actually getting near the bottom.

September was about 5% better on a daily rate than was July and August. So, that's really the first sign that we had that things were beginning to improve somewhat. Now, when you're as far off as we are in some of the manufacturing segments and things like that, getting a 5% improvement is kind of like just starting to re-fill the shelves with some of the customers that have de-stocked dramatically. So, we continue to watch it closely. We expect it's going to take a long time. Yes?

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible question -- Microphone inaccessible)

DAVID MANTHEY: Could you repeat the question, Mike?

MIKE MOLININI: Yes, well we're talking about our strategy in the packaged gas business versus some of the other larger gas companies in the packaged gas business, and how do they view the packaged gas business. And you'd probably be better off asking them how they view it. Well, I guess part of the answer is pretty easy. Air Products, BOC, and Linde, all sold their packaged gas businesses in the US to us, and exited. So that tells you one thing.

I think if you were to ask those guys what they think of the packaged gas business globally, they would say it's great. Because every one of those companies I mentioned in other countries besides the US, has a significant position in the packaged gas business. But I think the fact that the packaged gas business in the US really has two features that are different than anywhere else in the world caused them to really think through whether or not they wanted to be in the business.

One thing it has that no other country has is the independent distributor. And, a whole bunch of these independent distributors. The independent distributor really doesn't exist in markets around the world to any great degree. There are, they do exist, but not to any great degree in any market other than US. And one of the things those independent distributors have done for the last 50 years is, they have done a magnificent job of bundling hardgoods and gases together to create an integrated offering. A lot of service, high touch, high service offering, a broad range of products, a lot of delivery, a lot of distribution, local stocking, welding process training, and things like that, that make it very difficult to get the customer away, to switch from a distributor even if you are a manufacturer and you produce the bulk gases. Because, you know, in the case of a cylinder, of oxygen, it might have $0.60 or $0.75 worth of molecules of oxygen. And it's a product that might sell for $10.00 or $20.00, so whether you're the low cost producer of bulk product or not, an extra $0.10 in the cost of the molecules is kind of irrelevant in the value proposition.

So, I think they love it in other parts of the world. I don't think most of them liked it in the US. Too much rivalry, too many little competitors. They didn't want to be in the hardgood business, they'd prefer to be in the gases business. Clearly, we would prefer to be in the gases business, but if you're going to compete effectively in the US and you want to be a real player, you've got to be in the hardgood business.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible Question -- Microphone Inaccessible)

DAVID MANTHEY: Could you repeat it again, Mike?

MIKE MOLININI: We're talking about indicators, what type of indicators do we use.

UNIDENTIFIED AUDIENCE MEMBER: (Inaudible Question -- Microphone Inaccessible)

MIKE MOLININI: Yes, well we are, we have been told, that we are a one-to-two quarter lagger. Okay? Of the economy. Now, depending on which segment of our business we're talking about, I would argue that that's probably right, or that's probably not right. But, we've done a lot of work on tracking ISM and all these other indices, and non-res construction, and things like that. And, we have had a very difficult time correlating our history with those models. Now, we have some new models that we've just recently developed, that we've been working on, that would appear to have captured some of the historical better than we've ever been able to before, and I'm not sure whether they're going to predict the future, but we're trying to refine that now.

One of the indicators that we do look at, which is not really an indicator, but one of the pieces of our business that we watch closely, is in our hardgoods sector 5% of our sales are related to products that for the purchaser is a capital purchase. It's welding power supplies, and cutting equipment, things like that. And in the last couple of recessions, that is the first product line that really comes shooting out of the box with dramatic increases, and usually gives you a couple-month head start on the other consumables and the other gases that are going to be needed in the manufacturing sector. And, we have not seen any material change in that yet.

DAVID MANTHEY: Mike, both Air Products and Praxair have announced price increases within the last couple weeks. Could you give us your thoughts on that? And if you don't want to get too specific, given that Air Products is a supplier of yours, would you generally say that when you see cost increases coming in that you'd be able to put them through to your customers?

MIKE MOLININI: We are -- one of the things that we absolutely are rigid about, is that when our costs increase, we are going to pass that on. Even at the height of a recession. And we've had a couple of those cases recently, where we have passed them on, but there was good justification for why our costs went up. Very defensible, I can show you and I could look you in the eye, and tell you why they're going up.

So, assuming that their costs are going up, and that they can defend that to their customers, I suspect they'll do okay. That's probably about as much as I want to say about it.

DAVID MANTHEY: Fair enough. Question over here?

UNIDENTIFIED AUDIENCE MEMBER: Can you talk about international strategy?

MIKE MOLININI: The international industrial gas market around the rest of the world is much more developed and consolidated than it is in the US. In most of the rest of the world, there are in each country or each region, there are very few of the multi-national gas companies that have over time developed their share of the markets. And so, the opportunities for someone new to either come in as a scratch start or acquire someone else is limited, very limited. So, the potential for you to see Airgas as Airgas, with all of our products, and package to bulk and all these things show up in another country, in a big way, in my opinion is pretty limited. The potential on the other hand, for you to see us appear somewhere with a specific product line, or a small portion of the product line where there's a unique market niche, and we have a unique technology or capability, is possible. But, I don't see it, there's no other markets that could be the second coming of, "Let's roll up the market in some other major continent." Not going to happen.

DAVID MANTHEY: All right, I think that's all the time we have. Please join me in thanking Mike and Barry.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** November 14, **2009**

**LANGUAGE: ENGLISH**

**TRANSCRIPT: 111009a2525057.757**

**PUBLICATION-TYPE: Transcript**

Copyright 2009 Roll Call, Inc.

All Rights Reserved.

Copyright 2009 CCBN, Inc.

All Rights **Reserved.**

[Return to List](#cite_id_5)

FOCUS - 5 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

May 6, 2009 **Wednesday**

**Q4 2009 Airgas Earnings Conference Call - Final**

**LENGTH:** 10432 **words**

Corporate Participants

\* Jay Worley **Airgas**, **Inc.** - VP of Communications and IR \* Peter McCausland **Airgas**, **Inc.** - Chairman, CEO \* Mike Molinini **Airgas**, **Inc.** - EVP/COO \* Robert McLaughlin, **Airgas**, **Inc.** - CFO

Conference Call Participants

\* Michael Harrison First Analysis - Analyst \* Michael Sison KeyBanc - Analyst \* Amy Johnson Goldman Sachs - Analyst \* David Begleiter Deutsche Bank - Analyst \* Laurence Alexander Jefferies - Analyst \* David Manthey Robert W. Baird - Analyst \* Kevin McCarthy Merrill Lynch - Analyst \* Mark Gulley Soleil Securities - Analyst \* Edward Yang Oppenheimer - Analyst \* Gaghi Bagdish Buckingham Research - Analyst

Presentation

OPERATOR: Good morning, and welcome to the Airgas first quarter 2009 earnings conference call. Today's call is being recorded at the request of Airgas. All participants will be in a listen-only mode until the question-and-answer session of the **call.**

For opening remarks and introductions, I will now turn the call over to Vice President of Communications and Investor Relations, Jay Worley, please go ahead sir.

JAY WORLEY, VP OF COMMUNICATIONS AND IR, **AIRGAS**, **INC.**: Good morning, and thank you for attending our fourth quarter earnings teleconference. Joining me today are Peter McCausland, Chairman and CEO, Mike Molinini, Executive Vice President and COO, and Bob McLaughlin, Senior Vice President and CFO. Our earnings press release was made public last evening and is available on our website as are the slides that accompany this teleconference. To follow along, please go to www.airgas.com, click on the investors short cut at the top of the screen and then go to the conference calls and webcast page. During the course of our presentation we will make reference to certain nonGAAP financial measures. Please note that reconciliations to the most comparable GAAP measures can be found in our earnings release in our slide presentation and on our website.

This teleconference will contain forward looking statements based on current expectations regarding important risk factors which are identified in the earnings release and in our slide presentation. Actual results may differ materially from these statements, so we ask that you please note our Safe Harbor language. We'll take questions after concluding our prepared remarks, and we plan to end the teleconference by noon eastern time. Now I'll turn the call over to Peter to begin our review.

PETER MCCAUSLAND, CHAIRMAN, CEO, **AIRGAS**, **INC.**: Thanks, Jay, good morning, and thank you all for joining us. As a result of the tireless efforts and can do attitude of more than 14,000 Airgas associates, fiscal 2009 was a very impressive year. We posted record earnings of $3.12 per diluted share on sales of $4.3 billion and operating margins of 12.1%. We also established new records for operating and free cash flow. These achievements are all the more impressive against the backdrop of the continuing global economic slowdown. During the March quarter, business conditions became considerably more challenging for many US companies, including Airgas. Demand levels remain low throughout the quarter, and visibility into future business trends is still obscure.

Slowing was widespread both geographically and across customer segments, many customers extended their plant shutdowns, and the broad wave of inventory destocking we saw in December appears to have persisted throughout the fourth quarter. Although we have seen a slight sales improvement from January to February, March sales retreated to January levels. The double-digit declines in same-store sales for the quarter were the sharpest in our history, and the good news is, we posted only modest declines in earnings and operating income, and more than doubled our free cash flow. Net earnings were $56 million or $0.68 per diluted share, which was just above our revised earnings guidance of $0.64 to $0.67 for the fourth quarter, total sales in the quarter declined 9% to $992 million driven by a total same store sales decline of 13% with price up 4% and volume down 17%. Gaps in rent same store sales declined 8% and hard goods declined 20%. Acquisitions contributed sales growth of 4%.

Looking closer at quarterly results across our geographies, the east region declined the least of all our regional companies, and the mountain west was the only region to realize positive gas and rents, same store sales. The most pronounced slowing took place in the Great Lakes and north central regions, both of which have felt the direct and indirect impacts of the deterioration of the auto industry during the past several months. Nationwide customer segments that posted the strongest results in the quarter were medical and analytical, while the most dramatic declines in the quarter were in industrial manufacturing, with autos hit the hardest within that segment. Our construction customers also struggled this quarter with extended shutdowns and delayed spending on major turnaround projects by refineries and power plants. In light of tough sales results, operating margins held up relatively well, reflecting our ability to react quickly in a downturn and the favorable contribution of acquisition synergies

Fourth quarter margin was 11.5% compared to 12.1% last year, and 12.1% in the third quarter, we also posted very strong free cash flow of $157 million, compared to only $63 million in the fourth quarter last year. Cash flow continues to be one of the strengths of our business model. For the full year we generated record free cash flow in excess of $328 million. That's an increase of 46% over the prior year and represents about 7.5% of sales, even though CapEx was higher year over year by $85 million. Full year adjusted cash flow from operations grew 37% from $482 million last year, to $660 million this year.

Slide three presents a recap of this year's acquisitions. We made 14 of them, adding about $205 million in annual revenues. These transactions have increased the density of our distribution network in key geographies, such as Ohio and southern California, in addition to expanding our presence in east Texas. We also expanded our offering in product line adjacencies, laying on an offering of rental safety equipment and safety services with our acquisition of oil and safety, and sales and rental welding positioning equipment through our acquisition of A&N plant. A&N represented an expansion into Europe for our Red-D-Arc rental welder business. Our largest acquisition of the year was also a product adjacency opening up more opportunities for us in the refrigerants distribution business. We are continuing our integration of the Refron acquisition, and have already had some success in cross-selling refrigerants to our core customers, although the struggling economy has muted the seasonal increase in demand that normally begins in the March quarter. We expect further benefit as we integrate our offering and reclamation capabilities into our distribution platform.

Acquisition activity has slowed significantly as potential sellers hunker down awaiting better business conditions and visibility in order to value their businesses. Our strategy is unchanged, and we remain diligent in our sourcing transactions. Our primary focus remains on domestic core and product line adjacency acquisitions, we will also continue to evaluate international opportunities as they arise. We remain watchful for opportunities from the stimulus spending that is starting to make its way into the market. Certainly a focused infrastructure bill would support demand for industrial gases, welding goods and safety supplies, all of which are at the core of our product offering. In addition, stimulus money for research and healthcare should drive demand for specialty and medical gases, it's too early to tell how much impact this could all mean, but we expect it to be incrementally positive. Further implementation of environmental regulations would similarly be beneficial for us.

Looking forward to the fourth quarter trend of low sales volumes has continued in April. And with few signs of near term recovery, we have a cautious outlook. We intend to stay focused on our fundamental business strategies, and mind the growth opportunity that are available. Areas such as strategic accounts, specialty gases, bulk gases, energy and infrastructure construction, medical and food and beverage will continue to be be relatively positive even in today's difficult environment. At the same time we will pursue all available cost savings to protect our earnings and cash flow, and we're prepared to implement more savings initiatives if conditions deteriorate further.

We approach a challenging economy in the same way that we do a cooperative one with a consistent time tested strategy and an eye for value creation. Our role in the supply chain is critical. We meet essential needs with long lasting solutions that are straightforward and no nonsense. Our balance sheet is supported by assets that generate a reliable stream of cash flow and our earnings volatility is relatively low. We embrace today's challenges as the catalyst for tomorrow's progress and combine big picture thinking with practical actions, paving the road to a bright future for all of our stakeholders. As we exercise our competitive strengths and balance our short term and long term strategies, I believe we will emerge from this downturn stronger than ever. Mike will now give you a review of market strategy and operations.

MIKE MOLININI, EVP/COO, **AIRGAS**, **INC.**: Thank you, Peter, and good morning to everyone. As Peter just mentioned, our strategy in today's economy is to maximize value creation by pursuing all available growth opportunities while minimizing operating expense and capital expenditures, we plan to stay on the offensive, invest wisely and avoid a bunker mentality. We will leverage our competitive advantages and manage our cost structure appropriately for today's environment. Please turn to slide four. As you can see, 25% of our sales are to customers impacted by the more traditional cyclicality of industrial manufacturing. While 30% of our sales are to customers whose growth profiles tend to outperform GDP. Another quarter of our sales are to customers who use our products primarily for repair maintenance, and the volumes in that business tend to stay more stable than manufacturing, in today's economy, the diversity of our customer base has helped soften the impact of the rapid decline in US manufacturing.

Looking at our product mix, we continue to benefit from a shift toward gas and rent sales, our hard good products are under the most volume pressure lead by steep declines in equipment which is the only product line we sell that is a capital purchase for our customers. We expect equipment to drop deepest in a downturn followed by filler metals used in manufacturing. Fortunately these tend to be lower margin sales compared to the rest of the hard goods. A sales mix shift from hard goods to gas and rent drives margin expansion as gas and rent carry higher gross margins than hard goods.

Turning to slide five, our strategic product categories of bulk, medical and specialty gases, CO2 and dry ice and safety products make up about 40% of our revenue and in total they declined 6% for the quarter. Growth in medical was offset by slight declines in bulk and specialty gas and by more significant slowing in CO2 and safety products. All of our strategic products continue to have good long term growth profiles due to favorable customer exposure, application development and regulatory acceleration, strong cross-sell opportunities or a combination thereof.

Bulk gas sales were down 2% of the quarter, as increased sales of bulk nitrogen for food freezing application only partially offset the impact of production slowdowns in the metal fabrication and steel segments and reduced activity by oilfield supply customers. For us, bulk sales represent a great cross-sell opportunity. Prior to the Lindy bulk acquisition, we were primarily a cylinder gas company with limited bulk capabilities. With 16 air separation plants today, including the two new plants in Indiana and Kentucky, we have a competitive bulk offering for a large base of customers who have historically purchased their bulk gas elsewhere. Our ability to engineer solutions to support customer applications has also been effective in winning new bulk accounts as customers look for increased productivity in a tough economy.

Specialty gas sales declined 1% in the quarter as plant shutdowns caused general softening and demand. We remain optimistic about our growth prospects, given our expanding account base in biotech, life sciences, research and environmental monitoring customers. Additionally, we continue to make great progress in the EPA protocol business and sales of specialty gas equipment. Our investment in proprietary automated production and automated analytical technology, now fully deployed at all of our major specialty gas cylinder production plants, provide provides the quality and capacity we will need to service growth resulting from the nation's economic and environmental agenda. We also have a world class hydrocarbon mixture facility coming online soon in Texas that will position us well to penetrate that market. Medical sales posted 2% growth for the quarter. Our hospital specialty clinics and nursing homes segment continues to grow as the aging population drives increased demand for respiratory therapy. Each of these segments posted solid growth for this quarter, while the home care provider segment in the US and other medical distributor business was more of a challenge.

New signings were strong across all medical segments as our broad product offering and full range of supply modes makes vendor consolidation for hospitals evaluated proposition. Safety sales declined 14% from the prior year quarter, driven by extended plant shutdowns in the first half of the quarter and inventory destocking throughout the quarter. Safety products still represent a strong cross-sell opportunity for us, as we recently validated a review of customers with significant spend opportunity. We believe that the value in vendor consolidation will be higher for them in today's economy. We should play to our advantage in further penetrating our account base. Finishing out our strategic products CO2 and dry ice were down 6% compared to the prior year quarter. While slowing was broad-based, the largest pressures were on the dry ice sales in the airline services segment and beverage carbonation for CO2 sales. Food freezing segments held up relatively well.

Our strategic account business continued to gain new customers throughout the quarter, although slowing in the fabrication and petrochemical customer base drove strategic account sales down 4% from the prior year. For the full year our strategic count business grew 9%, our national infrastructure, technical expertise and broad product offering created real value for customers with multiple locations. Customers facing tougher times tend to renew their interests in supply chain savings, and we've seen a heightened level of interest in our strategic accounts offering, and have sharpened our focus on specific target customer segments. We are also seeing increased opportunities for our outlook supply chain management program as high volume cylinder customers turn to us as onsite experts in managing their supply chain.

Despite overall slowing in the energy and infrastructure construction segment, our contracted customers continue to respond favorably to our strategic accounts program. We offer a full line of construction products along with safety management, certification, and safety consulting services. In fact, oil and safety, which Peter mentioned earlier, was one of our only business units to achieve positive same store sales for the quarter. Of our overall construction offering, we currently have a small portion of the spend of the top 450 US contractors, so even in a slowing economy, we have opportunities for growth. Our Radnor private label products line was down 9% for the quarter, driven by the overall drop in hard good volumes. For the full year, Radnor products group grew by 20%. In addition to building brand loyalty within our customer base, Radnor products continued to enhance our profitability because they carry higher gross margins than comparable OEM products.

Existing Radnor product lines and product line expansions continue to make strong contributions and we expect Radnor to remain attractive to customers searching for more economic solutions to their hard good needs. Airgas specialty products which is focused solely on ammonia, posted a slight decline in sales for the quarter. Excluding the large bear pipeline project in the fourth quarter of last year, our ammonia business grew 6% over the prior year. We continue to gain new customers in the ammonia business as power and other large plants come online. These plants require ammonia for [denox] applications and we are also benefiting from the new requirement that utilities run their [denox units year round as opposed to only five months of the year. As Peter mentioned, demand for refrigerants moderated in the quarter as customers delayed their normal preseason buying patterns, preferring to wait for a clear picture of demand when the cooling season actually begins. Our integration of the Refron acquisition continues, and we believe our refrigerant strategy has positioned us well for good long term growth.

Our operating efficiency programs, focused on cylinder maintenance and testing distribution of fill plant logistics, freight and fuel management are on schedule to achieve targeted $25 million in run rate savings by September 2010. As of September 2008, we had reached a run rate of $10 million in annual savings from these programs, and we expect to achieve an additional $10 million in annual run rate saving by September 2009. UT cylinder test benefits and common carrier freight reductions are the largest component of savings to date, while distribution logistics initiatives are starting to take a larger role in generating savings. As we stated when we lowered our fourth quarter guidance, we recently implemented plans that will generate $10 million in annual cost savings, in addition to the $35 million of savings we began to implement in the third quarter. Together these actions amounted to a net savings of about $7 million in the March quarter and will now amount to a little more than $11 million quarterly. These savings are above and beyond the benefits achieved for our operating efficiency programs and we were able to deliver them without incurring any significant charge. We believe that our cost structure is properly sized for today's sales volumes.

We are able to make additional reductions if conditions can deteriorate further, but we do not intend to compromise good customer service by focusing on short term gains. We intend to protect the infrastructure that we built and maintain our operating momentum. We will continue to invest in training and our core strategy II initiative to enhance the Airgas customer experience, reinforcing and refining a culture of customer service across our company. Our new air separation plant in New Carlisle, Indiana, was brought on stream September 30th -- December 30th and is running well. Our other new air separation plant located in Carollton, Kentucky, has begun start-up and is expected to be fully onstream by mid-May. Our Deer Park, Texas, CO2 plant went into full production in March, and the Camilla, Georgia, CO2 plant is slated for commission in November 2009. In addition most capital projects associated with the Lindy acquisition will be completed in the near term.

And our need to purchase cylinders and bulk tanks is significantly lower today than it was last year. We expect our core capital spending -- to reduce our core capital spending by up to $100 million in fiscal 2010 as we complete most of our current major projects in the next couple of quarters. We are also progressing with the design and configuration phase of our SAP implementation. Long term benefits of this project play to the hard of our core strategies as the unification of our myriad of back office and front office platforms will cement our capabilities in a single solid foundation. We expect the first unit conversion -- business unit conversion to begin in about a year, followed by phased implementation over the course of two or three years. Now, Bob will give our financial review of the quarter.

ROBERT MCLAUGHLIN, CFO, **AIRGAS**, **INC.**: Thanks, Mike, and good morning, everyone. To review our consolidated results, we'll start with slide number six. As I go through these results, please note that we have GAAP reconciliations for various metrics on slides 11 through 13. Our fiscal year was an impressive one. Even the challenging economy impacted the results in the back half of the year. Diluted earnings per share grew 17% to a record $3.12, due to strong sales growth in the first half of the year, effective management of costs and pricing, acquisition integration and synergy attainment, and quick response to the declining economy in the back half of the year. Operating margin increased 30 basis points over last year and free cash flow expanded 46% to $328 million.

Turning to our fourth quarter, our quarterly earnings per share declined 11% year-over-year to $0.68 in the fourth quarter, sales declined 9% to $992 million. Acquisition growth of 4% provided a modest offset to a total same store sales decline of 13%, comprised of an 8% decline in gas and rent and a 20% decline in hard goods. Price was up 4%, and volume down 17%. Gas and rent represented 64% of our sales mix, comparing favorably with the prior year mix of 59%. The sales shift mix is driven by the relative strength of gas and rent same store sales compared to hard goods and by the mix of acquired revenues. The favorable gas rent mix is also reflected in our 54.9% gross margin for the quarter, an increase of 310 basis points over the prior year. Operating expense as a percent of sales was 37.5%, 220 basis points higher than the prior year, driven by the significant decline in quarterly sales, and by the mix shift to gas which carries higher operating expense in relation to sales, which is more than offset by higher gas gross margins. Operating expense as a percent of gross margins was 68.4%, only 30 basis points higher than the prior year, despite the significant decline in sales.

Operating income for the quarter was $115 million down 13% from last year. While operating margins were negatively impacted by significant slowing and quarterly sales, some offset came from gross margin expansion, achievement of acquisition synergies, operating efficiencies and the impact of cost reduction efforts. Operating margins were 11.5% for the quarter, a decline of 60 basis points both year over year and sequentially. Net income as a percent of sales was 5.7% for the quarter, compared to 5.9% in the prior year as debt paid down and overall lower average interest rates help to partially offset operating margin compression. There were 82.7 million weighted average diluted shares outstanding for the quarter, down 2% year over year and about flat sequentially. Our return on capital was 12.7%, a 50 basis point decline from the prior year driven by the slowing economy and related decline in operating margins. In light of the soft sales environment we expect operating margins and return on capitol to be under pressure in the coming quarters, noting that this is the trailing 12 month calculation.

In accounts receivable performance, our collection rates for the quarter have remained relatively consistent both year over year and sequentially. We have experienced the heightened level of bad debt expense in the past two quarters and expect that to continue in the near term. Our March DSO of 50 days was consistent with December results. Our other primary working capital metric inventory turns held consistent with recent trends at 4.8. Cash flow for the full year was $328 million compared with $225 million last year, driven by earnings growth and strong operating cash flows, partially offset by elevated spending on plant construction projects and post acquisition facility consolidations. Adjusted debt at the end of the quarter was $2.1 billion. Our fixed flow ratio was 58% fixed. Our adjusted debt to EBITDA ratio was 2.8% comfortably at the low end of our target range of 2.5% to 3.5%. As of the end of March, $266 million was available under our revolving credit facility. Cash continues to be strong and we pay down an additional $40 million in debt subsequent to March.

Now turning to slide seven, we'll look at our segment results. Please note that our segment reporting has been modified to incorporate the inclusion of our air separation plants, national specialty gas labs, and Airgas national welders into our distribution segment. All three had previously been reported in our all other operations segments, but are more commonly managed and evaluate in the distribution segment, where they are highly interdependent and vertically integrated with our regional distribution companies. A schedule containing recast segment results by quarter for the prior two years is available on our investor relations website. And today's discussion of segment results utilizes the recast numbers. Distribution sales were down 10% to $894 million for the quarter with same store sales down 12%. Distribution gas and rent same store sales were down 6% with negative volumes of 10% partially offset by positive 4% in pricing. Distribution hard good sales were down 20% with volumes of negative 23%, only slightly offset by positive pricing of 3%. Distribution gross margin was 55.7%, an increase of 330 basis points over the prior year, reflecting a favorable sales mix to gas and rent and price increases.

Operating income in the distribution segment was $105 million down 13% from the prior year. The related operating margin was 11.8%, a decline of 30 basis points both year over year and sequentially. Our operating margin held up relatively well in light of the significant declines in sales, reflecting the effectiveness of our cost reduction initiatives and favorable mixed shift to higher margin gas and rent sales. Under our new reporting segments, the all other operation segment now reflects our CO2, refrigerant ammonia and nitrous oxide business units. Sales for all other operations were up 8% over the prior year with a 17% decline in same store sales. Overall price contributed 3% while volumes declined 20% driven largely by delay in normal preseason buying patterns for refrigerants. Operating income for all other operations was down 11% for the quarter. Operating margins decreased by 190 basis points as margin expansion in our ammonia business from declining product costs was substantially offset by a combination of sales mixed shift toward refrigerants due to the Refron acquisition, and declining refrigerant operating margins due to volume declines related to delays in customers normal preseason buying patterns. Increases in production costs related to our CO2 and dry ice businesses also contributed to the overall lower operating margin.

Please turn to slide eight, capital expenditures. Capital spending was $352 million for the year versus $267 million last year and was $70 million in the fourth quarter. Spending on cylinders, bulk tanks and rental welders had moderated consistent with sales trends, while the predominant growth in our spending has been on large projects such as the -- in the construction and progress category. Excluding ASUs and other major construction projects, capital spending for the year as a percent of total sales was approximately 6%. We expect some residual spending on large capital projects to occur in fiscal 2010, including our CO2 plant in Georgia that should now be complete -- we estimate to be completed in November. We are targeting capital spending to drop significantly, by up to $100 million in fiscal 2010.

Please turn to slide 10 to discuss our free cash flow. The dotted line represents our distribution same store sales trends, measured on the right axis, while the shaded area between the operating cash flow and CapEx lines represents our free cash flow as measured on the left axis. We use free cash flow to invest in acquisitions or growth CapEx, to pay down debt, to pay dividends or repurchase shares. We can dial back growth CapEx and working capital generating incremental free cash. As you can see from fiscal 2009, we have significantly grown our free cash flow as same store sales rates have moderated from the high rates in fiscal 2005, 2006 and first part of 2007. A similar expansion of free cash flow was realized in fiscal 2002 and 2003, when sales growth rates had moderated as well. Also during this period, adjusted cash from operation has grown from approximately $130 million in fiscal 2001, to $660 million in fiscal 2009. This represents an impressive 23% compounded annual gross rate consistent with strong sales and earning growth over that extended period. We do not have a current share repurchase authorization in place, but we will continue evaluating repurchases periodically and may authorize an additional spend at a later date.

As noted in our earnings release, the fourth quarter trend of low sales volumes continued in April and we are cautious in our outlook for fiscal 2010. We expect to earn between $0.62 and $0.67 per diluted share in the first quarter, representing a decline of 23% to 17% from the strong results reported in our first quarter of fiscal 2009. The range assumes little to modest recovery from April sales volumes with same store sales declining in the mid-to-low teens. Our full year EPS guidance range of $2.60 to $2.90 represents a decline of 17% to 7% from the prior year, with the low end returning us to the level of earnings we reported in fiscal 2008. It assumes full year same store sales with decline in the low double-digits to high-single digits.

Our full year assumptions include operating margins ranging from 10.8% to 11.5% and 39% to 39.5% tax rate. We expect capital expenditures to be approximately 6% of sales. We want to stress that today's economy provides little visibility into the future sales results. Our guidance incorporates the benefit of expense reduction plans that Mike mentioned earlier and a slight reduction in our weighted average interest rate. Finally given the rapid and severe economic deterioration in recent months, our fiscal 2011 goals are currently under review. As economic visibility improves, we expect to issue new medium term goals, potentially at an analyst meeting in the fall, and until such time we will not be referring to any medium term goals in our investor materials. I now will turn it back to Jay to begin the Q&A portion of our call.

JAY WORLEY: That concludes our prepared remarks. As we begin the Q&A portion of our call, we ask that you limit yourself to two questions and one follow-up, and then get back in the queue if you have further inquiries. Jessica will now give instructions for asking questions.

Questions and Answers

OPERATOR: Thank you, today's question-and-answer session will be conducted electronically. (Operator Instructions) (Operator Instructions) As a reminder we do ask that you please limit yourself to two questions and a follow-up. (Operator Instructions) We will proceed in the order that you signal us. And we'll take as many questions as time permits. (Operator Instructions) And our first question comes from Mike Harrison with First Analysis.

MICHAEL HARRISON, ANALYST, FIRST ANALYSIS: Hi. Good morning.

PETER MCCAUSLAND: Good morning.

MICHAEL HARRISON: A question for you on the guidance. Can you just help me understand given seasonal improvements in your business and going into the June quarter as well as incremental additional cost savings, why you're guiding the June quarter to be sequentially lower on an EPS basis than the March quarter?

PETER MCCAUSLAND: A couple factors, one, as we exited the fourth quarter, the sales trends were lower in March, they continued lower in April than they were in March, so we're starting at a lower level. The March quarter had some slight benefits relative to [storing up] of the year end bonus relative to the rapid decline in earnings in the fourth quarter. Those are primarily the prime drivers.

MICHAEL HARRISON: Okay. And then specifically on the construction business, you were seeing 20% plus growth in the June and September quarters of last year. I was wondering where those sales were on a year over year basis in the March quarter, and how you're seeing construction activity ramping heading into the -- what should be a busier season?

PETER MCCAUSLAND: Our construction sales were down about 5% in the quarter. We just had a construction conference with some of our bigger customers, and the outlook there is mixed. Some of them have growing backlogs, others are slower. All of them have a lot of things they're bidding on, but it's very hard for us to forecast construction sales given what the feedback we got.

MICHAEL HARRISON: And the last one's on hard goods as a leading indicator, is it reasonable to assume that gas and rent same store sales could remain negative for a few more quarters? And do you view a pickup in hard goods -- capital hard good sales as a necessary prerequisite to a pickup in gas rent volumes going forward?

PETER MCCAUSLAND: Well, the gas and rent decline that we saw in this quarter is unprecedented at Airgas, we've never seen anything like is it. And -- but I would say that most of our gas and rent sales just like our hard good sales are coincident with the economy. So they're going to come back when the economy comes back. The idea that the equipment part of our hard goods is a leading indicator which is about 10% of our sales, I think that thesis is still intact and we haven't seen any leading of that although there are some large automation projects and things like that that are still moving forward. We haven't seen an across the board leading hard goods equipment indicator. So I think we'll -- our business will come back with the economy, however, because the decline was so steep, it's possible that we could get a bounce back from the very bottom, because this economy has -- this recession has been exacerbated by the credit crunch. And we have never seen purse strings pulled so tightly by every kind of customer even hospitals. Their business is down because elective surgeries are down, so everyone is kind of pulling the purse strings tight, and I think as confidence comes back, we may see a loosening of that. But 80% of our business, 80% to 90% of our business is coincident with the economy.

MICHAEL HARRISON: Thanks for the color there, Peter.

PETER MCCAUSLAND: Sure.

OPERATOR: Our next question comes from Michael Sison with KeyBanc.

MICHAEL SISON, ANALYST, KEYBANC: Hey. Good morning, guys.

PETER MCCAUSLAND: Good morning, Mike.

MICHAEL SISON: In terms of the hard goods business, how much of the weakness that you're seeing is sort of inventory destocking related, and do you think that is maybe slowing a little bit, or is it still pretty intense at this point?

PETER MCCAUSLAND: Well, my view is that there's a lot of that going on, because of the credit crisis, every single one of our customers is trying to pay down debt, and because they have to refinance. And the banks who got us into this big mess are trying to take -- get healthy on the backs of industry, it seems, and their renegotiations. So it's a tough environment and everybody's pulling back and destocking, and -- but there's no way, because our customer base is so diverse, there's no way for us to say how much is destocking. The only color I would add is that the producers of the hard goods seem to be down more than we are. So maybe that supports the destocking theory.

MICHAEL SISON: Okay. And when you think about the outlook for same store sales for fiscal 2010, negative low double-digits to high-single digits, how much of that delta is under your control? Meaning, you've executed very well in the strategic growth platforms in the past, clearly the levels of growth in the fourth quarter were still much better than the general industrial economy. How much of that can you sort of drive to get to the better end of that range?

PETER MCCAUSLAND: Mike, that's a difficult question, primarily because the -- we've been continuing to make good progress in those areas, but the continuing weakness and decline in the core customer base, we haven't been able to outrun it or overcome it yet. And that was a comment I made a while ago, of trying to get -- trying to understand where stability is among the core manufacturing customers, and although we've seen glimpses of stability for a couple weeks or 30 days, I'm still uncomfortable that we've seen -- that we're -- we've seen stability in those customer's demand, the core existing manufacturing customer base that we currently supply.

MICHAEL SISON: Okay, and the last quick one, will pricing will remain positive this year?

ROBERT MCLAUGHLIN: Yes. I would say there's a -- yes, I think that's probably reasonable.

MICHAEL SISON: Okay. Great, thank you.

PETER MCCAUSLAND: We're going to do our best to keep it positive.

ROBERT MCLAUGHLIN: Yes. You always have a pressure point here are or there. But we're working very hard on that.

MICHAEL SISON: Great. Thanks, guys.

OPERATOR: We'll now hear from Bob Koort with Goldman Sachs.

AMY JOHNSON, ANALYST, GOLDMAN SACHS: Good morning, this is Amy Johnson sitting in for Bob. I have two questions, and the first one is, I heard you guys noted -- we heard trends extending into April. This is a little bit different from whatever we heard from other major (inaudible) industrial companies, which noted a customer industry restocking may have come to an end. And also the reason the USMISM numbers show some life on a sequential basis in April versus March, so can you just explain why Airgas hasn't seen any modest recovery in a month? And also do you expect your same store sales to reach the trough levels in the drink water?

PETER MCCAUSLAND: Well, first of all, every company that we talk to and that we've read about has experienced similar sales results in April. So -- and be they industrial distribution or in industrial gases. And I -- if the economy is coming back, we'll be there ready for it. I'm quite confident that Airgas can stand tall in terms of maintaining its share, and we're certainly ready to take advantage of a stronger economy. But given what happened the last quarter, and our ability to try to pick the bottom, we decided that we're not going to proclaim -- we're not going to be economists, we're just going to try to tell what you we see, and guide with sufficient flexibility in our guidance to take -- to accommodate different scenarios.

AMY JOHNSON: And my second equation is, I think in the March quarter you guys have done a great job of expanding the growth margin, I think the margins reached to 55%. That's probably historical high levels. And my question is, is this level sustainable going forward? And how would you expect the cost the pricing dynamic to make a play out over the next few quarters?

PETER MCCAUSLAND: Well, a lot of that improvement has to do with mix. Gas has carried gross margins, 70%, 75%, and hard goods in the high 20%. So and we did have a price increase during last year that had some impact on our margins, but most of it, I think was mixed. And I think gross margins will -- some of our purchase contracts, the costs of the gas -- and we buy 70% of our molecules, the cost of the gas goes up and down with energy prices, so if energy prices come down, we'll get a little relief there.

There may be some deterioration in margins and a few customers that are renewing, or other situations, but with high capacity utilization rates, given the severity of the downturn, we think that margins will hold up now. I can't tell you how long this recession is going to last, but assuming we get some kind of pickup toward the end of the year or the beginning of next, we're hopeful that margins will be able to hold.

AMY JOHNSON: Okay. Thank you so much.

PETER MCCAUSLAND: Sure.

OPERATOR: We'll now hear from David Begleiter with Deutsche Bank.

DAVID BEGLEITER, ANALYST, DEUTSCHE BANK: Peter, were your April sales higher than your March sales?

PETER MCCAUSLAND: No. There was a slight tickdown in April from March sales.

DAVID BEGLEITER: Has that happened before?

PETER MCCAUSLAND: Yes, that's normal. But when you're trying to forecast, it's not helpful.

DAVID BEGLEITER: Understood. Are you seeing any price erosion yet, and if so, where?

PETER MCCAUSLAND: No. I mean, there's a few companies, strategic accounts who have come to us and asked us to help out because they're in the manufacturing sector that Mike referred to, which is being hurted most in this recession, but they've offered us more business, in exchange for it, and which I think is a good trade given the situation, so. And, of course, a lot of our customers are under contract. And a lot of our small customers don't buy that much. And our average invoice is still less than $200, so we're not having a lot of people banging on the door of our stores asking us for lower prices. But we've got to be sensitive to what our customers are going through during this difficult time, so I think even though some of our costs like healthcare are going up, significantly, we've got to be sensitive and can't -- maybe can't pass through as much. We'll try to eliminate discounts where customers are paying significantly lower than average prices because they were acquired in a competitive environment as we move forward this year. That's generally what we do. We try for tactical price increases during the -- when the business is down.

DAVID BEGLEITER: Last, on the cost side, is all the cost-cutting sustainable, permanent when demand picks back up?

PETER MCCAUSLAND: Well, no. Because some of it is overtime, and some of it is diesel fuel. Because you'll be driving more miles, working more hours. But certainly, there's a part of it that is sticky, and we won't have to replace it until we achieve much higher sales levels.

DAVID BEGLEITER: Could you quantify how much of that $35 million is permanent or sticky?

PETER MCCAUSLAND: If you want me to shoot from the hip, I would say maybe about half and half.

DAVID BEGLEITER: Very helpful, thank you very much.

PETER MCCAUSLAND: Okay.

OPERATOR: Our next question comes from Laurence Alexander with Jefferies.

LAURENCE ALEXANDER, ANALYST, JEFFERIES: Good morning.

PETER MCCAUSLAND: Good morning.

LAURENCE ALEXANDER: First of all, could you discuss a little bit the regional trends that you're seeing sort of into March/April, are there any regions that are beginning to show signs of troughing? In the last recession, you described how the recession rolled back and forth across the country.

PETER MCCAUSLAND: Our script said that the mountain west did the best of our regions. And then what about east? East was pretty good. And the big -- needless to say, the auto belt and the heavy manufacturing belt in the Great Lakes and north central regions was the worst hit. The south was hit pretty hard, because it's a major manufacturing center, and the auto companies down there, which are mostly foreign auto manufacturers, they have been hit hard as well. And that -- and we supply most of them, so that hurt us. And California was so bad that it -- we didn't think it could get any worse, they're so well governed. But Sacramento, then north and the northern California has held up relatively well over the last six months, and we have a lot of small business in southern California that's done okay.

LAURENCE ALEXANDER: And then I guess secondly, in the last recession, when volumes finally started to recover, your incremental margins at the operating profit level were running around 15%, 20%. How much -- do you think that's a good metric for thinking about the next recovery if and when it happens, or do you think you can do better than that because of the change in mix?

PETER MCCAUSLAND: I think we've been getting better all along regardless of the economic conditions and the upward bias is -- or the bias is for improved margins, and we've demonstrated that, and I think that the mix, of course, will help, but -- and some of our fastest growing areas are on the gas side too. So, I'm -- I think the incremental margin on sales could very well be even maybe a little higher than what you've suggest, as we come back. But I think there's a favorable bias on our margins because of mix, because of our growth programs, and that bias, of course, will be evident when the economy returns.

LAURENCE ALEXANDER: Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: Our next question comes from David Manthey with Robert W. Baird.

DAVID MANTHEY, ANALYST, ROBERT W. BAIRD: Good morning. Maybe Peter or Mike, when you discuss sales being down on a monthly basis, and you're comparing them, are you talking about total sales? Is that daily sales? How are you defining it?

PETER MCCAUSLAND: Daily.

DAVID MANTHEY: Just daily sales? Okay. Second question. Could you discuss trends at Red-D-Arc? I'm wondering because of the credit crunch if you may see a surge there, as a leading indicator, even before you see an uptick in equipment sales.

PETER MCCAUSLAND: Red-D-Arc was down about consistent with our same store sales overall, and strong in overseas in the new acquisitions. Most of the weakness right here in the US and Canada. And certainly if the infrastructure programs get restarted here, the ones that were planned and have been postponed or otherwise delayed, and the new ones, Red-D-Arc should see a bounce.

DAVID MANTHEY: Okay. And then the final question. In terms of your debt situation, could you talk about how you view it overall today and how you see it playing out over the next two to three years?

PETER MCCAUSLAND: Well, I'll make a comment, then I'll turn it over to Bob. Our debt's down to like $2.40 billion, somewhere around that, I think if you subtract out the $40 million that we've paid down in the last couple weeks, and it's -- our cash flow is very, very strong, we're investment grade by S&P, we should be investment grade by Moody's, and I wouldn't be surprised if they, given our results, that they take a hard look at us for an upgrade. We hope they do. And we're very comfortable with what we have in terms of availability, and I'll let Bob take it from here.

ROBERT MCLAUGHLIN: We're -- the largest piece of our financing relative to the revolving credit agreement, matures in July of 2011. So we've got plenty of time on that. We're obviously watching the markets closely, we have our AR securitization matures in March 2010. We're looking at that, we believe that's going to be a viable financing strategy as well. But we're open and looking at alternatives. And as Peter said, we've got great availability under our existing lines, and if opportunities come up, we may look to term out some of the revolver prior to its maturity. But really has no urgency with respect to that.

DAVID MANTHEY: Thank you.

OPERATOR: Our next question will come from Kevin McCarthy with Merrill Lynch.

KEVIN MCCARTHY, ANALYST, MERRILL LYNCH: Yes. Good morning, how are you?

PETER MCCAUSLAND: Good.

KEVIN MCCARTHY: I was wondering if you could elaborate on the various cost-cutting initiatives that you have in place, and specifically how much in the way of incremental cost cuts is there an opportunity for in the June quarter and beyond?

PETER MCCAUSLAND: At this point we have taken out the $45 million annualized, made up of some head count reductions, general expense control, travel, entertainment, overtime, general things like that. And that's in place, and at this point we've -- I would say for those types of short term immediate actions are -- have paused for the time being. The ongoing projects for expense reduction is really the operating efficiency programs which are logistics and routing, and we're expecting $10 million out in this by September of this year. And we'll definitely make that. I mean, that's where we are now, depending on what happens going-forward with operating rates, we've, as we said earlier, have several other alternatives in the drawer as to what we might do if volumes continue to decline.

KEVIN MCCARTHY: Okay. So out of the $10 million, would you foresee for September how much of that have you gotten already, is it zero, are you halfway there?

ROBERT MCLAUGHLIN: No, it's probably mostly realized.

KEVIN MCCARTHY: Okay, okay. So I guess what I'm hearing is minimal incremental for the next couple quarters?

PETER MCCAUSLAND: Yes. Minimal incremental. We've realized, implemented it all. How much was in our fourth quarter, Bob?

ROBERT MCLAUGHLIN: On the -- probably operating?

PETER MCCAUSLAND: No, we're talking about the operating expense.

ROBERT MCLAUGHLIN: Of the new $10 million?

PETER MCCAUSLAND: Yes.

ROBERT MCLAUGHLIN: I don't next probably -- not the full run rate, so there's more to come, I would say, probably not the [2.5], maybe $1 million out of the [2.5] run rate.

KEVIN MCCARTHY: Got it. And then last question if I may, what was the magnitude of the bonus accrual adjustment that you made in the March quarter?

ROBERT MCLAUGHLIN: There was a lot of gives and takes with respect to that. I would say it was probably somewhere in the neighborhood of $0.02 to $0.03, we may have had a benefit that partially offsets the incremental expense reductions that we'll enjoy in the first quarter, so it's really, it was really the sales that's driving the range and those kind of somewhat offset each other, maybe a little bit more incremental new expense reduction that we'll realize in Q1, but there was an offset to that, and sales was the primary driver.

KEVIN MCCARTHY: Thank you very much.

OPERATOR: We will now hear from Mark Gulley with Soleil Securities.

MARK GULLEY, ANALYST, SOLEIL SECURITIES: Peter, I wonder if you can update us on how the acquisition pipeline looks to you?

PETER MCCAUSLAND: Well we're doing a lot of work. We have a lot of people out there, and our first priority is core acquisitions. So we're seeing people, but most people -- these are good cash flow businesses, and most people who are interested in selling and let's say within a two-year, three-year window, will wait for recovery and sell off better numbers, so we're not getting a lot of takers. What is available out there are some companies that aren't so good, that are selling for huge prices, because someone has an acquisition goal target or something, and we've looked at some of these, and they're not of the quality that we like, so we've taken a pass. They're mostly smaller companies. But I would say that we're in active discussions with maybe 15 serious core acquisitions and a number of adjacency acquisitions and even a few international ones, but they're not very far along.

MARK GULLEY: Second question is, Bob, I wonder when I finish my model incorporating both the net income for next year, as well as lower CapEx, where am I going to end up with free cash flow relative to what I call the yellow slide, where you show the free cash flow in between the two lines?

ROBERT MCLAUGHLIN: We have not guided to that, we do expect a strong, a very strong free cash year in fiscal 2010. We have some additional benefit this year relative to the decline as it related to cash generated from reduced working capital, which will be somewhat mitigated as sales levels stabilize, but overall, we do expect it to be a very strong free cash year, and we talked about the reduced up to $100 million in CapEx, which will certainly help.

MARK GULLEY: But it sounds like the $328 million is a peak number then, right, from what you just said?

ROBERT MCLAUGHLIN: We'll see. It's --

MARK GULLEY: Okay. And then finally, with respect to bad debt, are you taking any steps to perhaps limit your exposure to customers that are going to provide you with bad debt exposure?

ROBERT MCLAUGHLIN: Absolutely, we manage that daily, on a daily basis, watching it very closely, particularly in those industries that have been the hardest hit. And that's normal business practice, so we have been doing that. We have had an uptick that's kind of built into our run rates now, relative to some higher level of bad debt expense and we've taken that into consideration in the guidance as well.

MARK GULLEY: Thanks, Bob.

OPERATOR: Our next question comes with Edward Yang with Oppenheimer.

EDWARD YANG, ANALYST, OPPENHEIMER: Hi. My question is on CapEx. Your guidance for 2010 is still 6% of revenue, in the last recession, I think you got down to about 3.5%, 4%. Can you get down to those levels again? You're heavier in bulk now. And considering how much same store sales are down, what are you spending money on CapEx now?

ROBERT MCLAUGHLIN: We can get down to those levels, but we have some carryover projects this year that we have to finish including a CO2 plant and we're finishing up on the ASU and [Carollton], Kentucky that's in start-up a phase right now. And then there's a couple of significant plant projects that were required or necessitated by acquisition consolidation that are flowing through this year, so we had a heck of a lot of projects over the last two years and we have a tail to deal with. Our CapEx is -- our maintenance CapEx is in the 2.5% to 3.5% range, and if things don't turn around and it's going to start heading in that direction. It is heading in that direction.

EDWARD YANG: Okay. And Peter, you've been thinking about international acquisitions for a while now, it doesn't sound like any of these are imminent. And what's -- is it more you taking a wait and see attitude? Are the sellers being more hesitant and what would be the catalyst to kind of compel you to close on some of these deals?

PETER MCCAUSLAND: Well, we're very conservative, and I think that a lot of the international acquisitions that have been made in our industry over the last few years might turn out to be fairly difficult for the next few years. And so I think that conservatism is good and has served us well. These businesses do sell for fairly good and consistent multiples over time, and we're looking for the right opportunity. We don't want to end up with a $3 million business in some country in eastern Europe or in the far east. We want to come in on a meaningful basis with meaningful opportunities, and so that's what we've been working on.

And there's a few big independents in the world, maybe 15 of them that would be nice to acquire, and then there's a few countries where if we could get a good solid position we would go in, because the opportunities for growth through consolidation roll up, things like that are pretty good, because the industry is fragmented. So we're focusing on them, and sometimes I wish they would happen faster, but it's a good thing that we didn't acquire anything in the last couple years, because we'd be hurting for certain right now.

EDWARD YANG: Do you think it's more of a nice to have international presence? I know in the past you've had a lot of experience with them. Or is it something core or long term for Airgas?

PETER MCCAUSLAND: Well, I think it used to be nice to have, and -- but I think we also did a very good job in India, and Poland and Thailand and did some good consolidations, and we were profitable in all those markets. I think going forward it's more -- it's got to be more meaningful to our -- what we can bring operationally is important, how big we can get in that particular market is important. And in the past we jumped in, and we were fortunate, we really scrambled to get critical mass. And I'm not so certain that we should take those kinds of chances going forward. We should make sure that we have the opportunity to have a significant place in a market, and that the market is important, and that our operational expertise is something that the market really needs.

EDWARD YANG: Okay. Thanks for your time.

PETER MCCAUSLAND: Sure.

OPERATOR: We will now hear from John Roberts with Buckingham Research. Mr. Roberts, your line is open, please go ahead, sir. Mr. Roberts, your line is open.

GAGHI BAGDISH, ANALYST, BUCKINGHAM RESEARCH: Hi, can you hear me? This is [Gaghi Bagdish] sitting in for John Roberts.

PETER MCCAUSLAND: Hello.

GAGHI BAGDISH: Good afternoon. So first up, just following up on Laurence's question earlier, I believe early in the recession you had commented that you had seen resilience in areas like Detroit and Miami, places that were hit first in the recession, it sounds like now it's actually your results there have dropped back in line to what we may have thought as indicated by the local economy. So would you think that these areas would lag in recovery in a similar fashion?

PETER MCCAUSLAND: Well, I don't know where Miami came from, but in Detroit, Detroit bottomed quite some time ago. And Michigan and that market has diversified quite a bit, and because of our focus on strategic projects, we've come to serve utilities and hospitals and research institutions, including universities, and the auto industry just can't go any lower. So I think that was what we were saying more reflective of our overall diverse customer base and the fact that they -- the industry can't get any lower there. I don't remember talking about Miami.

GAGHI BAGDISH: I'm sorry, I meant California.

PETER MCCAUSLAND: California is a similar situation. How bad can it get? I mean, the huge economy, southern California, we thrive on a lot of very small customers in that market. And they seem to have bottomed out a while ago. In northern California we actually saw, they had a fairly decent year, the last quarter impacted everybody, but less so in northern California. That's a big Ag market. And so that's that's all I meant is that there is a foundation of strength in those markets. And even this recession isn't going to wipe them off the face of the earth.

GAGHI BAGDISH: Okay. And can you give us a sense of how much of a discrepancy is there between the stronger regions and places like southern California and Detroit and the auto belts? I wonder if it relates to the gas and rent same store sales?

PETER MCCAUSLAND: Well, we did well on the bulk gas market in areas where we have production. We did better, we did well all over in bulk assets, but better in areas where we have production, that's only one gas product line, pretty hard to answer that question.

GAGHI BAGDISH: Okay.

PETER MCCAUSLAND: 3% to 5% would be the range in same store sales --

GAGHI BAGDISH: Okay.

PETER MCCAUSLAND: -- between the top and the bottom.

GAGHI BAGDISH: Okay, great. And then my last question, I believe you had previously talked about a plan B when it comes to the recession being longer or deeper than initially expected.

PETER MCCAUSLAND: Right.

GAGHI BAGDISH: I'm not sure if you had mentioned this earlier, but what would have to happen? Can you give us a general sense of what to look for, for you to take additional actions? Is the current plan just based on stabilization of the current levels?

PETER MCCAUSLAND: Right. We feel we've rightsized our expense structure for the current sales level, and we are make sure that we don't cut through cartilage and bone here, because we want to emerge stronger than any of our competitors when this recession is over. And we still have a lot of programs going-forward at Airgas. And we're really focused on growth opportunities and although we've -- I'm very pleased with the way we reacted, and quickly and cut expenses, the next plan B would be a significant deterioration -- would be triggered by a significant deterioration in our sales level from current levels which are pretty low. And it probably would be involved -- would involve the elimination or suspension of certain growth programs and things like that, and we really don't want to do that. We've attracted a lot of good people, we've got a lot of good momentum in our growth programs and our operating programs, and so yes, we are in the planning stages for plan B. We know where to look, but we're not ready to pull the trigger.

GAGHI BAGDISH: Okay. Great, thanks.

PETER MCCAUSLAND: Sure.

OPERATOR: And this concludes today's question-and-answer session. At this time I would like to turn the conference back over to Jay Worley for any additional comments.

JAY WORLEY: Again, we thank you all for joining us today. We apologize that we were unable to accommodate all callers in the Q&A, but I will be available all afternoon for follow-up questions. Thank you, and have a nice day.

OPERATOR: Ladies and gentlemen, that does conclude today's conference. We thank you for your participation.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** May 11, **2009**

**LANGUAGE: ENGLISH**

**TRANSCRIPT: 050609a2142589.789**

**PUBLICATION-TYPE: Transcript**

Copyright 2009 CQ Transcriptions L.L.C.

All Rights Reserved.

Copyright 2009 CCBN, Inc.

All Rights **Reserved.**

[Return to List](#cite_id_6)

FOCUS - 6 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

January 29, 2009 **Thursday**

**Q3 2009 Airgas Earnings Conference Call - Final**

**LENGTH:** 8990 **words**

Corporate Participants

\* Jay Worley Airgas - VP Communications \* Peter McCausland Airgas - Chairman and CEO \* Mike Molinini Airgas - Executive Vice President and COO \* Robert McLaughlin Airgas - Senior Vice President and CFO

Conference Call Participants

\* Bob Koort Goldman Sachs - Analyst \* David Begleiter Deutsche Bank - Analyst \* Mike Harrison First Analysis Securities - Analyst \* Laurence Alexander Jefferies & Company - Analyst \* Kevi McCarthy BAS-ML - Analyst \* Mike Sison KeyBanc Capital Markets/McDonald Investments, Inc - Analyst \* Mark Gulley Securities - Analyst \* John Roberts Buckingham Research Group - Analyst \* Luke Jump Robert W. Baird & Company, Inc. - Analyst \* Steve Byrne BAS-ML - Analyst

Presentation

OPERATOR: Good day and welcome to today's Airgas 3rd quarter earnings teleconference. (Operator **Instructions)**

I'd like to turn the call over to Mr. Jay Worley VP for Communications. Please go ahead, sir.

JAY WORLEY, VP COMMUNICATIONS, AIRGAS: Good morning, and thank you for attending our 3rd quarter earnings teleconference. Joining me today are Peter McCausland, Chairman and CEO, Mike Molinini, Executive Vice President and COO, and Bob McLaughlin, Senior Vice President and CFO.

Our earnings press release was made public last evening and is available on our website, as are the slides that accompany this teleconference. To follow along please go to www.airgas.com, click on the Investor shortcut at the top of the screen and go to the Conference Calls and Web Casts page.

During the course of our presentation, we will make reference to certain non-GAAP financial measures. Please note that reconciliations to the most comparable GAAP measures can be found in our earnings release, in the slide presentation, and on our website.

This teleconference will contain forward looking statements based on current expectations regarding current risk factors which are identified in the earnings release and in our slide presentation. Actual results may differ materially from these statements, so we that ask you please note our Safe Harbor language. We'll take questions after concluding our prepared remarks, and we plan to end the teleconference by noon eastern time. Now I'll turn the call over to Peter to begin our review.

PETER MCCAUSLAND, CHAIRMAN AND CEO, AIRGAS: Thank you, Jay. Good morning, and thank you all for joining us.

As you know, economic activity in the 3rd quarter was remarkable as domestic and global markets deteriorated into a very challenging business environment. As recently as the first week of December, results had been largely in line with our expectations, but more significant slowing developed into excessively low holiday activity levels. We have seen some improvement in the last weeks but it's too early at this point to say that it is a meaningful recovery.

Slowing was widespread, both geographically and across customer segments. Many customers extended their plant shutdowns which is usually the case, but this holiday season it was in [extremous]. And there seems to have been a broad wave of inventory destocking. Despite these conditions, we grew our net earnings to almost $63 million or $0.76 per share, diluted share, which was at the top of our revised earnings guidance range for the 3rd quarter. Total sales in the quarter increased 7% to $1.1 billion, with acquisitions contributing 6% of the quarter sales growth.

Total same store sales grew 1% with price up 6% and volume down 5%. Gas and rent same store sales growth of 6% was largely offset by a 5% decline in hard goods, same store sales for the same quarter. Our operating margins held up relatively well expanding by 40 basis points to 12.1% for the quarter, demonstrating our ability to react quickly in a downturn and reflecting the contribution of acquisition synergies. Some of the margin expansion was driven by sales mix as gas and rent exceeded 62% of sales, and some came from reduction in variable expenses related to sales such as incentive compensation and overtime.

As we stated when we lowered our 3rd quarter guidance, we have begun implementation of plans that will generate $35 million in annual cost savings. These savings are above and beyond the benefits achieved through our operating efficiency programs which were undertaken independent of the current economic environment. We are prepared to initiate a second round of reductions if necessary. Mike will talk about cost savings in more detail shortly.

Looking closer at the quarterly results across our geographies, the east, mid-America and Southwest regions posted the strongest sales gains with mid-America being the only region to realize positive hard goods same store sales. The most pronounced slowing took place in the Great Lakes region and the Pacific northwest. Slowing in the Great Lakes area was related to the uncertainty of the big three auto manufacturers which seemed to drive tier one and tier two suppliers to a defensive state of inactivity. In the Pacific northwest, slowing was broad-based and exaggerated by the Boeing strike and December blizzards.

Nationwide, customer segments that posted sales growth throughout the quarter were medical, analytical and food and beverage. The most dramatic declines in December were in an industrial manufacturing, petrochemicals and utilities. Manufacturing has been moderating for more than a year now, while petrochemical and utilities had here to for been growing quite nicely. Our construction customers had a lackluster quarter driven by project delays, deferrals and weather interruptions.

Cash flow continues to be one of the strengths of our business model. Year-to-date, we have generated free cash flow of $171 million, up 6% over the prior year despite a rise in capital expenditures related to production facilities. We have now reported six straight free cash flow quarters in excess of $50 million. even while funding significant plan projects during that time. Year-to-date operating cash flow excluding the impact of our accounts receivable securitization program has grown by more than 25% over last year. That's $327 million last year compared to $413 million for the 9 months this year.

As of October 31st, we have spent all authorized funds available under our original share buyback program. In November our Board of Directors elected not to authorize additional share repurchases. The Board will continue to evaluate repurchases periodically and may authorize an additional spend at a later date.

Slide three represents a recap of this year's acquisitions. Year-to-date, we've acquired 13 companies with more than $200 million in annual sales. Since October 1st, we have acquired 7 companies with $58 million in annual sales, primarily in our core industrial gas distribution business. These transactions have increased density in our distribution network and key geographies such as Ohio and southern California in addition to expanding our presence in east Texas.

We are continuing our integration of the Refron acquisition, which added significant refrigerants distribution to our infrastructure. We have already had some success in cross-selling refrigerants to our core customers and expect further benefit as we integrate our offering and capabilities into our distribution platform. Acquisition activity has slowed somewhat, but we are shaking the bushes. Our primary focus remains on core and product line adjacency acquisitions through fiscal 2009, but we will continue to evaluate international opportunities as they arise.

It is widely accepted that the US is in need of considerable infrastructure investment, ranging from energy infrastructures such as power grids, gas pipelines and petrochemical development to public works infrastructure such as bridges, highways and water works. A focused infrastructure build would support demand for industrial gases, welding goods and safety supplies, all of which are at the core of our product offering. While it remains to be seen when and if such a stimulus package is passed to address infrastructure rebuilds and the implementation would not be immediate, we do think the outcome would be incrementally positive for Airgas. Further implementation of environmental regulations would similarly be beneficial for us.

Looking forward, we intend to stay focused on our fundamental business strategies and mind the growth opportunities that are available to us. Areas such as strategic accounts, specialty gases, bulk gases, energy and infrastructure construction, medical and food and beverage will continue to help us even in this difficult environment. At the same time we will pursue all available cost savings to protect our earnings and cash flow. As we exercise our competitive strengths and balance our short term and long term strategies, I believe we will emerge from this downturn stronger than ever.

Mike will now give us a review of market strategy and operation.

MIKE MOLININI, EXECUTIVE VICE PRESIDENT AND COO, AIRGAS: Thank you, Peter, and good morning to everyone.

Peter just mentioned our strategy in today's challenging economy is to maximize value creation by pursuing all available growth opportunities while minimizing operating expense and capital expenditures. Although we consider our approach to be judicious, we plan to stay on the offensive and avoid a bunker mentality. We'll maintain our focus on our competitive advantages such as strategic accounts, energy and infrastructure construction and strategic projects offerings, and at the same time will manage our cost structure appropriately for today's environment.

Our strategic accounts business grew 9% for the quarter and has grown 14% year-to-date. Our national infrastructure, technical expertise, and broad product offering create real value for customers with multiple locations. Customers facing tougher times tend to renew their interest in supply chain savings and we're seeing a heightened level of interest in our strategic accounts offering right now.

We're also seeing increased opportunities for our outlook supply chain management program as high volume cylinder customers turn to us as on site experts in managing their supply chain. Contractor customers who struggled this quarter with shutdowns and weather are still responding favorably to our strategic accounts program which offers a full line of products along with management certification and safety consulting services. In fact, one of our recently acquired stand-alone businesses, Oil and Safety, turned in one of the best same-store sales performances of the quarter.

Of our overall construction offering, we currently have a small portion of the spend of the top 450 US contractors, so even in a slowing economy, the opportunity for growth is significant. And as Peter mentioned, activity resulting from a federal stimulus plan would be incrementally positive.

Our strategic product categories of bulk medical and specialty gases, CO2 and dry ice and safety products make up about 40% of our revenue and in total they posted 4% organic growth for the quarter. Strong growth in bulk, medical and specialty gases was off somewhat by weakness in safety products, CO2 and dry ice. All of these products have good long term growth profiles, due to favorable customer exposure, application development, and regulatory acceleration, strong cross-sell opportunities or a combination there of.

Bulk gas sales were up 13% for the quarter as we continue to capitalize and enhance production capabilities and a strong sales force. For us, bulk sales represent a great cross sale opportunity, because prior to the Linde bulk acquisition, we were primarily a cylinder gas company with limited bulk capabilities.

With 16 air separation plants today, including the two new plants in Indiana and Kentucky, we have a competitive bulk offering for a large base of customers who have historically purchased their bulk gas elsewhere. Our ability to engineer solutions to customer needs has also been effective in winning new bulk accounts as customers look for new methods in a tough economy.

Specialty gas sales grew 7% for the quarter, driven by demand for our expanding account base in biotech, life sciences, research, and environmental monitoring markets. In order to support further growth in the last year, we have substantially increased the capacity of our national specialty gas production network, adding proprietary automation of both the filling and analytical process to all our major specialty gas plants. We also have a world class hydrocarbon mixture facility coming on line soon in Texas. Complimenting the growth in specialty gas sales our related gas equipment and engineered gas management system sales continue to strengthen including sales of our patented award winning smart products, gas controlled devices, targeting the analytical markets.

Medical sales posted 8% growth for the quarter. Our hospital and doctor segments continue to grow as an aging population drives increased demand for respiratory therapy. Both of these segments posted double-digit growth this quarter, while the home care provider segment was modestly positive. New business signings were strong across all medical segments as our broad product offering and full range of supply modes makes vendor consolidation for hospitals a value-added proposition. We're also experiencing solid growth in nursing homes, hyperbarric facilities, EMS and specialty clinics.

Safety product sales declined by 1% compared to the prior year quarter driven by an extended plant shutdowns and inventory destocking in the back half of the 3rd quarter. The decline in safety product sales in the 3rd quarter was also meaningfully impacted by the Boeing strike without which safety product sales likely would have been flat year over year. We are pleased to see the Boeing strike end shortly after we received the multi-year extension of our contract with them.

Finishing out our strategic products, CO2 and dry ice were down 3% compared to the prior year quarter. Dry ice demand in the airlines service segment was down in the quarter. More significantly, in the prior year, there were large surcharges in our CO2 and dry ice sales, as two feed stocks plants for our liquid CO2 production were shut down simultaneously, forcing us to source product from other locations. Excluding the impact of surcharges, our CO2 and dry ice yields a 1% growth rate for this year's 3rd quarter.

Radnor private label products group grew by 17% this quarter. In addition to building brand loyalty within our customer base, Radnor products enhance our profitability because they carry higher gross margins than comparable OEM products. Existing product lines continue to make strong contributions as do product line expansions and the addition of Radnor brand and acquired stores.

Airgas specialty products where our refrigerants business was managed prior to the Refron acquisition is now focused solely on ammonia and processed chemicals. We continue to gain new customers in the ammonia business as power and other large plants come on line, requiring ammonia for denox applications. And we'll also benefit from the new requirement that utilities run their denox units year round as opposed to only 5 months of the year. Peter also mentioned that our integration of the REFRON acquisition continues and we believe our refrigerants strategy has our positioned for long term growth.

Our operating efficiency programs, which focus on cylinder maintenance and testing, distribution and fill plant logistics, and freight and fuel management, are on schedule to achieve the targeted $25 million in run rate savings by September 2010. UT cylinder test savings are the largest component of savings to date, while distribution logistics initiatives are starting to take hold and produce meaningful results.

In addition to our operating efficiency targets, we've recently announced actions targeting $35 million in annual cost savings, including reductions in staffing, and other personnel expense such as overtime and temporary help as well as savings in the discretionary category such as travel and entertainment. In the December quarter, these actions amounted to a net savings of about $1 million, We expect to be at the full run rate on these savings by the end of March, and anticipate about $7 million savings in the March quarter, net of about $1.5 million in severance. Given the challenging environment, we are preparing for another round of cost savings in case conditions do not approve.

We also intend to protect the infrastructure that we have built and maintain our operating momentum and will continue to invest in training and our core strategy, too, to enhance the Airgas customer experience so we will emerge from this slowdown even stronger than we are today. In addition to cost savings, we are optimizing our hard goods inventory for the current business climate and expect to be able to reduce our investment there without compromising customer service. Similarly, we are scaling back our capital expenditures across the board and expect to complete most of our current major plant projects in the next couple quarters.

Our new air separation plant in New Carlisle, Indiana, was brought on stream on December 30th. The air separation plant under construction in Carrollton, Kentucky, is on schedule for an early April commissioning. Our Deer Park, Texas CO2 plan the is scheduled to go into full production in early March, 2009, and the Camilla, Georgia CO2 plant is slated for commissioning in November 2009.

In addition, most of our capital projects associated with the Linde acquisition are rapping up in the near term and our need to purchase cylinders and bulk tanks is significantly lower today than if was early in the year. We expect to reduce our core capital spending meaningfully in the near term and will give further guidance on the subject when we issue our full year fiscal 2010 guidance in May.

We are also progressing with the design and configuration phase of our SAP implementation. We have selected Deloitte Consulting as an integration partner, and the project teams have begun their work. The long term benefits of this project play to the heart of our core strategies as the unification of our myriad of back office and front office platforms will cement our capabilities in a single solid foundation. We expect to spend the next year focused on design and testing followed by three to four years of phased implementation.

Now, Bob will give our financial review of the quarter.

ROBERT MCLAUGHLIN, SENIOR VICE PRESIDENT AND CFO, AIRGAS: Thanks, Mike, and good morning, everyone.

To review our consolidated results, I'll start with slide number 4. As I go through these results, please note that we have GAAP reconciliations for various metrics on slides 8 through 11. Quarterly earnings per share grew 13% year over year. $0.76 in the quarter. Sales increased 7% to $1.1 billion with acquisitions contributing 6% of the growth. Same store sales increases by 1% with 6% growth in gas and rent offset by a 5% decline in hard goods. Overall, price was up 6% and volume down 5%. Gas and rent represented 62% of our sales mix comparing favorably with the prior year mix of 59%.

The sales mix shift is driven by the relative strength of gas and rent same store sales compared to hard goods and by the mix of acquired revenues. The favorable gas rent mix is also reflected in our 53.6 growth margin for the quarter an increase of 130 basis points over the prior year.

Operating expense as a percent of sales was 36.4%, 60 basis points higher than the prior year. primarily driven by the significant decline in quarter end sales and higher bad debt expense.

Operating income for the quarter was $131 million up 10% over last year. While operating margins were negatively impacted by significant slowing and quarter end sales, operating margin improved 40 basis points over the prior year driven by gross margin expansion, acquisition synergies, operating efficiencies and the initial impact of cost reduction efforts and response to slowing sales. Sequentially, operating margin was down 40 basis points due to the quarter end sales dropoff.

There are 82.7 million weighted average shares outstanding for the quarter, down about 2% both year over year, and sequentially. Our return on capital is 13.5% for the quarter, a 40 basis point improvement over the prior year, driven by the year-to-date 40 basis point expansion in operating margins. Our collection rates for the quarter on accounts receivable have remained relatively consistent both year over year and sequentially. So we are effectively managing our collections in this challenging environment. As previously stated we did experience an increase in bad debt expense in the quarter, and we expect it to be above normal levels in the near term and are guarding our exposures accordingly.

DSO at the end of the quarter increased slightly from 48 days to just over 50 days. Our other primary working capital metric inventory turns held consistent with recent trends at 4.5%. Year-to-date free cash flow was $171 million compared to $162 million last year, driven by earnings growth and strong operating cash flows, partially offset by elevated spending on planned construction projects and post acquisition facility consolidations. Adjusted debt at the end of the quarter was just under $2.2 billion. Our fixed float ratio was 55% fixed and our adjusted debt to EBITDA ratio was under 3%, comfortably in the middle of the range of 2.5% to 3.5%. As of the end of December, more than $230 million was available under our long term credit facility.

Please turn to slide 5 and we'll look at our segment results. Distribution sales were up 5% to $882 million for the quarter, with fundamentally flat same store sales. Pricing growth in the distribution segment was offset by volume decline. Distribution gas and rent same store sales were up approximately 5%, with negative 5% volumes offset by a positive 10% pricing impact.

Volume growth and bulk medical and specialty gases was more than offset by the decline in industrial gases. Distribution hard good same store sales were down 5%, with negative volumes of approximately 7% offset by positive pricing of 2%. Distribution gross margin was 51.8%, an increase of 180 basis points over the prior year, reflecting a favorable sales mix shift to gas and rent and price increases. Operating income in the distribution segment was $106 million up 12% over the prior year. The related operating margin improved 80 basis points from 11.2% to 12%, driven by gross margin expansion, acquisition synergies operating efficiency programs and the initial impact of cost reduction efforts in response to the slowing sales.

The negative impact of the significant slowing sales at the quarter end was the primary driver in a sequential operating margin decline of 50 basis points. Sales for all other operations increased 19% with same store sales up 8%, driven in part by strong growth in ammonia sales. Overall, price contributed 9% and volumes declined by 1%.

Operating income for all other operations was up 5% for the quarter. Operating margins decreased by 130 basis points, primarily by a mixed shift toward refrigerants including the impact of the Refron acquisition.

Please turn to slide 6 capital expenditures. Year-to-date capital spending was $282 million versus $193 million last year. Spending on cylinders, bulk tanks, and rental welders has moderated with sales growth, while the predominant growth in our spending has been on large projects in the construction and progress category. Excluding ASU's and other major construction projects, year-to-date capital spending as a percentage of total sales was about 5% in line with year-to-date same store sales growth.

Please turn to slide 7 to further discuss our free cash flow. The dotted line represents our distribution same store sales trend measured on the right axis, while the shaded area between the operating cash flow and CapEx lines represents our free cash flow measured on the left axis.

We can use free cash flow to invest in acquisitions or growth CapEx, pay down debt or repurchase shares. During moderating or slower growth periods we can dial back growth CapEx and working capital generating incremental free cash. As you can see from the trailing 12 month numbers as of December and March, 2008, we have significantly grown our free cash flow as same store sales rates have moderated from the high rates of fiscal 05/06 and the first part of fiscal 07. A similar expansion of free cash flow was realized in fiscal 02 and 03 when sales growth rates had moderated as well. Also during this period, operating cash flow has grown from approximately $130 million in fiscal 2001 to $171 million for the 12 months ended December 2008. This represents a 24% compound annual growth rate consistent with strong sales growth over this extended period.

Now turning to guidance. Our earnings expectations for the 4th quarter of fiscal 2009 are $0.73 to $0.76 per diluted share, a range similar to our third quarter earnings. Accordingly, our expectations for the full year per diluted share are $3.16 to $3.19, an increase of 19% to 20% over the prior year.

We want to stress that today's economy provides very little visibility into future sales results. Our guidance assumes a slight acceleration of sales through the quarter from the slow start we've experienced in January, and overall, modestly below 3rd quarter sales levels. It also incorporates the estimated $7 million dollar benefit of expense reduction plans that Mike mentioned and a slight reduction in our weighted average interest rate.

I'll now turn it back to Jay to begin the Q & A portion of the call.

JAY WORLEY: That concludes our prepared remarks. As we begin the Q & A portion of the call, we ask that you limit yourself to two questions and one follow-up, and then get back in the cue if you have further inquiries. Darren will now give instructions for asking questions.

Questions and Answers

OPERATOR: (Operator Instructions) We'll go first to Bob Koort, Goldman Sachs.

BOB KOORT, ANALYST, GOLDMAN SACHS: Thanks, good morning.

JAY WORLEY: Good morning.

BOB KOORT: I was wondering if you could talk a little bit, you mentioned the bulk business was up 13%. Is that all organic growth and what are your expectations for that end market as we go through the next couple of quarters?

JAY WORLEY: Yes, it's primarily organic. With our additional production capabilities, the opportunities for us to supply customers with bulk that they have sourced elsewhere, where we already have the cylinder in all the supply business, that's a pretty target rich environment. And we will continue to mine that heavily and we do expect to continue to see it grow.

BOB KOORT: And what's the value proposition to the customer? How is your opportunity there different than a competitor?

JAY WORLEY: We're very, we're already very embedded. We have people embedded in these customers almost on a daily basis. For other suppliers, it's again a simplification, it's the dealing with less suppliers, it's somebody that's on site and can manage the entire supply chain from big bulk down through cylinders, down too safety supplies and anything else they need.

BOB KOORT: Got it, and a follow-up if I might. Peter, maybe a history lesson. The last time we went through such horrific industrial end markets, can you talk a little bit about what happened on the pricing dynamic and how it might be different in the environment this go around, or what might be similar?

PETER MCCAUSLAND: I would say that the last one was started, last downturn started in '98 and as you'll recall, we had a very strong dollar and companies were closing facilities left and right, and it was a very, very serious industrial recession. And somewhat different, where as this one started in housing and the consumer sectors and the financial sectors, that one started in industry and really devastated industry. And I don't think one's going to be as bad for industry.

Also, the capacity utilization on the air separation plants was pretty low going into that recession, because Messer and some others had really overbuilt their air separation networks and I think it's, they've started out like in the high 70s, and at the beginning of the recession, and, of course, they went really, really low, I think they even got as low as the high 60s at one point. And so I would say that that's another difference between now and the last recession. Capacity is still pretty tight. We're running at pretty high levels right now, and we think the most of the players in the industry are. And there hasn't been that many new additions over the last 4 or 5 years, so it's been a lot more disciplined.

And then I would say the last thing is that we, in the last recession, we had spent a lot of money on infrastructure and repositioning. So that, those two things drove down our operating margins much more than they otherwise would have been impacted, and we're very different company today, our infrastructure is fully utilized and we are realizing the economies of scale because we're bigger, we're a much better operating company, so I would draw that distinction too.

And then in terms of pricing specifically, I mentioned the capacity utilization differences and on the air separation plants, and I think that will be the biggest thing.

Another thing is, there's still power cost increases going through the grid. And customers understand that, because they get power bills as well. So we expect pricing to hold up better than it certainly did back in 98.

BOB KOORT: Great. Thanks, Peter.

PETER MCCAUSLAND: Sure.

OPERATOR: We'll take our next question from David Begleiter, Deutsche Bank.

DAVID BEGLEITER, ANALYST, DEUTSCHE BANK: Peter, you mentioned you've seen some improvement in January, can you detail where and how much?

PETER MCCAUSLAND: I'm just looking at our daily sales, and they've gradually improved throughout the month, they started out dead like they, like it was late December. And they always do start slow in January, but everything's been magnified 100 times this year, and so in the last week we've seen a steady sort of pickup, in the daily sales, but as I said, it's too early to say that this is a meaningful recovery.

DAVID BEGLEITER: I think you also mentioned your guidance assumes an acceleration, is that off of the December base or off a different base?

PETER MCCAUSLAND: It's off the December sales, we expect some modest improvement, and certainly if this trend were to continue and sustain, that would give us the modest improvement. But we're not sure it's going to. There's a lot of crazy stuff going on out there and not the least of which is the turmoil in the auto manufacturing area.

DAVID BEGLEITER: Can you update us on the new ASUs, both Indiana and Kentucky in terms of being sold out and potential earnings contribution for 010?

PETER MCCAUSLAND: The first plant just got turned on, and we've been debugging it, and knock on wood, as of a couple days ago, it's making all the products to spec and running very well. Our pipeline customer Middle Steel is actually taking a bit of nitrogen, so up toward the upper end of our expectations and we've sold a lot of that product. I'll let Mike tell you what percentage.

And the Carrollton plant which is an identical plant we're building next to Dow Corning with a pipeline to them in Carrollton, Kentucky is under construction and we're looking at an April start date and we're busy selling out that plant.

And Mike will give you the exact figures. But remember, we still purchase over 70% of the products that we sell, gas products that we sell. So there will be significant transfer of product from our suppliers production plants to our plants when they are finished. Mike?

MIKE MOLININI: I think the, initially the Indiana plant is going to be about 70% in that order of magnitude, utilized. And I'm not sure exactly what the number is in Kentucky when we turn it on, but it's probably in that range. And they're probably worth one to two pennies a year.

DAVID BEGLEITER: Is that each or combined?

MIKE MOLININI: Each.

DAVID BEGLEITER: Thank you very much.

OPERATOR: We'll go next to Mike Harrison, First Analysis.

MIKE HARRISON, ANALYST, FIRST ANALYSIS SECURITIES: Hi, good morning.

PETER MCCAUSLAND: Good morning.

MIKE HARRISON: Just maybe a follow-up question on the ASUs. With only 70% of the volume sold, I mean, is there a risk that those ASUs could struggle with profitability? And as you look at the $0.01 to $0.02 a year contribution in EPS, how would that change as you start to approach 90% to 100% utilization?

PETER MCCAUSLAND: Well, first of all, when we build them, we decided to build them, that's exactly the kind of loading that we put in the plan. We expect to load them probably three years or so after we build them. So the down side is, there's not a lot of down side for us, there is a lot of up side and they get very profitable. The faster you load them, the better it's going to be. So the faster we grow our bulk business in those areas and we can reload them, the better it's going to be.

MIKE MOLININI: And they're immediately, they're accretive. One of them is accretive already, it's started. And then the other one will be, that's our expectation and then accretion will increase as the loading factor goes up.

MIKE HARRISON: And then I was wondering, Peter, maybe Mike if you can talk about argon, given the steel operating rates being so low, how is argon availability been, is there a need to go out and get pricing higher there? What are you seeing in terms of customers switching, shielding gases to something with maybe a lower argon mix, and how does that end up affecting you from a margin standpoint?

MIKE MOLININI: Well, first of all, we buy more argon than we make, so we're a big purchaser of argon from a number of suppliers, and depending on who the supplier is, and depending on who the big plant is that he's supplying and making argon, the availability of argon today could vary dramatically. We're fine with supply, we have passed on on occasion surcharges for argon in certain areas for products that we get from suppliers that have a big steel mill that's gone down where they have to windmill the plant to make the argon. And so I, so far customers are not happy about it, they understand that what's going on, and they need the supply, and no we have not seen any material migration to some other shielding gas. Don't expect one either.

MIKE HARRISON: All right. And last question's for Bob. In terms of the SG&A costs with the end of the fiscal year coming up, any kind of accruals for bonuses or anything else that we could see reverse in the 4th quarter and maybe give you a one-time reduction in SG&A costs?

PETER MCCAUSLAND: Come on, give us a break, we had a good year.

ROBERT MCLAUGHLIN: Depending upon where we end up, we true up our bonus and other accruals every quarter. So relative to, as we kind of project out, we've made some adjustments, so there certainly could be more adjustments, which we baked into the forecast. But I don't think they're going to be needle movers.

MIKE HARRISON: All right, thanks very much.

OPERATOR: We'll go next to Laurence Alexander, Jefferies.

LAURENCE ALEXANDER, ANALYST, JEFFERIES & COMPANY: Good morning.

PETER MCCAUSLAND: Good morning.

LAURENCE ALEXANDER: I guess first just a follow-up on that last question. Was the truing up of the accruals this quarter an impact of more than a penny?

ROBERT MCLAUGHLIN: No.

LAURENCE ALEXANDER: Okay. Now, a question on the M & A front. As you're looking at assets for potential acquisitions, how do you look at, how confident are you in the EBITDA when you're evaluating the assets that you're acquiring? Or, and how does the volatility in the market change your acquisition strategy?

PETER MCCAUSLAND: We project companies out eight years and we assume flat sales, and then we try not to buy them on the down side. I mean, when we see a company sliding, it's reflected in our offer. But, you know, companies in this business do pretty well even in a bad environment. So, you know, and the sellers tend to know that. So I think the flat sales for eight years and the caution that we exercise in tough environments like this pretty much takes into account and that kind of swing, and it works out.

LAURENCE ALEXANDER: Then lastly on the pricing, can you give us a little more detail on which product areas are seeing the most pricing and in particular, are you seeing, are you managing to get any price change on your cylinder rental fees?

PETER MCCAUSLAND: We did get increases in the late summer which was very effective. And at this point we're not planning anything right now.

LAURENCE ALEXANDER: Thank you.

OPERATOR: We'll go next to Kevin McCarthy, Banc of America Merrill Lynch.

KEVI MCCARTHY, ANALYST, BAS-ML: Yes, good morning. A few questions on hard goods. One of your competitors yesterday posted same store sales down 10% or roughly twice as much as you. I was wondering if you could address why you feel you may be running better than the industry in terms of geographic mixed differences, product mix differences or other factors? And my second question, would you comment on where you're seeing same store sales in equipment versus consumables? Presumably equipment is under more pressure, and how bad is that getting on the December, January time frame? Thank you.

PETER MCCAUSLAND: I'll take the one on same -- our same store sales. I'm not sure. I haven't looked at that competitor same store sales yet. I do have an e-mail about it, and I will take a look at.

But I think that our strategic products emphasis and our strategic account activity are accounting for some good growth, more modest than it had been, but certainly decent growth that's offsetting sort of the industrial customer weakness, and I think that's helping us a lot. And I expect that to continue, I feel like we have a lot of momentum in bulk gases, in specialty gases, in medical gases, and I think that, and we have some new plants coming on that give us new capabilities in the atmospheric gases and in CO2.

So I expect that to continue and I think that's been a real help over the last couple years. And it becomes more evident in a downturn. I'll let Mike address the mix of the hard goods, because he's very close to it right now. But, you know, it's not surprising in an environment like this that we'd see a big decline in hard goods.

MIKE MOLININI: Something I have been saying for a long time and will continue to say, that the indicator in the hard goods business is the equipment, which is the capital purchases by the customer. And we, our equipment sales in the quarter were down north of negative 15%. And where the single biggest piece by far, of course, our lowest margin of sale in the entire portfolio, which is one of the reasons that the impact on the sales line really doesn't carry a lot of weight. But it was -- they were way way off, and in fact we had a couple pre-scheduled, very large equipment sales that did go through which maybe makes it even a little worse than what I said. So we expect equipment to continue to be very, very soft.

No other segment in the hard goods was off to near the extent that the equipment was off. We sell equipment, we sell filler metals, and then we sell all of the consumables and supply products and safety. The safety and the general consumable stuff was down the least, and then the filler metals were down much less than the equipment, but they were, it was down. And then the equipment was way off. Okay?

OPERATOR: And we'll go next to Mike Sison, KeyBanc.

MIKE SISON, ANALYST, KEYBANC CAPITAL MARKETS/MCDONALD INVESTMENTS, INC: Hey, good morning, guys.

PETER MCCAUSLAND: Hi.

MIKE SISON: Nice quarter. Underlining the assumption that 4th quarter is going to be a little less than 3rd quarter. Is that more driven on volume being a little bit weaker year over year? Than what you saw in the 3rd quarter?

MIKE MOLININI: Yes. I mean, that's the assumption and we're talking primarily sequentially.

MIKE SISON: Okay.

MIKE MOLININI: October was very good.

MIKE SISON: I got you. So the volumes will be tracking more what November and December were looking like in the 1st quarter than what you saw in October?

MIKE MOLININI: With some rebound as we get into March.

PETER MCCAUSLAND: The inverse of the October to December.

MIKE SISON: Okay. Then, if you think about pricing, you know, pricing holds, it should anniversary some time in 2010, but if it does hold, what type of pricing, sort of layover occurs in 2010 versus 2009?

MIKE MOLININI: Probably somewhere in the neighborhood of 3%. On the gas side.

MIKE SISON: On the gas side. Okay.

PETER MCCAUSLAND: And the pricing outlook as I said, we don't expect to be giving back pricing, but we also don't expect to be out there with major initiatives. However, we'll continue to increase pricing where customers have been enjoying large discounts and we try to eliminate some of them.

It's sort of, you have a different pricing strategy, in an environment like this, than you did, let's say, a year and a half ago, and we'll continue to pursue that. And then there are special situations, shortages and like argon and things like that, where we're going to have to get some additional pricing, because we have significant additional expense.

MIKE SISON: Right. And last question, in terms of strategic growth platforms in total. You've been tracking at 10% plus, 4% sort of came in the quarter. Still you're pretty good in a difficult environment. How do you think that whole area performs heading into the next couple months and in 2010?

MIKE MOLININI: Well, it's going to outperform the core industrial business, there's no question about it. And some of the bulk products they grow twice GDP and spec gases grow maybe 1.5 times GDP. Probably under this administration at least twice GDP because of more regulation. And medical gases have been growing at 1.5 times GDP.

So it's going to be a function of the economy to some degree. They will outperform the core products. I expect them to get back into double-digits as the economy recovers.

MIKE SISON: Right. Thank you.

OPERATOR: We'll go next to Mark Gulley, (inaudible) Securities

MARK GULLEY, ANALYST, SECURITIES: Hey, good morning, guys. Yesterday one of your competitors said that a lot of industrial customers who have shut down plants because of low demand are taking the time to do a lot of MRO, maintenance, repair, and overhaul. Are you seeing the same thing? And if you are, is it simply pull forward MRO activity that would have been done anyway in the future?

PETER MCCAUSLAND: We are seeing just the normal MRO activity. I heard about that comment and it's -- they must be talking about something other than what we're seeing. We're just seeing the routine activity and sometimes there are few additional turnaround things people take care of when their shutdowns get extended from one week to three or four weeks, but I really haven't heard of anything really meaningful to us, have you, Mike?

MIKE MOLININI: No, what we've seen, though, is holiday shutdowns that were normally a week became four weeks, and probably overall the number of shutdowns of industries for extended holiday periods was up by probably four times higher than we've ever seen before. But not any dramatic increase, we're going to take up maintenance or pull maintenance forward real quick and try to ram it in over this holiday. Nothing material there for us. A lot of shutdowns, though, for long periods of time.

MARK GULLEY: That's helpful. And then on the free cash flow slide, the so-called yellow slide. CapEx comes down next year as you've already indicated, is that free cash flow going to expand meaningfully on that slide?

PETER MCCAUSLAND: Well, it certainly CapEx will be a contributor, and we think it's going to be a meaningful reduction in CapEx, so a lot will depend on how this economy plays out and the strength of our sales and operating cash flow. But we're optimistic about a strong cash flow performance.

MARK GULLEY: And finally, I want to go to the M & A environment. It was addressed earlier, but I'm trying to determine to what extent are sellers simply sitting on the sidelines not wanting to sell off depressed numbers, or is your M & A discussions become a normal level?

PETER MCCAUSLAND: No, I'd say it's a little sluggish, and we're talking to people, we have deals in the pipeline, but it's not as full as it normally is, and I would, I think your characterization of the sellers is probably right on. They know that this is a pretty good business, it holds up well in a soft economic environment, and they will,- some of them are waiting it out.

And the industry, there is a fair amount of optimism in the industry long term, once we get past this cycle. People do feel like there's going to be a lot of infrastructure construction. Maybe not in the president's care package, but there's a lot of infrastructure in this country that needs to be replaced and renewed. And that was starting before this economic tsunami hit. So I think people are optimistic about that, and optimistic about greater environmental regulation and other things.

So we're not seeing any desperation among the sellers and they're sitting out. And as I said in my remarks, we're beating the bushes.

MARK GULLEY: Thanks, Peter.

PETER MCCAUSLAND: Sure.

OPERATOR: We'll go next to John Roberts, Buckingham Research.

JOHN ROBERTS, ANALYST, BUCKINGHAM RESEARCH GROUP: Good morning, guys.

PETER MCCAUSLAND: Good morning, John.

JOHN ROBERTS: Everyone's feeling the indirect of the credit crunch on overall economic activity. Any direct effects showing up either among your customers, your competitors that you either, things are for sale, not for sale, or business has been pulled because of specific credit issues that you know of?

PETER MCCAUSLAND: Well, Bob mentioned the AR, we had a couple of big customers file for bankruptcy. One of them we got preferred supplier status which was very helpful, so we got paid most of our predeclaration receivables, and we continue to supply. But we got to -- and then there was a third one was a window manufacturer where we took a hit. We're looking at it very carefully, and doing a good job managing it.

And in terms of our competitors, you know, we've heard of cut backs at several of our competitors. And there's a lot of resumes floating our way these days. But I don't know how, only our competitors know how deep they cut and why they cut and where they're soft. But there are the two things, the resumes and a couple of bad debts that kind of stung us, and, of course, knowing we have to manage that closely that I'm seeing.

Maybe the third thing now that I think about it, there has been some slowdowns of major construction projects, there's a couple of huge refineries where we have the work and the supply to the contractors, and they went from three shifts to one shift. And I don't know if this is just to get through the credit -- once we get through the credit crisis it's going to pick up or whether it's going to be somewhat permanent or what? I can't imagine they're going to -- you know, that costs a lot of money to slow down a construction project like that. I can't imagine it's going to last too long. There are the three things I'm seeing.

JOHN ROBERTS: Secondly, the strategic products growth of 4% was less than the same store gas and rent growth of 6%. Wouldn't you have expected the strategic products to be ahead of the overall gas and same store sales number?

MIKE MOLININI: Well, safety products was a drag on that. And the safety product drag was a big impact on the safety products drag was the Boeing strike.

JOHN ROBERTS: Okay. Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: We'll go next to Luke (Jump), Robert W. Baird.

LUKE JUMP, ANALYST, ROBERT W. BAIRD & COMPANY, INC.: Good morning. Could we just talk a little about about any changes in how you're thinking about use of cash going forward, whether you're focused on acquisitions still, or maybe just sitting on the cash, or even looking at paying down the revolver a little bit?

PETER MCCAUSLAND: The order's been given. Our guys are out there generating as much cash as they can. And through receivables management, through conservative, being conservative on CapEx through expense reduction, round one, and if we need to, we can go to round 2 and 3 as Mike described, and we're still looking for core acquisitions. But we're being cautious in our evaluations, and we're very cautious about adjacency acquisitions where we're not already in that adjacency. We won't be doing any of them, new ones, until the smoke clears, and we're cautiously looking at international opportunities, but as -- I think the emphasis is on the word cautiously. These kinds of businesses can generate a lot of cash in a downturn, and we're determined to do that.

LUKE JUMP: Okay.

PETER MCCAUSLAND: And it would go toward debt reduction.

LUKE JUMP: And then second, just slightly related, where you'd mentioned how much head room you had on the revolver, I'm just wondering how much is out on the (inaudible) as of the 3rd quarter.

PETER MCCAUSLAND: It's been a consistent amount at 360 million.

LUKE JUMP: Okay. Thanks, guys.

MIKE MOLININI: Sure.

OPERATOR: We'll go next to Steve Byrne, Bank of America.

STEVE BYRNE, ANALYST, BAS-ML: Hi, I just want to ask you a little bit about your ammonia business. The wholesale ammonia prices out there have just been massively volatile over the last year, and I wanted to ask you, how do you protect yourself or how do you price that product in the face of such volatility, and can you hold on to some of those higher prices that were around six months ago?

PETER MCCAUSLAND: It is the -- it's probably the single most volatile area that we have, and we did, our guys in the ammonia group did a really nice job of not having very much of our customer pricing locked in. And we were able to raise prices ahead and at the same time that those increases, we were getting the increases, they also did a really nice job of -- now, of course, when that comes down, customer prices will come down in ammonia.

We've also done -- they also have done a really nice job of managing inventories, so that we were not a burden with lots of the high priced inventory. We were able to remain very nimble and so they did a great job of managing it up and down. I think the price and the revenue in ammonia will come down, but the margins will remain strong.

MIKE MOLININI: And may go up.

PETER MCCAUSLAND: It will go up because of the applications, just in volume will grow.

STEVE BYRNE: Well, less pass through that raw material costs, so your margin should go up, right?

PETER MCCAUSLAND: Well --

MIKE MOLININI: Margin dollars will.

PETER MCCAUSLAND: Yeah, dollars.

STEVE BYRNE: Yeah, I mean, margin as a percent, right? And in that business, what is a typical volume that a customer requires for their compressors and do you fulfill this business out of your hundreds of facilities or out of relatively few

MIKE MOLININI: We run it, we run that as a national business unto itself, and it's probably managed out of, I'm going to guess on the order of a dozen terminals, ammonia terminals where we would receive bulk ammonia typically in railcar, and we would repackage it from tank trucks on down through ton containers and cylinders. And distribute it. There is some that goes through our branch based businesses, but the majority of the volume is sold direct to customers by the ammonia guys in bulk tanks. Below railcar quantities typically our sweet spot.

PETER MCCAUSLAND: Or in the packaged ammonia business.

MIKE MOLININI: Yeah.

STEVE BYRNE: Okay. Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: That concludes the question-and-answer session today. At this time, Mr. Worley, I will turn the conference back over to you for any additional or closing remarks.

JAY WORLEY: We'd like to thank everybody for joining us. We know that there were still some callers left in the queue, and I will be available all afternoon today for followup questions. Have a nice day.

OPERATOR: This concludes today's conference. We thank you for your participation. You may now disconnect. Have a wonderful day.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** February 2, **2009**

**LANGUAGE: ENGLISH**

**TRANSCRIPT: 012909a2067864.764**

**PUBLICATION-TYPE: Transcript**

Copyright 2009 CQ Transcriptions L.L.C.

All Rights Reserved.

Copyright 2009 CCBN, Inc.

All Rights **Reserved.**

[Return to List](#cite_id_7)

FOCUS - 7 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

October 24, 2008 **Friday**

**Q2 2009 Airgas Earnings Conference Call - Final**

**LENGTH:** 10944 **words**

Corporate Participants

\* Jay Worley Airgas - VP IR, Communications \* Peter McCausland Airgas - Chairman, CEO \* Bob McLaughlin Airgas - SVP, CFO

Conference Call Participants

\* David Begleiter Deutsche Bank - Analyst \* Mike Harrison First Analysis - Analyst \* Amy Johnson Goldman Sachs - Analyst \* Kevin McCarthy Banc of America - Analyst \* Mike Sison KeyBanc - Analyst \* Lucy Watson Jefferies & Co - Analyst \* David Matthew Robert W Baird - Analyst \* Mark Gully Soleil Securities - Analyst \* John Roberts Buckingham Research - Analyst \* Steve Byrne Merrill Lynch - Analyst \* Scott Blumenthal Emerald Advisors - Analyst

Presentation

OPERATOR: Good morning, and welcome to the Airgas second quarter 2009 earnings conference call. Today's call is being recorded at the request of Airgas. All participants will be in listen-only mode until the question-and-answer session of the call. For opening remarks and introductions I will now turn the call over to the Vice President of Communications and Investor Relations, Jay Worley. Please go **ahead.**

JAY WORLEY, VP IR, COMMUNICATIONS, AIRGAS: Good morning, and thank you for attending our second quarter earnings teleconference. Joining me today are Peter McCausland, Chairman and CEO and Bob McLaughlin, Senior Vice President and CFO. Our earnings press release was made public last evening and is available on our web site as are the slides that accompany this teleconference. To follow along please go to Airgas.com, click on the investor shortcut at the top of the screen, then go to the conference calls and web casts page.

During the course of our presentation we will make reference to certain non-GAAP financial measures. Please note that reconciliations to the most comparable GAAP measures can be found in our earnings release, in the slide presentation, and on our web site. This teleconference will contain forward-looking statements based on current expectations regarding important risk factors which are identified in the earnings release and in our slide presentation. Actual results may differ materially from these statements, so we ask that you please note our Safe Harbor language. We will take questions after concluding our prepared remarks and we plan to end the teleconference by noon eastern time. Now I'll turn the call over to Peter to begin our review.

PETER MCCAUSLAND, CHAIRMAN, CEO, AIRGAS: Thanks Jay. I hope everyone 's feeling great today, because we are.

We're pleased to report record results for the second quarter of fiscal 2009. Our strategic growth initiatives, a diverse customer base and discipline in our day to day operations once again produced strong sales and earnings growth in a moderating economic environment. Recent events in the global financial markets have been sobering indeed, and anxiety over credit availability and a potential global recession has created extreme volatility in the equity markets and driven valuations to low levels. Despite these developments we are still confident in our approach and just reaffirmed our full year guidance and substantially increased our dividend. We have solid strategies for the long-term and the right people to execute them. We believe that our diverse customer base with many noncyclical segments and the infrastructure work we began in the late 90s have positioned us well in today's economy. We will continue to leverage our competitive strengths while maintaining a balanced approach to capital structure and a weather eye on the economy.

In spite of the excesses of Wall Street and its subsequent tumble, companies and consumers continue to purchase goods and services in their pursuit of value creation. And we intend to keep expanding our role in that process. On the call today we will review our strategies and initiatives and hopefully provide insight into some defensive characteristics of our business as well. Because this is the political season, I have a little stump speech that I'm going to give. And I hope you will indulge me for a few seconds.

A few weeks ago Senator McCain was mocked by the media and Senator Obama for saying that the U.S. economy was fundamentally sound. McCain wasn't talking about the homebuilders, many of which are struggling and most of which were very small companies or didn't even exist when the housing bubble started. He wasn't talking about the unfortunate people who were told they could afford new homes when in reality they could not. He wasn't talking about the overbuilt commercial and retail segments which expanded at insane rates with the credit bubble. He wasn't talking about the people on Wall Street who had a major role in the formation of the credit bubble and who have been paid absurdly high salaries and bonuses for the last 15 years. McCain wasn't talking about Beverly Hills, Worth Avenue Or Wall Street. He wasn't talking about people who specialize in credit default swaps or short selling, activities with no redeeming value.

He was talking about those places where real goods are produced and essential services are provided all across the country. He was talking about American manufacturers who survived the 1998 to 2002 high dollar recession and which have become more competitive at home and abroad. He was talking about the companies that provide health care to millions of Americans. He was talking about the places where important research is being conducted such as biotech companies, chemical companies, alternative energy companies and universities. He was talking about McDonald's and he was not talking about [Le Bern a Din]. I'm not trying to underestimate the size or the destructive capability of the current financial crisis. And I'm not about to predict that it will have no impact on the economy of which John McCain spoke. And I do hope that our government is successful in protecting that economy, because it was finally starting to do well before this credit bubble burst. Good jobs were finally starting to be created in the U.S.

I recently read an article in the New York Times which quoted a historian by the name of Frasier. He spoke of the deindustrialization of the American economy over the last few decades with its factory closings and loss of manufacturing jobs that paid decent wages and noted that it coincided with the heady expansion of the financial sector where compensation soared. And I don't remember our government adding capital to the industrial sector like it's adding capital to the financial sector today. The United States economy clearly got top heavy with financial services, retail and residential buildings and legal services. The lesson is that the government needs to focus on promoting the parts of the economy which produce real goods and provide essential services and which build necessary infrastructure to keep the United States competitive. No matter who is elected I think that will be the result and that is why I am optimistic both with the respect to the U.S. economy and with respect to Airgas's business prospects.

I don't agree with the geniuses who are predicting another depression, because these are the same geniuses who got us into this mess by insisting that the markets would be self regulating because people act in their self interest. That would be true if everyone was managing their own money. But it's not the case when you have lots of untested overpaid billionaire want to bes managing other people's money. This might get worse before it gets better, but the silver lining is that the system will change and the U.S. will adjust its priorities. My apologies.

Turning now to the quarter's financial highlights, record earnings of $0.86 per diluted share exceeded the top end of our expected range by $0.02. The Airgas Board of Directors increased the quarterly cash dividend on our common stock to $0.16 from $0.12, a 33% increase, and a reflection of the quality of our earnings as well as the confidence we have in the future. Operating margin in the quarter increased 12.5% compared to 11.5% last year and 12.1 in the first quarter, driven by revenue growth, operating efficiencies and synergies gained from the Linde Package Gas and other acquisitions. Similarly, the operating margin expansion helped drive our return on capital to 13.6%, 40 basis points over last year. Our year-to-date free cash flow was $112 million compared to $92 million last year as we continue to produce high quality earnings. This in spite of recently elevated capital spending as we construct ASU's CO 2 plants and cylinder fill plants, some green field and some associated with the Linde Package Gas acquisition.

Sales in the quarter increased 15% to $1.2 billion with acquisitions contributing 7% of the quarter's sales growth. Total same store sales grew 8% with price accounting for two thirds and volume one third. Gas and rent grew 12% and hard goods same store sales grew 4%. Looking across our geographies, results were relatively uniform among our distribution companies. The mid-south mountain west, east and great lakes regions posted strongest gains related to investments in energy and petrochemical industries as well as medical and life sciences. Sales in food and bench and environmental applications were also strong.

On balance our manufacturing segment has been stable. Weakness in autos, trucks and trailers has been offset by strength in metal fabrication, rail cars, mining equipment and alternative energy. Hurricane Ike impacted our business in the Houston area curtailing some industrial gas and consumable hard good sales while bolstering sales of dry ice, medical oxygen, and welder generators. All told, the hurricane was largely neutral to earnings. We do believe that there will be some future benefit from rebuilding in the area.

Hard goods volumes were a mixed result as equipment volumes ended below the prior year while filler metals were up over the prior year. Our August gas and rent price increase was both well designed and well presented to our customers and was effective in managing the cost curve. As we survey our current results and future prospects we are encouraged by some favorable characteristics in customer segments and product lines and we have presented those in a table on slide 3. In some customer segments such as energy and infrastructure construction, medical, food and beverage, and analytical research, the macro growth rates are favorable and offer great growth opportunities for all participants.

You can see many of our strategic products target these customer segments, partially accounting for the strong strategic product growth. But just as important, our growth is attributable to new customer gains and expanding our presence in the supply chain of existing customers, which is not only taking place in high growth segments, but in lower growth old line segments. Our distribution infrastructure, broad range of product offerings, technical expertise and our ability to engineer the right solutions for our customers are a real competitive advantage and should not be underestimated. For example, we have invested in an expanded offering to the energy and infrastructure construction segment. Not only can we offer contractors the full range of gasses, welding and safety supplies they need, we can supply them anywhere in the U.S. We can provide them supply chain services such as on site technicians and inventory, portable gas containers and logistics.

In addition we have the most comprehensive offering of rental welding equipment in the business, through our ready arc line and we are able to provide on site welder certification for the contractors work force. When you consider our recently acquired capabilities in safety rental equipment and safety management services from the oil acquisition, it becomes more apparent that our construction business is growing not only with segment, with the segment itself, but also by gaining new customers and expanding our supply chain presence within our existing customers. It helps explain why our construction business continues to grow in excess of 20%. It also helps explain why we still have a favorable outlook for the energy and infrastructure construction segment in spite of the uncertainty around the funding of government infrastructure projects or the future direction of energy prices.

Our strategic product categories of bulk, medical and specialty gasses, carbon dioxide and safety products make up about 40% of our revenue. They continue to outperform and drive growth as many of these product categories benefit from new application development and regulatory acceleration present significant cross selling opportunities or are focused on noncyclical customer segments like medical, life sciences, environmental and food and beverage. Total strategic products posted 11% organic growth for the quarter in line with the 11% compound annual growth rate over the last three years. Bulk gas same store sales were up 16% for the quarter as we continue to capitalize on enhanced production capabilities and on a strong sales force. For us bulk represents a great cross sale opportunity because prior to the Linde bulk acquisition we were primarily a cylinder gas company with limited bulk capabilities. Now with the eight plants we acquired in that deal and two new ASU's that we are currently building, we have a competitive bulk offering and a large base of customers who have historically purchased their bulk gasses elsewhere.

Our ability to engineer solutions to customer needs has also been effective in winning new bulk accounts. Specialty gas sales grew 12% for the quarter driven by demand from key customers in biotech, life sciences, research and environmental monitoring. Specialty gas is an area where Airgas innovation has made a significant impact on the supply chain as we have implemented production automation that improves quality and consistency while simultaneously reducing lead times and expense. We are therefore in a good position to capitalize on emerging growth trends such as tightening environmental regulations that require increased consumption of protocol gasses for emissions monitoring. Our growth is further propelled by our ability to engineer solutions for specialty gas applications. Medical sales posted 10% growth for the quarter. Our hospital and doctor dental segments continue to grow at a consistent rate as an aging population drives increased demand for respiratory therapy.

This is also a business where broad infrastructure and competitive offering such as walk about oxygen cylinders give us a distinct advantage. Safety products which represent the greatest cross sale opportunity of our strategic products were up 10% for the quarter. Almost all of our cylinder and bulk gas customers use safety products and we have a long way to go until they are buying their products from Airgas. Finishing out our strategic products category, CO2 and dry ice were up 7% on a consistent trend in food and bench. Our strategic account business grew 17% for the quarter. Our national infrastructure technical expertise and broad product offering create real value for customers with multiple locations. And have enjoyed and we have enjoyed recent success with contractors who work multiple job sites. We are also seeing increased opportunities for our outlook supply chain management program, most recently in the health care segment as customers with high volume needs for cylinder gas supply turn to us as on site experts in managing their needs.

Finally, customers facing tougher times tend to renew their interest in supply chain savings and we're seeing this in our customer base right now and our strategic accounts team is responding. Our Radner private label product line grew more than 30% this quarter. In addition to building brand loyalty with our customer base enhanced profitability because they carry higher gross margins than comparable OEM products. Existing product lines continue to make strong contributions as do product line expansions and the addition of the Radner brand in acquired stores. This quarter we created a new business unit called Airgas refrigerants. Coming on the heels of our August 1st acquisition of Refron. As a leading national distributor of refrigerants and provider of technical services and reclamation, Refron generated $93 million in revenues in 2007 and significantly enhances our national refrigerants distribution footprint.

A major element of our refrigerant strategy is be a leader in reclamation as production of various refrigerants will be phased out over the coming years and the need for reclamation services will grow. We believe this combination will prove to be a powerful growth engine as the refrigerant business continues to develop. Combined with our legacy business, the Refron acquisition brings our refrigerant business to about 150 million in annual sales and we are expecting a long double digit growth rate, a long-term double digit growth rate. Airgas specialty products, where our refrigerant business business was managed prior to the Refron acquisition is now focused solely on ammonia and processed chemicals. We continue to gain new customers in the ammonia business as power and other large plants come on line requiring ammonia for DNOX applications. While we focus on our many growth initiatives, build sales and gross profit, we're pleased to an announce we have achieved our goal of $10 million in run-rate savings from operating efficiencies this year. UT cylinder test savings are the largest component of savings to date while distribution logistic initiatives are starting to take hold and produce meaningful results. Fuel management and plant efficiencies are also making a difference. Another step in our pursuit of operational excellence relates to our enterprise system.

As we mentioned in the first quarter teleconference we are moving forward with the multi year faced implementation across our enterprise we are nearing a decision on selecting a systems integration partner. After which we expect to spend the next year focused on design and testing followed by three to four years of phased implementation. Recently investors have displayed significant concern about the credit crunch and the state of the economy. As evidenced by the severe contraction in the equities market. We continue to have good access to capital to fund our growth strategies. On you resuffer matures in 2011 and we have no bond maturities until 2014.

Acquisition activity has been strong in the first half of our fiscal year and we have an active pipeline. We have made six acquisitions year-to-date with aggregate annual sales of $142 million. Our annual goal for the next few years is to acquire up to $150 million in annual revenues so we are ahead of schedule right now with about half of the year left. We hope to an announce new transactions this quarter. The integration of the Linde Package Gas business is near completion. There is still some infrastructure work in progress and migration of business to appropriate channels. But the heavy lifting is behind us and we look forward to realizing the value of this acquisition for years to come. As we have mentioned before we continue to evaluate international opportunities, although our primary focus on domestic core and product line acquisitions remains throughout fiscal 2009.

Bob will further discuss our capital structure and access to funds shortly, but I'd like to finish my discussion with assessment of some defensive characteristics of our business. We have performed the systematic analysis of our various business exposures in the event of a downturn and we are prepared to pull levers in our business if necessary. We will discuss those levers as well as several advantages that we did not have during the downturn of early 2000. First, during that downturn which started really in 98 I guess our annual same store sales growth was never worse than negative 2%. And that result was driven by hard goods. And it included rut land, the tool business that we no longer have, which really plunged. We never had a negative year for gas and rent same store sales during that period or at any time in the history of Airgas for that matter.

Furthermore, at that time gas and rent was only 50% of our sales, today it's more than 60%. Part of the resiliency in gas and rent comes from a very stable rent stream and rent is close to being pure cash flow. That bodes well for our margins as gas and rent margins are more favorable than hard goods and we therefore enjoy a natural and defensive margin expansion when gas and rent outperform hard goods. In fact we managed to increase our gross margin in every year during the last downturn. Keep in mind that overcapacity and the U.S. and the high U.S. dollar were also significant factors in the last industrial downturn. Manufacturing businesses were fleeing the U.S. in droves at a time when industrial gas producers had significantly overbuilt capacity. Today's environment is different in both regards as the dollar is no longer an overvalued currency and capacity utilization in the industrial gasses market is much higher than before.

Second, we have multiple levers to pull in the event of a downturn. Much of our compensation experience is variable. If our shareholders don't get paid, we don't get paid. This includes overtime, temporary help, commissions, gain sharing and annual bonuses. We can quickly curtail travel and discretionary expenses as well. Our operating efficiency programs and their associated run rate savings as well as our acquisition synergies are independent of the overall economy and we expect to realize those benefits both in the near and long-term.

Another lever we have is the cyclical nature of our cash flow. In general we consider our maintenance Cap Ex to be about 3% of sales. Therefore in slow times we can dial back our capital spending. As a distributor we also reduce our investment in working capital as sales decelerate. However our stable rent revenue stream enhances the cash quality of our sales. Rent is dependent on the installed base of containers at customer locations which doesn't change much as gas or hard good volumes. Finally as I mentioned we believe that the infrastructure work we began in the late 90s has us well positioned in today's economy.

Our regional company platform and hard good supply chain infrastructure are in place. Gas and rent now account for over 60% of sales. Bulk gas capabilities have grown significantly and we are now engineering the right solutions to respond to customer needs. We have made vast improvements to our specialty gas supply chain. Our operating efficiency programs are yielding real run rate savings and our balance sheet leverages about half what it was in the year 2000. I honestly believe that we are better company today than we have ever been. I'm confident that we're well positioned to execute on our growth strategies and create value for our shareholders in the coming quarters.

Bob will now give you the financial review.

BOB MCLAUGHLIN, SVP, CFO, AIRGAS: Thanks Peter. Good morning everyone. We continue to execute well across the board and we deliver strong results for our second quarter. To review our results, we will start on slide number 4, as I go through these results please note we have GAAP reconciliations for various metrics on slides 8 through 11. Second quarter earnings per diluted share grew 43% to $0.86 compared to $0.60 in the prior year. The prior year quarter included $0.04 per diluted share of integration expense primarily associated with the June, 2007, acquisition of Linde's U.S. package gas business and a one time noncash charge of $0.03 per diluted share related to the conversion of National Welder Supply Company from a joint venture to a wholly owned suburban sudden year.

Adjusting for these charges year over year earnings per diluted share grew at a very strong rate of 28% for both the quarter and year-to-date. Sales increased 15% to $1.2 billion, reflecting strong performance in our strategic product categories with acquisitions contributing 7% of that growth. Same store sales increased 8% with gas and rent growing at 12% and hard goods at 4%. Overall price contributed two thirds and volume accounted for one third of our same store sales growth. Gas and rent represented 61% of our sales mix, an increase of 200 basis points over the prior year. Gross margin improved 20 basis points from last year to 52% and also improved 20 basis points on a sequential basis. Strong expansion of 90 basis points in our distribution segment was partially offset by lower gross margins in our operation segment due to a sales mix shift to refrigerator rant and ammonia products which carry lower gross margins. Excluding depreciation and amortization, operating expense as a percent of sales was 34.8%, an improvement of 70 basis points over the prior year, driven by operating efficiencies, acquisition synergies and reduced acquisition integration expenses.

Operating income for the quarter was $145 million, up 26% over last year. Operating margin was 12.5%, a hundred basis point increase over the prior year, reflecting strong organic sales growth, gross margin expansion and operating expense leverage. There were 84.7 million weighted average shares outstanding for the quarter, up about 0.5% from last year and down about 0.5% sequentially. Since our reinstatement of our share purchase program in March, we have purchased approximately 2.1 million shares at an average price slightly below $53. We currently have $25 million of authorized spend available in our buyback program and the board of directors will consider authorizing a new repurchase program at our November meeting.

Our return on capital was 13.6%, up 40 basis points over the prior year and 30 basis points sequentially. Free cash flow was $112 million compared to $92 million last year, driven by strong growth in operating cash flow, partially offset by elevated capital spending concentrated largely on plant construction projects and post acquisition facility consolidations. Adjusted debt at the end of the quarter was a little over $2.1 billion, reflecting acquisition activity, share repurchases and strong cash flow. Our current fixed ratio is approximately 50/50. Our adjusted debt to EBITDA ratio is below 3, comfortably in our target range of 2.5 to 3.5. As of the end of September approximately 300 million was available under our long-term credit facility. And we have not experienced nor do we anticipate any funding issues at this point.

The credit agreement matures in July, 2011. We also have $360 million of funding to our AR securitization program. Three of our largest banking relationship lenders participate in this program through highly rated special purpose subsidiaries. Our primary working capital metrics held consistent with recent trends with DSO at 48 days and inventory turns at 4.5. At the moment we have not seen any significant deterioration in our DSO or bad debt expense, but we continue to monitor these metrics very closely.

Please turn to slide 5 and we will look at our segment results. Distribution sales were up 13% to $942 million for the quarter with same store sales growth at 7%. Distribution gas and rent same store sales were up 10% and hard goods were up 4% with price accounting for the majority of the increase in both categories. Gas and rent represented approximately 55% of our distribution sales mix, up 110 basis points from the prior year. Distribution gross margin was 51%, an increase of 90 basis points over the prior year reflecting a favorable sales mix shift to gas and strong execution of our August gas and rent increases as well as effective management of our cost. Operating income in the distribution segment was $118 million, up 29% over the prior year reflecting strong leverage on our sales growth. The related operating margin improved 150 basis points to 12.5% driven by strong organic sales growth, gross margin expansion and realization of the operating efficiencies that Peter outlined in his comments.

The prior year also included incremental acquisition integration expense that accounted for 50 basis points of the margin expansion in the quarter. Sales for all other operations increased 32% with same store sales up 20% due primarily to continued strong growth in refrigerant and ammonia sales as well as dry ice. Operating income was up 14% for the quarter. Operating margins decreased by 150 basis points due to mix shift towards refrigerants including the impact of the acquisition and margin pressure on ammonia prior to full realization of the pricing actions taken during the quarter. Sequentially operating margins are up 70 basis points resulting from cost recovery in ammonia and atmospheric gas pricing actions with AMG.

Please turn to slide 6, capital expenditures. Year-to-date capital expenditures were $185 million versus $129 million last year. The vast majority of this increase is in the category of construction in progress driven by major projects such as the construction of the two air accept radiation plants, CO 2 plants and cylinder fill plants. Excluding this category year-to-date capital expenditures are up 8% over the prior year, well in line with sales growth. We are encouraged by the progress we are making two air separation plants. Both are on schedule and are ahead of original loading estimates. The new Carlisle, Indiana plant should be operational in January and the Carrollton, Kentucky plant is scheduled to be on some stream in April. We're making good progress on our CO2 plant and cylinder fill plant consolidations. As such, we expect elevated capital spending related to major infrastructure projects to moderate in a few quarters and we look forward to enjoying the benefits of the projects as they come online.

Please turn to slide 7 to discuss our free cash flow. This is a slide we have shown before and I believe is worth revisiting. The dotted line represents our distribution same store sales trends measured on the right axis. While the shaded area between operating cash flow and the Cap Ex lines represents our free cash flow measured on the left axis. We can use free cash to invest in acquisitions or growth CapEx, pay down debt, pay dividends or repurchase shares. One of the interesting observations of this graph is that during moderating or slower growth periods, we can dial back Cap Ex and working capital, thus generating incremental free cash.

As you can see from the trailing 12 month numbers as of September and March, 2008, we have significantly grown our free cash flow at same store sales rates have moderated from the high rates of fiscal '05 and '06 and into the first part of fiscal '07. A similar expansion of free cash flow was realized in fiscal '02 and '03 when sales growth rates had moderated as well. Also during this period on the graph, operating cash flow has grown from approximately $130 million in fiscal 2001 to $550 million for the 12 months ended September, 2008. This represents a 21% compounded annual growth rate. Consistent with strong sales growth over this extended period. Now to review our guidance.

For the third quarter we expect to earn between $0.82 and $0.84, representing a 22 to 25% increase over the prior year. The third quarter has two fewer sales days than the second quarter and we will also have some interest head wind. We are reiterating our full year guidance expecting $3.30 to $3.40 per diluted share. Our guidance uses the forward LIBOR curve yield for variable interest rate debt and the range provides for some moderation of same store sales growth in light of current economic conditions. Now I'll turn it back to Jay to begin the Q&A portion of the call.

JAY WORLEY: That concludes our prepared remarks. As we begin the Q&A portion of our call we ask that you limit yourself to two questions and one follow up and then get back in the queue if you have further inquiries. Jill will now give instructions for asking questions.

Questions and Answers

OPERATOR: Today's question and answer session will be conducted electronically. (OPERATOR INSTRUCTIONS). We ask that you please limit yourself to two questions and a follow up.

We will take our first question from David Begleiter at Deutsche Bank.

DAVID BEGLEITER, ANALYST, DEUTSCHE BANK: Good morning. Peter just on distribution volume, which you said was flat in the quarter, are you expecting that volume to be down in the back half of the year?

PETER MCCAUSLAND: Well, it's hard to say, because we have seen no impact on our sales from everything that's going on on Wall Street. But I mean, it could, it could happen and we think, and Bob could fill you in on what impact it might have on our EPS and how it impacts our range.

BOB MCLAUGHLIN: We have really over the last year and a half there has been some moderation in pockets of our business that we have seen. And, you know, certainly price has helped, but the lower end of our guidance does build into it, you know, approximately 3 plus percent of moderation with respect to the current trends, volume trends that we're seeing in the business.

DAVID BEGLEITER: Would that take that volume to negative in the back half of the year?

PETER MCCAUSLAND: It could in certain categories.

DAVID BEGLEITER: And I guess remind us distribution gas and rent how much is gas, how much is rent?

PETER MCCAUSLAND: Rent represents approximately 12 to 15% of the revenue.

DAVID BEGLEITER: Thank you very much.

OPERATOR: And our second question today is from Mike Harrison with First Analysis.

MIKE HARRISON, ANALYST, FIRST ANALYSIS: Hi, good morning.

PETER MCCAUSLAND: Morning.

MIKE HARRISON: Peter I was wondering if you could walk through some of the components that were driving the 20% same store sales growth in all other. Obviously there were, there were some components more in the 10% range and some had to be in the 30% range. What was growing faster than that average and what was lower.

PETER MCCAUSLAND: Well, ammonia and refrigerants were the two big drivers. And part of that was driven by price and part of it was driven by volume. They tend to be more volatile businesses than our core distribution business. And dry ice was also up and that was driven by just general business growth, but also the hurricane accounted for like a couple million, $1.5 million of sales or so of additional sales. But we get hurricanes every year now it seems, so I guess it's somewhat unusual, but that was part of it.

MIKE HARRISON: And obviously you have some tougher prior year comps coming up in the second half looking at the all other business, what kind of growth rates do you think are sustainable in the second half and as you look longer term for that segment?

PETER MCCAUSLAND: The outlook is actually pretty good for the all other. And, you know, it's mostly you're selling to countercyclical businesses, electric utilities and refrigerants is all countercyclical, dry ice is to a large extent, food and beverage companies. Noncyclical, not countercyclical, excuse me. And I know the outlook for our refrigerants business is good the next quarter, because I just went through a business review there and I feel the same way about ammonia. In fact, ammonia, some of the inputs the pricing is coming down and so where we were pinched going up we might get a benefit on the way down. So we expect these growth rates to moderate a little bit, because to some extent they reflect catch up in pricing, but we, but overall we think they're going to be pretty strong.

MIKE HARRISON: All right. Then in terms of the refrigerants business, where are you in the process of ruling that business out across the country, are you at this point able to offer those services anywhere nationwide or maybe what portion of your branches currently offer those reclamation services.

PETER MCCAUSLAND: We're in the infancy of that program to tell you the truth. We bought a couple of companies both of which were very good companies. The latest being rev Ron. The integration though, we're taking a go slow approach in making sure we get it right. And not only the integration of rev max and rev Ron into a unified refrigerants capability, but also the integration of the refrigerant business into our branches across the country. We have had some limited rollouts with the OEM programs, but it's only just starting.

MIKE HARRISON: All right, thanks very much Peter.

PETER MCCAUSLAND: Sure.

OPERATOR: The next question comes from Bob Koort with Goldman Sachs.

AMY JOHNSON, ANALYST, GOLDMAN SACHS: Good morning, this is Amy Johnson in for Bob. Peter, I have two questions. First, can you give us a quick update on price initiative rollout this summer, because last quarter I mean the first quarter looks like you're a little bit beyond your cost curve, any progress in second quarter. Also, facing weakening economic environment falling energy how do you think pricing power could be.

PETER MCCAUSLAND: Well, our price increase was very successful, because we did a good job explaining it to our customers and actually going out and making it happen. And we had real cost driving our need, cost increases driving the need. Of course when, when major inputs are going in the other direction you're not going to have as much pricing power in the market. But, but again we the cost of the gas is a small part of our total revenue and so to the extent that we're faced with other cost pressures in our business we're confident that we can increase our prices and when customers aren't doing well you try to, you do try to refrain and we're doing a hell of a lot to cut our own costs through our efficiency programs and we're telling our customers about those programs and what we're doing and that's being well received. So, it's hard to make any prediction about how much, how well we would do in future price increases, but I would just urge you to go back and look at the last recession if you believe we're going to have a big recession here, go look at the last one and look at our gross margin performance.

AMY JOHNSON: Sure. And then the second question I understand there have been a lot of structural changes at Airgas last recession and I do believe this cycle Airgas is much stronger position in this market than the last recession. But we want to prepare for the worst and hope for the best, what would you say, really having a deeper recession, what would be the scenarios for your same store sales growth and EPS growth. Well, I don't know.

PETER MCCAUSLAND: I mean there's a whole number of hard landing scenarios. We have been looking at a few of them. I'm not going to make a prediction. We have been talking to the field in the field, they feel good about the rest of this year anyway and that's why we reaffirmed our guidance. Although, you know, there's been pockets of weakness, some of which have gotten worse recently. Offset by pockets of strength. We have got a lot of leverage to pull. I'm not going to speculate on how bad the economy's going to be. And I am not, as you can tell from my stump speech, I am not the pessimist that a lot of people are and I feel that we're going to need the food and we're going to need the electric power and we're going to need a lot of the things that our customers produce and research will go on, health care will go on, and we're fortunate, we weren't, we don't get the huge runup in sales that most industries get, but we're a good steady business and we have a platform that allows us to grow faster than the market overall and we're just going to continue to execute our strategy and we will pull whatever levers we have to to make sure that we're responsive to any economic environment.

AMY JOHNSON: Okay, thank you very much.

OPERATOR: Sure.

KEVIN MCCARTHY, ANALYST, BANC OF AMERICA: And our next question comes from Kevin McCarthy with Bank of America securities.

PETER MCCAUSLAND: Good morning.

BOB MCLAUGHLIN: Morning.

KEVIN MCCARTHY: Peter outside of the industrial gasses a lot of companies have talked about a precipitous decline in demand. I think mostly in Asia. But what are you seeing domestically here in your October order book and what level of same store sales would be implicit in your guidance of 82 to 84 and recognizing the differential in the day count that you mentioned.

PETER MCCAUSLAND: Well, the sales are about the same. We have seen no falloff of sales. We saw a pickup in August and we're sort of at that August level. That's typical in our business. And in fact our order book looks pretty good, it looks even a little better than our sales right now. And we're, but we're a daily sales business. So, we don't have the visibility of an architect for instance that gets three year project or someone who's building like a TNT company or somebody. But I think Bob is we're talking about mid-single digits in our.

BOB MCLAUGHLIN: Yes, there's a slight moderation, you know, relative to the numbers that we just posted that are incorporated not only in the full year, but in the second quarter as well. And I mean third quarter excuse me. The third quarter also in addition to the two days there is a sequential decline in the dry ice and refrigerants business as well as ammonia. Not on a year over year basis in Q3, but certainly sequentially from Q2 and that's reflected as well.

PETER MCCAUSLAND: And they're seasonal changes.

KEVIN MCCARTHY: Sure.

PETER MCCAUSLAND: In terms of what we're seeing out there, God knows, we have been bugging our people quite a bit lately and there are pockets of strength in manufacturing even though there's sort of a general malaise and a weakening of the overall manufacturing environment. And then there's other segments and I identified them in my little talk which are pretty strong. And nonresidential construction I know I've read all this stuff about that falling off, but there's a lot of new projects starting up in the next few months and our regional companies are ready to serve those projects. So that's a secular trend that certainly will be impacted by this cyclical trend.

But I don't think it's going to wipe out the secular trend or the need for infrastructure. Bridges are still going to be, need to be repaired, power plants are going to build them to meet the power requirements of the country, people, you know, so I think the construction business, the outlook for us at least in construction is pretty good.

KEVIN MCCARTHY: Great. Then on the subject of uses of free cash flow, you've obviously accelerated your share repurchase activity in the September quarter. As I think about Airgas broadly, you obviously have a long history of acquisition activity, given the volatility in the capital markets, you know, I think it's fair to say that public market values are probably a lot more dislocated than private market values at this point. So should we expect an ongoing meaningful change let's say over the next year or two in the way that Airgas is going to be deploying cash flow?

BOB MCLAUGHLIN: We're not planning on it and our board had a special meeting and looked at share repurchases and the dividend, decided to raise the dividend. We have $26 million left to spend on our existing authorization and we will take a look at that. The Board will look again at share repurchases at the November meeting, we wish we bought those shares at lower prices, but, when I look back at the history of Airgas there were a number of times we bought shares and our purchases were underwater temporarily. If you go back and look at them they were all great buys. We have taken care of the creep that for like two years worth of creep with those purchases. But I think, I think that the board wanted to didn't go forward with another share repurchase agreement because of what was going on in the credit markets and all the fear and panic that is being spread around by a lot of people including the media. And, they will look at it again, hopefully the dust will settle.

The credit markets are improving as we speak, we have seen good improvement in the last week. In our analysis, that we gave to the board for this special meeting and we will give it again, we compare buying back shares to core acquisitions and adjacencies and foreign acquisitions and green field projects. We look at it all. And even at these low, low prices for Airgas core acquisitions still are the way to go. We're here for the long term. We know our intrinsic value is a lot higher than our share price right now. This has happened before. Our people have seen it before. They know in their hearts that it's not right, but it is what it is and we're moving forward with our long-term plan. So basically our view of how to deploy free cash flow is unchanged, although we're keeping a close eye on the credit markets.

KEVIN MCCARTHY: Fair enough, thank you very much.

BOB MCLAUGHLIN: Sure.

OPERATOR: And the next question comes from Mike Sison with KeyBanc.

MIKE SISON, ANALYST, KEYBANC: Hey guys, congratulations on a great quarter.

PETER MCCAUSLAND: Thanks Mike.

MIKE SISON: Peter in terms of the last downturn, can you just give us a feel for how big your strategic platforms were relative to the 40% now.

BOB MCLAUGHLIN: I think they're about half the size. And our infrastructure was pretty weak. And pretty dilutive. Just getting started. And there was a big, big difference in Airgas between the two.

PETER MCCAUSLAND: The other way I like to look at it too Mike is our strategic products now are larger than the total sales were back at that time.

MIKE SISON: Right. And then in terms of a slow down as some have suggested, would the strategic platforms, they should be able to continue to grow at a pretty good level, right?

BOB MCLAUGHLIN: Well, we think so, because, they, they grow faster than the core business for a lot of different reasons. Many noncyclical and countercyclical businesses buy those products. They represent cross sells to a lot of Airgas regions and companies and geographies. And to Airgas overall and many of them grow faster than the overall economy like bulk gasses is probably a two times GDP number, spec gasses one and a half times GDP. So some of these products they're both cross sells for us and they grow faster than the economy. So we think, and some of them even go to the noncyclical, countercyclical companies. So, you know, we think we can, we have grown them pretty quickly over the years and I think double digits ever since we instituted the program. And certainly 11% we have measured over the last three years, 11% this quarter, so we feel pretty good about it and that's about it.

MIKE SISON: Great. Then last question, in terms of acquisitions, clearly there's going to be some high quality businesses that may struggle during this time period. I mean, is this an opportunity to take advantage of those type of acquisitions and where do you think makes most sense, is it to look for areas where you're not as big and sort of get in now or maybe fortify areas where you are big to sort of continue to increase density in certain geographic regions.

BOB MCLAUGHLIN: Will first of all there aren't many high quality businesses in our industry that are struggling right now. And in fact there's not many high quality businesses in our industry that ever struggle.

MIKE SISON: Right.

BOB MCLAUGHLIN: So and I would caution you to assume that we can buy these companies really cheaply, because the prices for industrial good industrial gas distribution companies are pretty inelastic. They're not like general run of the mill manufacturing companies where you may get 500 basis point spread on the multiples. We're talking about one and a half range of one and a half on the EBITDA multiple for purchase price. It doesn't matter whether it's a fill in or an anchor acquisition for us. But we're out working hard trying to drum up prospects. In fact I leave on Monday morning with Les Graff, our vice president of corporate development, we're going to see six companies and maybe some of them will sell to us and we want, we have got plenty of liquidity to buy these companies and, and we will, we will be after them.

MIKE SISON: Great, thank you.

BOB MCLAUGHLIN: Sure. Thank you.

OPERATOR: And the next question comes from Laurence Alexander with Jefferies and Company.

LUCY WATSON, ANALYST, JEFFERIES & CO: Hi, this is Lucy Watson for Laurence.

BOB MCLAUGHLIN: Hi.

LUCY WATSON: Just wondering if you could quantify the magnitude of the boost you might see from the post hurricane construction.

BOB MCLAUGHLIN: It's really hard to say. There was a lot more damage down there than a lot of people think and a lot of bent metal and things that need to be replaced and we had not nearly as bad as Katrina, but we had a big pickup, in that Gulf region after Katrina. So I'd be speculating, but, I don't know, what do you think Bob. It's difficult to put a specific number on that. It will clearly be beneficial and we will see an increased activity both in gas and on hard goods, but we don't have a tangible number to share with you.

PETER MCCAUSLAND: The best, the best prospect for post hurricane same store sales is to contractors that are repairing the oil rigs that were hit hard and that's all metal fab business and we're very well positioned to take advantage of it. So I don't know, that region will do well for us for awhile, but it's only a small region of the country.

LUCY WATSON: Okay. And of the two thirds price and same store sales growth this quarter, I guess how much would you expect comparably in the second half of '09? From price.

BOB MCLAUGHLIN: It's been fairly consistent for year-to-date and for the quarter was two thirds overall for Airgas two thirds and, and one third volume. As best as we can tell it will be somewhat in that area, maybe slightly more towards price in the back half.

LUCY WATSON: Okay, thank you.

BOB MCLAUGHLIN: Thank you.

OPERATOR: And the next question is from David Matthew with Robert Baird.

DAVID MATTHEW, ANALYST, ROBERT W BAIRD: Hi guys, thanks.

BOB MCLAUGHLIN: Hi Dave.

DAVID MATTHEW: Hey, could we talk about this, the air securitization, if you could remind us is this one of these 364 day facilities.

PETER MCCAUSLAND: It's a facility matures in March of 2010.

DAVID MATTHEW: Oh, okay. So it is longer term.

PETER MCCAUSLAND: Uh-huh.

DAVID MATTHEW: All right. And could you tell us how much you have out on that as of September 30th?

BOB MCLAUGHLIN: $360 million.

DAVID MATTHEW: Okay. And what kind of head room do you have under your revolver right now?

BOB MCLAUGHLIN: $300 million.

DAVID MATTHEW: Okay. Fair enough, thanks guys.

BOB MCLAUGHLIN: Yes.

OPERATOR: And the next question comes from Mark Gully with Soleil Securities.

MARK GULLY, ANALYST, SOLEIL SECURITIES: Good morning Peter. I actually enjoyed your stump speech. I thought a lot of your comments were right on.

PETER MCCAUSLAND: Thank you.

MARK GULLY: The one thing though you didn't talk about was the strong dollar. You have no control over currency. I mean to the extent that CAT and Deere are poster children for your metal fab base and to the extent they're not doing so well now, can you talk a little bit about how a strengthening dollar from here might be able to put some head winds in front of you.

PETER MCCAUSLAND: Well, no question that that could be the case. And because of the panic that's going on right now people are flying to the dollar. I think that will come back down a little bit. And I think a slight strengthening from the dollar's lows is not a bad thing. And, but it is what it is. I do think that the strengthening might be a little overblown right now, but that could hurt but I don't think oil is going back to $30 a barrel. It might go to $70 a barrel and/or it's at $60 or something now or 60, 70, and distribution costs are a major factor in international trade that have been discounted. Back before in the 98 to 2002 period, not only did we have a ridiculously high dollar, oil got down to $12 a barrel. And it was really cheap and so I think that was really negative. I don't see us, it might be a slight head wind, strong dollar now, but I don't think it's going to hurt that much.

MARK GULLY: Bob, can you tell us approximately the sales number that will come out of each of those new ASU's when they start up on the schedule you gave us earlier.

BOB MCLAUGHLIN: Well, they're they're going to be at, you know, kind of the first 12 months somewhere in the 6 to $8 million neighborhood.

MARK GULLY: 6 to $8 million each?

BOB MCLAUGHLIN: Yes.

MARK GULLY: Is that incremental sales that you get because you have those plants that you would not have gotten otherwise.

BOB MCLAUGHLIN: It will be a combination, there will be low shifting relative to that, but there will be a significant amount of new signings.

MARK GULLY: Then my final question is this. Obviously your ammonia prices have skyrocketed. How much of that same store growth in other operations is simply the pass through of rising ammonia prices and of course if ammonia goes back down again I would imagine over time you will be passing on those lower ammonia costs to your customers.

BOB MCLAUGHLIN: Overall in the all other segments the 20% was evenly spread between price and volume.

MARK GULLY: Was all that price just passed through ammonia.

BOB MCLAUGHLIN: No, it was all businesses.

MARK GULLY: Okay. Thank you.

OPERATOR: And the next question is from John Roberts with Buckingham Research.

JOHN ROBERTS, ANALYST, BUCKINGHAM RESEARCH: Morning guys. Can you hear me?

PETER MCCAUSLAND: Yes.

JOHN ROBERTS: First a quick comment Peter, I think you might want to talk about your separate business going GDP plus a couple percent rather than one and a half or two times GDP just in case it goes to zero. And then secondly there are a fair amount of depressed areas in the country whether Detroit or the Ohio area because of automotive or maybe the Miami area because of construction activity. Can you pick one of the weak areas of the country where you have a meaningful presence and talk about how your business is doing in that weak area?

PETER MCCAUSLAND: Yes, I'd start with the auto belt around Detroit. Our company, Great Lakes Airgas is knocking the cover off the ball. They have seen some weakness and of course the auto companies in the second tier suppliers are really, really down. So, auto is a big user of our products and for it to be so far down and us to be doing so well is I think probably a good sign. But there are a lot of other industries in that auto belt right now and they're capitalizing on them. We have a very diversified product offering and diversified customer base. They're doing really well. So I guess you call that a total disconnect.

Regarding the auto industry there's like five or six brand new plants being constructed in the U.S. now, more in the southern part of the country by foreign automakers and so I think overall the auto business is going to be an upside for us when it turns around, because we're doing pretty well in those regions at these level. You say construction is off in Florida, it is, but the kind of construction we serve is really, really good in Florida. There's three major, we just finished a major job down there, there's three major jobs that are going to start in Florida for our major construction customers that are going to be very good for us and they're mostly power related. And then what's another area where there's a business that's not doing well.

California I would say, let me make a comment on California. I'll try not to be political, but it's hard not to be when you talk about California. The California economy was, has been the most vibrant part of the U.S. economy for years up until the last few years. That's kind of hurting, although northern California is doing very well. But in southern California we haven't performed as well as we would like and all of California with its regulation and bureau reaction is driving businesses out of the state of California. And it's a real shame.

But that said, there are a lot of construction products either started or starting in California, the Bay Bridge project isn't finished. As soon as that finishes they are going to start cutting up the old bridge. There's power plants and we're doing very well in northern California even though the California economy overall is pretty hurting. And I guess I would say that I don't know what's going to happen in the future and I'm not an economist, but I would say that all the carnage in residential construction, retail, Wall Street and whatnot really doesn't have a lot to do with yet. Now, I don't know what's going to happen, we're ready for anything though.

JOHN ROBERTS: Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: And our next question comes from Steve Byrne with Merrill Lynch.

STEVE BYRNE, ANALYST, MERRILL LYNCH: Hi, it seems both presidential candidates are in favor of regulating greenhouse gasses and given your size in CO 2 would you see yourself in a position of putting in capital to capture CO2 or do you see yourself more is a partner for the distribution of CO2, how do you see that playing out for you longer term?

PETER MCCAUSLAND: Well, I'm not sure is the quick answer. We're probably more as a partner if it's a huge sequestration project or something like that. But I don't see us building or owning infrastructure to sequester CO 2 from big coal fire plants or anything like that. But he will we will certainly benefit from the construction of those pipelines and facilities and possibly use some of the off gas, liquefy some of the CO2 and use it in the merchant market.

STEVE BYRNE: And given the credit challenges are probably more significant for your smaller competitors and they may be more concerned about a decline in IP, have you seen any increased unsolicited invitations from some of your weaker competitors for you to come take a look at them as potential acquisition candidates?

PETER MCCAUSLAND: No.

STEVE BYRNE: Just a pipeline strengthening just from your own due diligence, they're not coming to you, this is your efforts.

PETER MCCAUSLAND: Usually I mean people do try to time their sales in this business, it's better to sell on the way up than at the bottom. But as I said, the prices are pretty inelastic in this business and so you don't get a big rush at the top and quite frankly I think most of the people in our industry are pretty happy with their businesses and what's going on right now. So most of the, the people we are considering it's because it's time for them in their careers to sell or we have gone and beaten the bushes and gotten people interested in selling now and coming to work for us.

STEVE BYRNE: Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: And due to time constraints our final question comes from Scott Blumenthal with Emerald Advisors.

SCOTT BLUMENTHAL, ANALYST, EMERALD ADVISORS: Good morning gentlemen, congratulations on the quarter.

PETER MCCAUSLAND: Thank you Scott.

SCOTT BLUMENTHAL: Peter in your remarks you talked about how different Airgas is compared to what it was like in the last economic downturn. And one of the things that you have done is you have become a little bit more of a manufacturer than you were just distributor back then. Can you talk about maybe and specifically with regard to the new air separation capacity that you have coming on board how much more of a fixed costs structure you have now to cover and I guess specifically with the ASU's how much of that do you have kind of booked with your anchor customers and if there's any risk there in not being able to fill those up and kind of carrying those increased fixed costs into what we see as kind of a soft economy.

PETER MCCAUSLAND: Sure. Well, first of all, the loadings for those plants are ahead of schedule. Number one. Number two, we have great opportunities in bulk regardless of the economy because it represents a cross sell for us as I explained in my remarks. Until we bought the Linde acquisition we really didn't have serious bulk capabilities and this puts us in the game and we have hundreds of thousands of customers that buy a lot of products from us except bulk. And then the third thing I would say is that we buy 70% of the gasses that we sell and only produce 30% of them. So to the extent that our gas business did turn down which didn't happen the last recession, we could load shift to our plants so we think the risk of carrying high fixed costs investments in a downturn is pretty minimal for Airgas.

SCOTT BLUMENTHAL: Okay, that's really helpful thank you. By the way I did like your speech as well.

PETER MCCAUSLAND: Oh, thanks.

SCOTT BLUMENTHAL: And Bob, could you a couple years ago we prior to an investor conference in Arizona we had a quarter where we suffered a little bit from energy costs. Because there were shortages in certain parts of the country and we were moving product around and we kind of got hit by that. We have seen energy costs come down significantly and a lot of that has occurred in the past month or so. Can you talk about if any how much of a tail wind you might get in operating your fleet from the fact that we're now at $62 a barrel oil as opposed to up into the 120, 130.

BOB MCLAUGHLIN: I think since that timeframe we have done a much better job as a company in terms of passing on the delivery fuel surcharge in all our business units that get marked against published diesel fuel rates. So we have been able to capture a significant amount of the increase that has taken place through the surcharges. Consequently on the downturn, we have passed that back to our customers. So it's not net net, it's not a hundred percent coverage so there will be some tail wind with respect to, the delivery aspect with decreasing fuel costs. But not a significant needle mover because we have got them so well linked relative to our processes.

SCOTT BLUMENTHAL: How sticky is that on the way down, would you expect do you get a quarter's benefit, half a quarter's benefit.

BOB MCLAUGHLIN: We set these every two weeks to one week.

SCOTT BLUMENTHAL: Okay. All right. And I guess the last one is we haven't heard a lot about Argon helium situation for a while. Can you talk about those and maybe if there are any other kind of capacity or availability constraints in any other gasses?

PETER MCCAUSLAND: In Argon the there is Argon available in the market today because of two things. We have had high steel production up until recently and also we have had a decline in stainless steel and lump NM welding among fact indicators. So there is some more Argon in the market. I wouldn't say the streets are running with Argon, but it can be had. Now, the problem with Argon is as fuel production comes down and it is coming down it looks like, the, the oxygen that is produced in the steel, for the steel making process is dialed back and when you produce less oxygen you get less Argon. So it looks like we might be in another Argon shortage situation in the near future. We think through our arrangements with our suppliers and our own production that we are very well positioned to supply our customers in that situation.

So we're feeling good about the Argon market overall and have taken, have gotten some nice business recently in Argon. In the helium market that too has eased. And we lost some customers because of allocation and because we had to raise the price. But we're starting to regain those customers and we have enough helium to grow our business nicely. So I still think the long-term outlook for helium is for pretty tight market.

OPERATOR: Some of these large streams that people are talking about aren't going to be on stream for a long time. And but the crisis that we were in a year ago is certainly eased quite a bit.

SCOTT BLUMENTHAL: Great, thank you and thank you for taking my questions.

BOB MCLAUGHLIN: Sure.

JAY WORLEY: Well, this is Jay Worley and again we thank you all for joining us today. I will be available all afternoon for follow-up questions.

OPERATOR: We thank you for your participation on today's call and have a wonderful day.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** October 28, **2008**

**LANGUAGE: ENGLISH**

**TRANSCRIPT: 102408a1982704.704**

**PUBLICATION-TYPE: Transcript**

Copyright 2008 CQ Transcriptions L.L.C.

All Rights Reserved.

Copyright 2008 CCBN, Inc.

All Rights **Reserved.**

[Return to List](#cite_id_8)

FOCUS - 8 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

July 24, 2008 **Thursday**

**Q1 2009 Airgas Earnings Conference Call - Final**

**LENGTH:** 9446 **words**

OPERATOR: Good morning, and welcome to the Airgas First Quarter 2009 Earnings Conference Call. Today's call is being recorded at the request of Airgas. All participants will be in a listen-only mode until the question and answer session of the call.

For opening remarks and introductions, I will now turn the call over to Vice President of Communications and Investor Relations, Jay Worley. Please go ahead, sir.

JAY WORLEY, DIRECTOR OF IR, AIRGAS: Good morning, and thank you for attending our First Quarter Earnings Teleconference. Joining me today are Peter McCausland, Chairman and CEO, and Bob McLaughlin, Senior Vice President and CFO.

Our earnings press release was made public last evening, and is available on our website, as are the slides that accompany this teleconference. To follow along, please go to airgas.com, click on the "Investors" shortcut at the top of the screen, and then go to the conference calls and webcasts **page.**

During the course of our presentation, we will make reference to certain non-GAAP financial measures. Please note that reconciliations to the most comparable GAAP measures can be found in our earnings release, in the slide presentation, and on our website.

This teleconference will contain forward-looking statements based on current expectations regarding important risk factors which are identified in the earnings release and in our slide presentation. Actual results may differ materially from these statements, so we ask that you please note our Safe Harbor language. We'll take questions after concluding our prepared remarks, and we plan to end the teleconference by Noon Eastern Time.

Now, I'll turn the call over to Peter to begin our review.

PETER MCCAUSLAND, CHAIRMAN AND CEO, AIRGAS: Thanks, Jay. Good morning, and thank you all for joining us.

We are pleased to report record results for the first quarter 2009. By continuing to focus on our strategic growth initiatives, by maintaining discipline in our day-to-day operations, and by drawing from our expertise in integrating acquisitions, we produced strong sales and earnings growth in a moderating economic environment.

Turning now to the quarter's financial highlights, record earnings of $.81 per diluted share was at the top end of our expected range. We generated strong free cash flow of $58 million compared to only $28 million last year as we continued to produce high quality earnings. In addition, we continued to be presented with great investment opportunities in our core gas business, and our capital spending increased 35% to $86 million for the quarter.

Operating margin in the quarter was even with last year in part due to dilution from the Linde Packaged Gas business that we acquired in July 2007. Also, the pace of rising cost pressures from power, fuel and steel prices accelerated this quarter, and we are addressing those challenges with appropriate pricing actions and supply chain programs.

Sales in the quarter increased 22% to $1.1 billion, with acquisitions contributing 15% of the quarter's sales growth. Total same-store sales grew 7%, with price up 4% and volume up 3%. Gas and rent grew 7%, and hard good same-store sales grew 6%. For both Gas and Hardgoods, there was probably some benefit in the quarter from the timing of the Easter holiday, offset by some slow business conditions associated with the June floods in the Midwest. July sales seemed to suggest a continuation of the current environment.

Looking across our geographies, results were relatively uniform among our distribution companies. The Pacific Northwest, the Mountain West, Mid-South and Southwest regions posted the strongest gains related to investments in energy and petrochemical industries, as well as metal fabrication.

Energy and infrastructure construction remain strong, as do our customers in the Medical, Research, Environmental and Food and Beverage segments. Our Hardgoods same-store sales growth accelerated from the fourth quarter, partially driven by a hyper-inflationary steel market. Filler metals, which account for almost 25% of our Hardgoods business, are composed of virtually 100% steel, and have therefore undergone extreme cost escalation this year. Thus far, we have been able to keep up with these increases and maintain our margin.

Machine and Equipment sales growth was up sequentially in the quarter, still on the trajectory of slight year-over-year growth that we have seen in the past few quarters. Rising material costs are likely to drive Hardgoods prices higher in the coming months, and we expect to keep pace with those cost increases as they occur. Volume growth should continue to be positive.

Rising fuel, power and steel are also pressuring our gases and gas container costs, and we recently announced a gas and rental price increase effective August 1. Our pricing strategy has been designed to keep ahead of the cost curve, and the curve has steepened in recent months. Specifically, we experienced higher than expected power costs at many of our ASUs due largely to buy-through on power of interruptible contracts, which are common in the industry. Our Ammonia business was also impacted by two large cost increases while we anticipated only one. Together, these factors cost us a couple of pennies in the quarter.

Rather than react hastily, we elected to address the issue with one well-designed price increase so as to ensure effectiveness while minimizing distraction for our customers. Our strategic product categories of Bulk, Medical and Specialty Gases, Carbon Dioxide and Safety Products, make up about 40% of our revenue. They continued to outperform and drive growth, as many of these products grow faster than the overall economy, present significant cross-sell opportunities, or are focused on non-cyclical customer segments like Medical, Life Sciences, Environmental and Food and Beverage, which grow faster than the economy.

Total Strategic Products posted 10% organic growth for the quarter, coming off an 11% growth rate last year and an 11% compound annual growth rate over the last three years. Bulk Gas same-store sales were up 13% for the quarter as we continued to capitalize on enhanced production capabilities and a strong sales force. Our ability to engineer solutions to customers' needs has been particularly effective in winning new Bulk accounts.

Specialty Gases grew 15% for the quarter, driven by demand from key customers in Biotech, Life Sciences, Research and Environment Monitoring. This is an area where Airgas innovation has made a significant impact on the supply chain, as we have implemented production automation that improves quality and consistency while simultaneously reducing lead times and expense.

Our growth is further propelled by our ability to engineer solutions for Specialty Gas applications. Medical Gases moderated with 6% growth for the quarter, while our Hospital, Doctor-Dental and other segments continued to show strong growth, we experienced slowing related to home care providers and distributors due to uncertainty around Medicare bidding and the regulatory environment.

However, Congress recently passed a reversal of some of these programs delaying the implementation of some and canceling others. This should remove some ambiguity from the home care outlook, which we hope will stabilize the industry and return growth in this segment.

Rounding out the Strategic Products, CO2 and Dry Ice were up 9% for the quarter, and Safety was up 8%. Our Strategic Account business grew 14% for the quarter. Our national infrastructure, technical expertise and broad product offering creates real value for customers with multiple locations, and has enjoyed recent success with contractors who work multiple job sites.

Along with our Red-D-Arc welder rental business, our Construction division focuses on energy and infrastructure contractors. Both initiatives continue to post growth of 20% or more and are areas where Airgas is a clear market leader. Over two-thirds of our contractor business relates to Energy and Infrastructure Construction, which still has a very favorable growth outlook.

Radnor Private Label products also continued to outperform the market, posting more than 30% growth this quarter. Existing product lines continue to make strong contributions, as do product line expansions and the addition of Radnor brands in the acquired Linde, Merriam Graves and National Welders' stores.

Airgas Specialty Products is the business unit with product line adjacencies that complement our Distribution business, and it continues to post same-store sales growth in excess of 20%. The largest product line, Ammonia, suffered volatile cost increases and significant supply chain disruption, which depressed margins this quarter. We are implementing pricing actions and supply chain solutions to address these issues.

Our Refrigerant business, the smaller component of Airgas Specialty Products, has had two strong quarters in a row. The Refrigerant business has a seasonal dynamic during warmer weather, and our growing presence in the business enhanced our sales this year. One element of our Refrigerant strategy is to be a leader in reclamation, as production of various refrigerants will be phased out over the coming years, and the need for reclamation services will grow.

In addition, we want to be a leader in distribution, leveraging our footprint to reach refrigerant customers nationwide. We were excited to announce in June that we have a definitive agreement to acquire the assets and operations of Refron, a leading national distributor of refrigerants that also provides technical services and reclamation. They generated $93 million of revenue in 2007, and will be integrated with our existing Refrigerant business into a new company called Airgas Refrigerant. We expect to close the transaction in the coming weeks, and we believe this combination will prove to be a powerful growth engine as the Refrigerants business continues to develop.

Our acquisition strategy continues to contribute strategic value in many ways, as you can see from the chart on slide three. While fiscal '08 was a great year, fiscal '09 is off to a strong start as well. We have already completed or announced more than $130 million of acquired annual revenues, and our pipeline remains strong. The integration of the Linde Packaged Gas business continues to progress. There are still some infrastructure work in progress and migration of business to appropriate channels, but most of the heavy lifting is behind us, and we look forward to realizing the value of this acquisition for years to come.

Our first acquisition in '09 was A&N Plant, a European-based supplier of positioning and welding equipment for sale and rent. A&N operates in Europe, Asia and the Middle East, serving a diverse customer base in offshore and on-shore oil and gas, petrochemical, power generation, environmental, industrial plant and steel fabrication industries. The company joined Airgas as part of Red-D-Arc, and is an excellent addition as we expand into foreign markets.

We were also excited to expand our domestic offering for construction customers by acquiring Oilind Safety this quarter. Oilind is a leading provider of rental safety equipment and safety services, and it's a strong complement to our construction strategy.

As we've mentioned before, we continue to evaluate international opportunities, although our primary focus remains on domestic core and product line acquisitions through fiscal 2009. While we focused on growth initiatives to build sales and gross profit, we remain on schedule for delivering our $10 million goal of run rate savings from operating efficiencies this year. UT cylinder test savings are the largest component of savings to date, while distribution logistics initiatives are starting to take hold and produce meaningful results. Great programs, fuel management programs and fill plant efficiencies are also making a difference.

Another step in our pursuit of operational excellence relates to our enterprise systems. As we conveyed at our analyst meeting last year, we obtained rights to modify and implement Linde's SAP system that they use in their U.S. Bulk and Packaged Gas business. The system is a mature and stable platform that has an effective proprietary module for managing the cylinder side of our business, and the Linde team of experts who had developed and run the system became part of the Airgas team in the acquisition.

We ran the acquired business on this system from July through October last year while we converted to our legacy system. We then engaged a team of Linde and Airgas associates to evaluate the SAP system and compare it with our current systems. We believe the SAP system is the right choice for Airgas, offering better features, functionality and scalability.

Consequently, we've decided to move forward with a multi-year phased implementation. We have reached a license agreement with SAP, and we are in the process of evaluating systems integration firms. Once we select an integrator, our plan calls for at least 12 months of design and testing, followed by three to four years of phased implementation. Our decentralized operating structure, where our operating units share a common platform but different data sets, will allow us to convert one business unit at a time.

The process will minimize business disruption and convergence risk while building conversion expertise. We already have strong capabilities in system convergence due to our acquisition strategy, and we have performed multiple conversions from SAP to our existing system. So, we are favorably positioned to manage this transition with a minimal amount of disruption while creating maximum long-term value. Near-term operating costs of $0.03 to $0.05 per share are included in our fiscal '09 guidance. In the long-term, this is another step that will position us in our quest to be a world-class operation in all of our markets.

Finally, our 2008 annual report is now available on our website. The theme this year highlights our ability to make each one of our one million-plus customers feel like they are truly one in a million. This is also the central focus of our core strategy, too, whereby we will sharpen our ability to execute on the blocking and tackling fundamentals of outstanding customer service.

I have never felt as good about our business as I do today. We have the right strategies, the right operating model, and, most importantly, the right people to continue delivering exceptional results. We are seeing success in our market strategies, such as Energy and Infrastructure Construction, Biotech and Life Sciences and Medical Gases. We continue to engineer solutions for our customers, meeting needs with technology and innovation, enhanced supply chain capabilities, and our national footprint. Our sales and operations teams are the strongest they've ever been, and we will continue to gain strength together in pursuit of outstanding customer service.

Bob will now give us the financial review of the quarter.

BOB MCLAUGHLIN, SVP AND CFO, AIRGAS: Thanks, Peter, and good morning, everyone. We continue to execute well across the board and delivered strong results for our first quarter. To review our consolidated results, we'll start with slide number four. As I go through these results, please note we have GAAP reconciliations for various metrics on slides seven through nine.

First quarter earnings per diluted share grew 29% to $0.81 compared to $063 in the prior year. Sales increased 22% to 1.1 billion, reflecting strong performance in our strategic product categories and with acquisitions contributing 15% of the growth.

Same-store sales increased 7%, with gas and rent growing at 7% and Hardgoods at 6%. Overall, price contributed 4%, and volume accounted for 3% of our sales-store sales growth. Gas and rent represented about 59% of our sales mix, consistent with the prior year. Gross margin was 51.8%, a decrease of 30 basis points from last year. As peter mentioned earlier, the dip was primarily related to the pace of rising costs impacting our atmospheric gases and ammonia. We are addressing these with appropriate pricing actions and supply chain efficiencies.

Operating expense as a percent of sales was 35%, an improvement of 10 basis points over the prior year and 30 basis points sequentially. Operating income for the quarter was 135 million, up 21% over last year. Operating margin was 12.1% and essentially flat with both the prior year and sequentially.

Our Distribution segment operating margins continued to expand, increasing 50 basis points over the prior year, but the consolidated margins were negatively impacted in the quarter by accelerating costs and sales mix shifts in our Ammonia business, as well as power cost escalations at our ASUs.

There were 85 million weighted average shares outstanding for the quarter, up about a 1.5% from last year and flat sequentially. While we reinstated our share repurchase program in March this year, we did not buy back any shares during the first quarter. We currently have about $116 million of authorized spend available on our buyback program. Our return on capital was 13.3%, 10 basis points below the prior year, and up 10 basis points sequentially.

Due to the trailing 12-month nature of the calculation, the impact of the Linde package gas acquisition continues to be dilutive due to the impact of integration expense and the inclusion of their operating results for periods prior to achieving fully targeted synergies. Subsequent to full integration and synergy attainment, the acquisition will contribute returns consistent with the base business, which is generating strong improvement in return on capital.

Our primary working capital metrics held consistent with recent trends, with DSO at 48 days and inventory turns at 4.7. Free cash flow was 58 million compared to 28 million last year, driven by strong growth in operating cash flows and effective working capital management. We have generated free cash flow at or above $58 million for the last four consecutive quarters, which reinforces the strong cash flow nature of our business and the quality of our earnings. Adjusted debt at the end of the quarter was a little over $1.9 billion and roughly flat with last year. Our free cash flow was able to fully fund acquisition spending of 184 million over the past four quarters. Our adjusted debt to EBITDA ratio is now below three, comfortably in the middle of our target range of 2.5 to 3.5.

We were encouraged by our successful bond offering in June, which priced 400 million of 7 and an eighth senior suborned notes at par. The notes are due in 2018, and help to extend and balance our debt maturities and enhance our liquidity. The improvement in our credit profile was acknowledged by the rating agencies. S&P raised our rating to investment-grade at triple-B-minus, while maintaining our positive outlook. Moody's maintained their current rating and raised their outlook to positive.

Please turn to slide five, and we'll look at our segment results.

Distribution sales were up 22% to 927 million for the quarter, with same-store sales growth at 6%. Distribution, gas and rent was up 6%, and Hardgoods was up 6%, with price accounting for roughly two-thirds of the growth and volume one-third.

Gas and Rent represented approximately 54% of our Distribution segment sales mix, consistent with the prior year. Gross margin was 50.1%, an increase of 20 basis points over the prior year, as we have done an effective job at managing our cost and pricing disciplines in this escalating cost environment. Operating income in the distribution segment was 113 million, up 26% over the prior year. The related operating margin improved 50 basis points to 12.2%, primarily driven by the leverage on strong organic sales growth and operating efficiencies.

Sales for all other operations increased 29%, with same-store sales up 13%, driven by strong growth in refrigerants and ammonia sales, as well as CO2 and dry ice. Operating income was roughly flat for the quarter. Operating margin declined by 260 basis points, driven primarily by the rapid cost escalations in the ammonia business and power escalations in our ASUs. As previously mentioned, we are addressing these challenges with appropriate pricing actions and supply chain efficiencies. Sequentially, operating margins are up 110 basis points as seasonal CO2 and dry ice sales accelerated from the fourth quarter.

Please turn to slide six, "Capital Expenditures.

Year-to-date capital spending was 86 million versus 63 million last year. As a percentage of total sales, capital spending increased by 70 basis points, driven by major plant projects such as ASUs, CO2 plants, and post-acquisition spending. These type of expenditures are reported in the Other category of our capital. Excluding the Other category, capital spending as a percent of sales dropped 70 basis points from 4.4% last year to 3.7% this year.

Capital expenditures related to our SAP project are estimated to be in the range of 55 to 60 million, of which approximately 20 million will be spent this fiscal year. The two ASUs that we have under construction are progressing according to plan, with the Indiana plant scheduled to be online by January 2009 and the Kentucky plant online by April 2009. Plans to load both plants are ahead of schedule.

For the second quarter, we expect to earn between $0.82 and $0.84, representing a 22 to 25% increase over the prior year, excluding the $0.03 national welders charge and $0.04 of acquisition integration costs, both incurred in the prior year. We are increasing our full year guidance to $3.30 to $3.40 per diluted share, including an estimated $0.03 to $0.05 of expense associated with the SAP project that Peter outlined earlier. Our previous guidance did not incorporate these incremental SAP costs. We have assumed a continuation of the current U.S. economic environment in our guidance, with virtually no recovery in the latter part of the year.

I'll now turn it back to Jay to begin the Q&A portion of the call.

JAY WORLEY: That concludes our prepared remarks. As we begin the Q&A portion of the call, we ask that you limit yourself to two questions and one follow-up, and then get back in the queue if you have further inquiries. The operator will now give instructions for asking questions.

OPERATOR: Thank you, Mr. Worley. (OPERATOR INSTRUCTIONS.)

Bob Koort with Goldman Sachs.

AMY JAO, ANALYST, GOLDMAN SACHS: Good morning. This is [Amy Jao] sitting for Bob. Thanks for taking my questions.

My first question is related to the same-store sales growth trend for gas and rent versus the Hardgoods. Compared to last quarter, the same-store sales growth for your gas and rent looks decelerate, but the Hardgoods look accelerate. So, I was wondering, going forward, do you expect this similar trend into the next quarter?

PETER MCCAUSLAND: Right now, we're seeing a continuation of the same, and we're assuming that our sales will sort of be in the sort of mid single-digit ranges for the rest of the year.

AMY JAO: Okay. And then, I think PDI was essentially talking about a continuing softness with their Hardgoods business. Can you just give us a little bit of color why your Hardgoods has outperformed your competitor?

PETER MCCAUSLAND: Not really. I don't know what's driving their business. I think we're doing well because we have the broadest product service offering in the business and the infrastructure to support it on both the gas and the Hardgoods side. And a lot of customers are deciding to give their business to Airgas, and we're thankful for it in this moderating economic environment.

BOB MCLAUGHLIN: We certainly are also getting a lot of benefit from our safety products, which is part of our strategic product category, and we continue to see and are optimistic about our cross-sell opportunity with that product line.

AMY JAO: And my final question is what's the magnitude of the cost inflation during the quarter, because it looks like your pricing (inaudible) were a little bit behind the cost escalations. Do you expect additional pricing actions to outpace the cost increase that -- when we head into the second quarter?

PETER MCCAUSLAND: Well, the answer to -- yes. We expect our pricing actions will put us ahead of the curve again. The two areas where we had cost inflation that we didn't fully pass through were in our ASUs and our ammonia business. And the ammonia business, that's simple. Ammonia is a volatile agricultural commodity, and we expected one price increase. We got two. So, that's a more volatile business in our Distribution group, so we're going to -- you'll find situations where we're a quarter behind there or a quarter ahead, you know? It's harder to do that predict there.

At the ASUs, we had to buy through power, just like every other industrial gas producer in the United States, but most of our ASU output is sold through our regional company. And the bulked customers are customers of the regional companies, and those customers buy a lot of other things from us, too, in many cases. So, rather than hassle the customers with an immediate price increase on the bulk, we decided to wait until we were able to make a comprehensive price increase covering all of our products, which we announced and which will be effective August 1st. And yes, we intend to be ahead of the cost curve again as we implement that price increase.

AMY JAO: Okay, thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: Laurence Alexander with Jeffries & Company.

LAURENCE ALEXANDER, ANALYST, JEFFRIES & COMPANY: Good morning.

PETER MCCAUSLAND: Morning.

LAURENCE ALEXANDER: First, just a few small details. With the cost headwinds in the all Other segment, can you break out roughly how much of a headwind was tied to the ammonia versus the ASUs? Was it roughly equal, or --?

PETER MCCAUSLAND: It was equal.

LAURENCE ALEXANDER: Okay.

PETER MCCAUSLAND: Just about equal.

LAURENCE ALEXANDER: And then, when you -- how much -- with the acquisitions you've done so far this year, how much of a integration expense drag do you expect in the balance of the year that is embedded in your outlook?

BOB MCLAUGHLIN: Nothing significant from the acquisitions that we've done to date, Laurence.

LAURENCE ALEXANDER: Okay, perfect.

And can you just give us an update on the M&A pipeline, both in the U.S. and outside the U.S., and also tied to -- on the process chemical side?

PETER MCCAUSLAND: Yes. Well, I would say that our pipeline is full. Most of the opportunities represent core business acquisition opportunities right here in the U.S. or adjacencies, like in process chemicals, and then we're exploring a number of overseas opportunities. But, as I said, I think the vast majority of our acquisitions over at least this year would be -- will be domestic.

And it's hard to predict when you'll make acquisitions, but I can say that we're off to a good start this year and the pipeline's full, and we're optimistic that we're going to probably exceed the guidance that we had given, the 150 million acquired sales guidance that we hive every year.

LAURENCE ALEXANDER: Perfect. Thank you.

BOB MCLAUGHLIN: Sure.

OPERATOR: Kevin McCarthy with Banc of America Securities.

KEVIN MCCARTHY, ANALYST, BANC OF AMERICA SECURITIES: Yes, good morning. I was wondering if you could advise the volume and price split in your Hardgoods business, please?

BOB MCLAUGHLIN: It was roughly two-thirds price and one-third volume.

KEVIN MCCARTHY: Okay.

And if you look at some of the product lines within Hardgoods that you would consider leading indicators, maybe larger ticket welding equipment or on the consumable side welding wire, what are you seeing in June and the order book for July in terms of trends there?

PETER MCCAUSLAND: Well, sequentially, our equipment business, which is a capital item and usually foreshadows an increase in activity, actually improved. We're also seeing lots of -- which is unusual, given the economic environment, everybody's saying doom and gloom. We're also seeing a lot of interest in automation, and I think that's driven by a number of things.

One is it's hard to get skilled labor, and number two, people want to take the labor element out of production. Number three, automation has improved. But number four, I think it also reflects optimism on behalf of our metal fab customers that, yes, this is a slowing economy, but, overall, the metal fab business is faring relatively well, and we find that a lot of our customers are pretty optimistic.

KEVIN MCCARTHY: Okay.

And then finally, Peter, in the wake of the Refron deal, do you see other acquisition opportunities in refrigerants? And maybe you could elaborate a little bit on the long-term strategy and long-term opportunity, given the need for recycling, et cetera.

PETER MCCAUSLAND: Well, we do see other opportunities in refrigerants. They tend to be -- most of them would be smaller distribution-type companies in regions, but there are a couple other interesting opportunities, not just domestically. There's also opportunities in other parts of the world.

Refrigerants are going to be with us for a very, very long time. They're the kind -- very -- many, many of our industrial customers use refrigerants. Industrial and commercial customers use refrigerants. It's a hassle product. They want a reliable, reputable company handling them. There's an environmental play here because reclamation of distributors is -- distributors -- refrigerants is taking hold and is going to be a big business, and we have the reclamation capabilities, and we intend to be a big player in it.

So -- and returnable containers may very well become -- they should -- we should have returnable containers in this business. Whether we'll end up having them or not is another question, for the smaller ones. They are returnable for the larger one.

So, we think it's a great adjacency for us. We think it can become a rather large business, and we think it can be an international business as well as a domestic business. So, we're pretty excited about it.

KEVIN MCCARTHY: Great. Thank you very much.

PETER MCCAUSLAND: Sure.

OPERATOR: David Manthey with Robert W. Baird.

DAVID MANTHEY, ANALYST, ROBERT W. BAIRD: Hi, good morning.

PETER MCCAUSLAND: Morning.

DAVID MANTHEY: Morning.

I was wondering if you could talk about -- in the press release, you mentioned moderating economic environment, and that may just be a general question. But, Peter, you've already addressed a couple of the areas where you're seeing strength. Could you talk about any geographies or market verticals where you're seeing softening over the last quarter?

PETER MCCAUSLAND: Well, it's very hard to get a read on it, to tell you the truth. I read one regional company, and they say that metal fabrication is very strong. And then, you go to another regional company, and they say that small and medium metal fab customers are slowing down, but the large ones that -- customers that manufacture equipment for export or for infrastructure projects are still strong.

And then, you go and -- there's five new auto plants going into the United States, all foreign producers. There's a new rail car plant coming in, a new -- several new steel plants and things like that. So, it's very, very hard to get a read on it -- what's going on, but, when I say moderating, I'm saying we're coming off double-digit sales growth over the last few years. So, when you're only at 7%, it's moderating.

And I read the papers like everyone else and read about the credit crunch and residential construction -- by the way, which we have nothing to do with, practically -- and there is a disconnect between Wall Street and Main Street. Main Street is not that bad, but it's slower than it was two years ago.

DAVID MANTHEY: Got it. Okay. Thanks.

And then the second, is it my understanding that the distribution segment bore the burden of the electricity price increases at the ASUs? And then, as we look to the new price increases here August 1, do these not only recapture cost increases from other suppliers, but also would help alleviate transfer pricing and help margins back in your other operations segment?

PETER MCCAUSLAND: Exactly. We -- you know, the region companies are big buyers of product from our ASUs. They buy most of the product, most of the output. I think it's, like, high 80s percent. So, it's all in the house. We are raising our transfer prices to our distribution companies, and -- at the same time that the distribution companies are going to the market and getting price increases. And so, this is a comprehensive price increase designed to get us ahead of the curve. I think we're -- done a good job of this in recent years, and I'm expecting good results here.

DAVID MANTHEY: Great. Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: David Begleiter with Deutsche Bank.

DAVID BEGLEITER, ANALYST, DEUTSCHE BANK: Thank you. Good morning.

Peter, just on this August 1 price increase, how much, if any resistance, are you meeting, and what portion of your overall business do these price increases impact?

PETER MCCAUSLAND: The price increases impact most of our business. We're raising prices across the board in our distribution business, in our gas ops division. We're raising prices in ammonia, CO2, refrigerants. We're raising prices all over. The initial feedback has been good. Customers understand.

I wrote a letter to the customers this year, a three-page letter, and we put a lot of thought into it. We got a lot of input from our field people on this letter. And we explained in that letter that our three major inputs are electricity, which is about 70% of the cost of producing atmospheric gases and CO2, diesel fuel, because we run to Mars and back about three times a year, and steel.

And because the containers that we use to store and transport gases are all made of steel, and filler metals are almost 100% steel. And that those three commodities were in rapid inflationary escalation, and that we were under severe pressure, and that we needed to pass through these costs.

But, we also went on to explain in the letter what we were doing for our customers, and we explained the investments we're making in efficiency programs, in safety programs, emergency response and things like that, so that the customer wasn't just -- so we could explain to the customer that we were trying our best to keep prices as low as we possibly could. And the response has been very good to the price increase, the letter, and our people tend to execute pretty well.

Customers tend to understand, in a rising energy environment, that we need price increases. So -- and it's not over till it's over. You never know how well a price increase goes until a couple of months after, and there's always give-backs and things like that. And we're working hard to make sure that this is a very good price increase.

DAVID BEGLEITER: Understood.

And just on the two new ASUs, you mentioned the -- it's going well trying to fill them. When do you expect to have them filled, either before or after they begin operation?

PETER MCCAUSLAND: Well, the first one's going to be on-stream in December in New Carlisle, Indiana, and then the second one in Carrollton, Kentucky is April 2009. We have ramp-ups scheduled. We're ahead of both schedules. And -- but you mean when will they be operating at 88% capacity, which is kind of max for distribution group -- I mean for an ASU? Pretty soon after they're built, because we buy huge amounts of gas from third parties, and we'll be able to maximize those loads almost immediately.

DAVID BEGLEITER: Thank you very much.

OPERATOR: John Roberts with Buckingham Research Group.

JOHN ROBERTS, ANALYST, BUCKINGHAM RESEARCH GROUP: Morning.

PETER MCCAUSLAND: Morning.

BOB MCLAUGHLIN: Good morning.

JOHN ROBERTS: I wanted to compare the delayed price increase on the bulk customers with what you might do, say, if you didn't have a bulk relationship with some customers. So, for example, there are a lot of customers that buy bulk from Air Products, and you serve the packaged gas based on the acquisition you did a few years ago. I assume they got immediate price increases on bulk from Air Products, and you've held back, though, on your bulk customers. Why not treat them the same as they're getting when they've got a mixed mode of service?

PETER MCCAUSLAND: Well, first of all, I don't know if your assumption's correct or not. I don't know. But, I did note, when I read the transcript of the Air Products call, that they were a little behind the curve also in raising prices. But, what they do in prices is their business. It's just that our gas-air separation plants are in gas hobs, and then there's a transfer of pricing mechanism.

So, we have a little bit of a disconnect there, and we just felt like for -- it was only, like, $0.01. So, why disrupt a nationwide multi-product pricing initiative involving a lot more than the $0.01 or $1.3 million, whatever it was, to -- and race to get to the price increase? Our business is good. We knew we were going to have a good quarter and that we were going to hit the high end of the estimates. And so, we run the business for the business, and the numbers take care of themselves.

JOHN ROBERTS: Okay. I didn't realize it was as small as you've just made it out to be.

PETER MCCAUSLAND: Yeah.

JOHN ROBERTS: Secondly, did you quantify --?

PETER MCCAUSLAND: And it was mostly June, John.

JOHN ROBERTS: Okay.

Did you quantify how much the new incremental SAP cost would be for the current fiscal year?

BOB MCLAUGHLIN: Yes, $0.03 to $0.05 is our estimate.

JOHN ROBERTS: So, you were saying, had you not made this decision during the quarter to go after SAP, you might have raised guidance by another $0.03 to $0.05?

BOB MCLAUGHLIN: Well, we effectively did.

JOHN ROBERTS: Yes. Okay, thank you.

OPERATOR: Steve Byrne with Merrill Lynch.

STEVE BYRNE, ANALYST, MERRILL LYNCH: Hi, thank you.

Your mid-single digit forecast for same-store sales this year, does that apply to both gases and Hardgoods?

BOB MCLAUGHLIN: Yes.

STEVE BYRNE: And so, if we look back seven years ago when your -- the last time IP contracted year-over-year, your Hardgoods contracted sharply at that time, and obviously you're not expecting that this year. Is that a reflection of maybe market share gains that you are also getting in addition to the products mix that you talked about earlier?

PETER MCCAUSLAND: Well, part of it is pricing of steel. Part of it is we also don't expect non-residential construction to do what it did seven years ago when it fell negative at the same time IP fell negative. The outlook for our customers in infrastructure construction is very good. They have very -- historically large backlogs. And we have a rising price environment versus a falling price environment, and we're a very different company, and we didn't -- we bought Air Products back then on the down side as we were moving into further recession, and its sales were falling pretty rapidly at the time.

And so, there were a lot of reasons why we're more confident -- we are confident that we won't have a repeat of that, subject to no severe deterioration in the environment from here. We're assuming sort of no improvement, but now severe deterioration, either.

STEVE BYRNE: Okay.

And you reported some pretty robust sales growth in items like Radnor and safety products and so forth. Do you believe that you are gaining market share in some of those Hardgoods products well?

PETER MCCAUSLAND: Yes, we think we are gaining some market share, and we're also -- in the private label area, we're -- we bought a lot of companies, Linde and Merriam Graves, and then we merged National Welders into Airgas, and that's a lot of branches, a lot of distribution, Hardgoods distribution business that we can convert to Radnor.

And so, part of it's driven by that, and Radnor's tends to be a lower price solution for a lot of our customers. And that was actually one of the things that I highlighted in my letter that we were doing for our customers, having high quality but a lower priced solutions on the Hardgoods side.

STEVE BYRNE: And then just lastly, on your pricing, what portion of your contracts would you say you are able to implement a fuel surcharge rapidly versus a more formal price increase like you posted for August 1? Do you have that ability to push through fuel surcharges quickly?

PETER MCCAUSLAND: Yes, we do. First of all, we have fuel surcharges in place now, and they go up and down with the price of diesel fuel and as often as every two weeks I think now. So, we weren't complaining about the diesel fuel prices impacting our earnings because pretty much we're matching the revenue with the expense there.

The thing that -- where we were a little bit behind the curve was the electric power costs at our air separation plants, particularly in the month of June. So -- and we're attacking that with price increases.

STEVE BYRNE: Okay, I got you. Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: Mark Gulley with Soleil Securities.

MARK GULLEY, ANALYST, SOLEIL SECURITIES: Good morning, guys. Two questions.

Peter, at the risk of beating to death this last Linde price increase and how it relates to other products sold to large customers, forgetting about the policy taken thus far, on a go-forward basis, would it be your intent to continue to link the two, or would you segregate the two and more closely tie (inaudible) price increases to cost, as the majors do?

PETER MCCAUSLAND: Yes. Well, that's a good question, and those plants are in the gas op s segment, and they sell 90%-some of their output to the distribution segment. So, we're looking at segment analysis and reporting and seeing whether or not we've got it properly aligned. But, again, I think everybody's making too big of a thing here. This is $1.3 million, and it's going to be more than recouped through our pricing action, and we're going to get ahead of the curve.

And I think that going out once with a comprehensive price increase where the salesman has to go and talk to large customers about his bulk, about the cylinder gases, about the rent, and all at once is a much better situation in terms of effectiveness, and it is a better -- in terms of hassle factor for the customer.

MARK GULLEY: Okay.

Secondly, I want to explore the SAP conversion.

PETER MCCAUSLAND: Sure.

MARK GULLEY: Investors sometimes are understandably nervous about companies that undergo these things because, oftentimes, the benefits are delayed and the costs are greater than expected.

PETER MCCAUSLAND: Right.

MARK GULLEY: So, can you kind of walk us through why investors may not have to be nervous about your conversion?

PETER MCCAUSLAND: Well, I'll comment first, and then I'll let Bob comment because he probably has a different view. First of all, we have very high -- we have pretty high costs now. We maintain, like, 28 different data sets, and we're holding this system that was made for small companies together by -- with all kinds of extraordinary efforts. We also have a different system that's running our distribution centers, and the interface with them is working, but it's not as good as it could be if we were on one enterprise system.

So, number one, we're not going from a low cost to a high cost maintenance environment. In fact, we don't expect any significant increase in cost -- maintenance costs of our systems as a result of this.

Number two, we're really good at systems conversions. We do them all the time. We do them backwards and forwards and six ways to Sunday because we're an acquisition company and we've got a great team, and these people are just -- they're animals. They're so dedicated, and they get companies up and running over weekends. And that's really something remarkable when you consider how data-intensive our business is, with an average invoice of less than $200. And so, I think investors can take comfort from that.

Number three, we bought the SAP system when we bought the Linde Packaged Gas business. They had the -- it was running. We continued to run it for a number of months. We got the SAP team at Linde, which is a really bunch -- a good bunch of people who had developed the software and implemented it at Linde.

And then, the next item I would say is we tested it. We put a team together of about 150 people, and we tested the upgraded version of SAP with the cylinder gas -- or the cylinder control module that Linde had, and -- which is very good, and it worked perfectly. So, we tested -- the tests we ran were in our environment.

The next point I would say is that other companies in the distribution space, like Granger and Graybar have implemented SAP with great results. Linde runs SAP. Air Products runs SAP. So, we know it's good for the Gas business. And we think we've got a very favorable arrangement with SAP, and we hope we get a similar one with the integrator. So, no one was -- pushed back harder than I did on any kind of system change, but I'm convinced that the work that this team did and the recommendation they made are both good.

And I also would point out that the conversion process is going to be very easy because of the way we're organized, with 28 different data sets. Every one of our regional companies, every one of our operating units has a CIO, okay, and we can just go one at a time. And the first one probably won't be really smooth, but we may take the old Linde Packaged Gas business, or the recent companies that were -- they've got most of that business, like Great Lakes, and we might take them first because they've all been on SAP and they know how to run it.

And then, we develop teams to go to the second one, and our implementation skills get better and better as we go, and there's no danger in -- because we have all the translational programs from SAP to CU and back again, and to our data warehouse. So, there's not -- I think we've got it pretty well covered. I'm not really worried about it.

MARK GULLEY: Thank you.

OPERATOR: Edward Yang with Oppenheimer.

EDWARD YANG, ANALYST, OPPENHEIMER: Hi. Good morning.

PETER MCCAUSLAND: Good morning.

EDWARD YANG: Just following up on the earlier question about your Hardgoods performance versus PDI. What's your exposure to Canada? I would think that Ontario Manufacturing is fairly weak, and maybe some of your geographic exposure could account for the difference.

PETER MCCAUSLAND: Well, maybe. I don't know. We're in Western Canada. We're mostly gas. We have a Medical business out there, and we do have our core business out there, which is sort of half gas-half Hardgoods, but it's not that big.

So, Canada didn't really have a major impact on our Hardgoods performance. I don't know what kind of impact it has on [Praxa's] performance in Canada. But, Canada's Hardgoods, I would think, in Praxair's world are relatively small compared to their total North American Hardgoods. So, I wouldn't jump on that as an explanation for the differential, and there must be some other reason.

EDWARD YANG: Okay.

And just a couple of modeling questions. Your interest expense moved down this quarter, but the debt was flat relatively from the prior quarter. What drove that?

And second, your inter-company revenue elimination's been growing as a percentage. What's driving that? Is just -- is that a function of your greater bulk exposure?

BOB MCLAUGHLIN: The interest rate -- the decline in interest rate is a function of a relative decline in our variable interest rate from the fourth quarter into the first quarter, so that's the sole reason driving that. With respect to inter-company, yes, it is related to an increase in sales from our Bulk business to our Distribution business is the primary driver with respect to that.

EDWARD YANG: Thank you.

OPERATOR: Mike Harrison with First Analysis.

MIKE HARRISON, ANALYST, FIRST ANALYSIS: Hi, good morning.

PETER MCCAUSLAND: Morning.

BOB MCLAUGHLIN: Morning.

MIKE HARRISON: You had talked a little bit about the cost issues in the Ammonia business, but you also noted that there were some supply chain disruptions. Can you give us some more details on what happened there and what you're doing to remedy that situation?

PETER MCCAUSLAND: Yes.

Well, it's been hard to ship ammonia by rail because of new Homeland Security regulations and because the railroads are really, really busy right now, and they're making it more difficult. And we don't think this is going to last forever, but we've had to go to over-the-road trucking in some cases, and -- but we've got that pretty well straightened out and don't expect it to be -- have much impact, going forward.

MIKE HARRISON: So, should we expect the additional cost there to pretty much be confined to Q1, both on the supply chain side and the higher cost before they get offset by your price increase?

PETER MCCAUSLAND: Yes.

MIKE HARRISON: Okay.

And then, the other question I had was on kind of your M&A strategy broadly. Is there an increased focus on broadening your product offering through acquisitions at the expense of acquiring independent distributors, or are you really just capitalizing on whatever opportunities come your way?

PETER MCCAUSLAND: Well, we like to think we're pretty discriminating, and there are a lot of opportunities that come our way that no one ever hears about because they just go on by. We don't grab them.

But no, I wouldn't draw that conclusion. I would say that our principal emphasis is on our core business and acquisitions. About 45% of the market has $11 billion Packaged Gas and Welding market in the United States still held by independents. And we think there's lots of opportunity out there, and we have a bunch of those companies in our pipeline. So, that's going to be our primary focus.

However, we've done a good job building adjacencies over the last several years, and we continue to look for process chemical acquisitions, refrigerant acquisitions, we bought a couple of safety companies in the last 24 months. So, that will continue to be a focus of ours, and these adjacency capabilities really strengthen our platform. We have more to offer the customer. We can remove hassles from the customer's operations, and we can cross-sell all of these product lines back and forth.

So, it's -- those two things will be our principal focus through the fiscal year at least, and probably beyond. And then, we look -- we're also looking overseas at a few acquisitions.

MIKE HARRISON: All right. Thanks, Peter.

PETER MCCAUSLAND: Sure.

OPERATOR: Holden Lewis with BB&T.

HOLDEN LEWIS, ANALYST, BB&T: Thank you. Good morning.

PETER MCCAUSLAND: Morning.

HOLDEN LEWIS: Can you give us a little bit more color in terms of how the -- sort of the price pass-through through the ASU is done on distribution? I guess I'm curious is, if on the Other Gases side you were absorbing a lot of the cost (inaudible) and not passing those on as quickly as, clearly, you're going to in the future, were you being more aggressive on the gas Hardgoods side, so maybe those profits and that business was benefiting from the late pass-through on the other side, and maybe that would create a bit of a windfall in one quarter that maybe goes away next quarter? Any of that interplay in there, or were the gas Hardgoods (inaudible) slow just because they weren't seeing the price pass through from the ASUs?

PETER MCCAUSLAND: Well, first of all, let me address the Hardgoods. When you get a price increase from a vendor, you adjust the pricing in the computer. It's instantaneous, and that's pretty simple.

The gas thing was no big deal. We had to buy-through power during the month of June. It came in at about a million-three, or $0.01 a share higher than we expected. Instead of immediately changing the transfer price to our regional companies because, in our regional companies, we have managers who have to manage their costs and their prices and their businesses, we decided that we would absorb that in Gas Ops and raise prices when the regional companies went to their customers for their overall price increase.

So, you had that delay, and that's all it is, is a delay, and it's for the month of June and probably July, and then it'll be gone because our price increase will get us ahead of the curve, and you've got our guidance for next quarter. So, we feel like we'll be effective. And we don't think it was a complicated or ineffective way of handling it.

HOLDEN LEWIS: Okay, great. Thanks, guys.

BOB MCLAUGHLIN: Sure.

OPERATOR: And we have time for one more question.

Laurence Alexander with Jeffries & Company.

LAURENCE ALEXANDER: Hey, Peter, would you mind discussing what you're seeing in terms of the impacts of the current environment of -- demand environment and raw materials on competitor behavior, or your relative competitive strengths versus your competitors?

PETER MCCAUSLAND: Right.

Well, we still fight for business every day, and customers, especially customers for our products, are suffering because prices have moved up pretty rapidly. So, we're relying on our long-term relationships with our customers, the importance of our supply chain to our customers, and special services and safety and other things, emergency response special services that we provide the customers. And we hope that that will lead to an understanding of why we need these price increases.

I think the whole industry has been raising prices because they've had tremendous cost pressures on electricity, on diesel fuel and whatnot. So, we're not alone out there, and -- but still -- we still fight for customers every day, and it's not easy. There's plenty of competition out there, and we do the best we can. We make our pricing decisions based on our costs, and that's the way we operate. I don't know if -- is that responsive? There was a second part to the question that I thought --.

LAURENCE ALEXANDER: Well, I think -- I guess part of what I was just trying to touch on was are you seeing in some regions, either due to regulatory changes or competitors having trouble handling the raw material costs, is that making it easier for you, to some extent?

PETER MCCAUSLAND: No, we haven't really seen that except maybe with the Home Medical segment, which is one-third of our Medical Gas sales. And they've been under all kinds of regulatory uncertainty for now a long time. And it looks like some of the ambiguity has been lifted, and, hopefully, things will stabilize. The prices of home care companies have come back up, so that if -- market might be saying that it's (inaudible). So, that's the only area where we've had a group of customers under severe pricing pressures or other pressures that I know of.

LAURENCE ALEXANDER: Okay. Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: And that concludes our question and answer session. Mr. Worley, I'll turn things back over to you for any additional or closing remarks.

JAY WORLEY: Well, again, we thank you all for joining us today, and I will be available all afternoon for follow-up questions.

That concludes our call.

OPERATOR: And that does conclude today's conference. Thank you, everyone, for your participation.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** August 8, **2008**

**LANGUAGE: ENGLISH**

**TRANSCRIPT:** 072408at.**753**

**PUBLICATION-TYPE: Transcript**

Copyright 2008 ASC Partners L.L.C.

All Rights Reserved.

Copyright 2008 CCBN, Inc.

All Rights **Reserved.**

[Return to List](#cite_id_9)

FOCUS - 9 of 9 DOCUMENTS

FD (Fair Disclosure) **Wire**

July 24, 2008 **Thursday**

**Q1 2009 Airgas Earnings Conference Call - Final**

**LENGTH:** 9557 **words**

Corporate Participants

\* Jay Worley Airgas - Director of IR \* Peter McCausland Airgas - Chairman and CEO \* Bob McLaughlin Airgas - SVP and CFO

Conference Call Participants

\* Amy Jao Goldman Sachs - Analyst \* Laurence Alexander Jeffries & Company - Analyst \* Kevin McCarthy Banc of America Securities - Analyst \* David Manthey Robert W. Baird - Analyst \* David Begleiter Deutsche Bank - Analyst \* John Roberts Buckingham Research Group - Analyst \* Steve Byrne Merrill Lynch - Analyst \* Mark Gulley Soleil Securities - Analyst \* Edward Yang Oppenheimer - Analyst \* Mike Harrison First Analysis - Analyst \* Holden Lewis BB&T - Analyst

Presentation

OPERATOR: Good morning, and welcome to the Airgas First Quarter 2009 Earnings Conference Call. Today's call is being recorded at the request of Airgas. All participants will be in a listen-only mode until the question and answer session of the **call.**

For opening remarks and introductions, I will now turn the call over to Vice President of Communications and Investor Relations, Jay Worley. Please go ahead, sir.

JAY WORLEY, DIRECTOR OF IR, AIRGAS: Good morning, and thank you for attending our First Quarter Earnings Teleconference. Joining me today are Peter McCausland, Chairman and CEO, and Bob McLaughlin, Senior Vice President and CFO.

Our earnings press release was made public last evening, and is available on our website, as are the slides that accompany this teleconference. To follow along, please go to airgas.com, click on the "Investors" shortcut at the top of the screen, and then go to the conference calls and webcasts page.

During the course of our presentation, we will make reference to certain non-GAAP financial measures. Please note that reconciliations to the most comparable GAAP measures can be found in our earnings release, in the slide presentation, and on our website.

This teleconference will contain forward-looking statements based on current expectations regarding important risk factors which are identified in the earnings release and in our slide presentation. Actual results may differ materially from these statements, so we ask that you please note our Safe Harbor language. We'll take questions after concluding our prepared remarks, and we plan to end the teleconference by Noon Eastern Time.

Now, I'll turn the call over to Peter to begin our review.

PETER MCCAUSLAND, CHAIRMAN AND CEO, AIRGAS: Thanks, Jay. Good morning, and thank you all for joining us.

We are pleased to report record results for the first quarter 2009. By continuing to focus on our strategic growth initiatives, by maintaining discipline in our day-to-day operations, and by drawing from our expertise in integrating acquisitions, we produced strong sales and earnings growth in a moderating economic environment.

Turning now to the quarter's financial highlights, record earnings of $.81 per diluted share was at the top end of our expected range. We generated strong free cash flow of $58 million compared to only $28 million last year as we continued to produce high quality earnings. In addition, we continued to be presented with great investment opportunities in our core gas business, and our capital spending increased 35% to $86 million for the quarter.

Operating margin in the quarter was even with last year in part due to dilution from the Linde Packaged Gas business that we acquired in July 2007. Also, the pace of rising cost pressures from power, fuel and steel prices accelerated this quarter, and we are addressing those challenges with appropriate pricing actions and supply chain programs.

Sales in the quarter increased 22% to $1.1 billion, with acquisitions contributing 15% of the quarter's sales growth. Total same-store sales grew 7%, with price up 4% and volume up 3%. Gas and rent grew 7%, and hard good same-store sales grew 6%. For both Gas and Hardgoods, there was probably some benefit in the quarter from the timing of the Easter holiday, offset by some slow business conditions associated with the June floods in the Midwest. July sales seemed to suggest a continuation of the current environment.

Looking across our geographies, results were relatively uniform among our distribution companies. The Pacific Northwest, the Mountain West, Mid-South and Southwest regions posted the strongest gains related to investments in energy and petrochemical industries, as well as metal fabrication.

Energy and infrastructure construction remain strong, as do our customers in the Medical, Research, Environmental and Food and Beverage segments. Our Hardgoods same-store sales growth accelerated from the fourth quarter, partially driven by a hyper-inflationary steel market. Filler metals, which account for almost 25% of our Hardgoods business, are composed of virtually 100% steel, and have therefore undergone extreme cost escalation this year. Thus far, we have been able to keep up with these increases and maintain our margin.

Machine and Equipment sales growth was up sequentially in the quarter, still on the trajectory of slight year-over-year growth that we have seen in the past few quarters. Rising material costs are likely to drive Hardgoods prices higher in the coming months, and we expect to keep pace with those cost increases as they occur. Volume growth should continue to be positive.

Rising fuel, power and steel are also pressuring our gases and gas container costs, and we recently announced a gas and rental price increase effective August 1. Our pricing strategy has been designed to keep ahead of the cost curve, and the curve has steepened in recent months. Specifically, we experienced higher than expected power costs at many of our ASUs due largely to buy-through on power of interruptible contracts, which are common in the industry. Our Ammonia business was also impacted by two large cost increases while we anticipated only one. Together, these factors cost us a couple of pennies in the quarter.

Rather than react hastily, we elected to address the issue with one well-designed price increase so as to ensure effectiveness while minimizing distraction for our customers. Our strategic product categories of Bulk, Medical and Specialty Gases, Carbon Dioxide and Safety Products, make up about 40% of our revenue. They continued to outperform and drive growth, as many of these products grow faster than the overall economy, present significant cross-sell opportunities, or are focused on non-cyclical customer segments like Medical, Life Sciences, Environmental and Food and Beverage, which grow faster than the economy.

Total Strategic Products posted 10% organic growth for the quarter, coming off an 11% growth rate last year and an 11% compound annual growth rate over the last three years. Bulk Gas same-store sales were up 13% for the quarter as we continued to capitalize on enhanced production capabilities and a strong sales force. Our ability to engineer solutions to customers' needs has been particularly effective in winning new Bulk accounts.

Specialty Gases grew 15% for the quarter, driven by demand from key customers in Biotech, Life Sciences, Research and Environment Monitoring. This is an area where Airgas innovation has made a significant impact on the supply chain, as we have implemented production automation that improves quality and consistency while simultaneously reducing lead times and expense.

Our growth is further propelled by our ability to engineer solutions for Specialty Gas applications. Medical Gases moderated with 6% growth for the quarter, while our Hospital, Doctor-Dental and other segments continued to show strong growth, we experienced slowing related to home care providers and distributors due to uncertainty around Medicare bidding and the regulatory environment.

However, Congress recently passed a reversal of some of these programs delaying the implementation of some and canceling others. This should remove some ambiguity from the home care outlook, which we hope will stabilize the industry and return growth in this segment.

Rounding out the Strategic Products, CO2 and Dry Ice were up 9% for the quarter, and Safety was up 8%. Our Strategic Account business grew 14% for the quarter. Our national infrastructure, technical expertise and broad product offering creates real value for customers with multiple locations, and has enjoyed recent success with contractors who work multiple job sites.

Along with our Red-D-Arc welder rental business, our Construction division focuses on energy and infrastructure contractors. Both initiatives continue to post growth of 20% or more and are areas where Airgas is a clear market leader. Over two-thirds of our contractor business relates to Energy and Infrastructure Construction, which still has a very favorable growth outlook.

Radnor Private Label products also continued to outperform the market, posting more than 30% growth this quarter. Existing product lines continue to make strong contributions, as do product line expansions and the addition of Radnor brands in the acquired Linde, Merriam Graves and National Welders' stores.

Airgas Specialty Products is the business unit with product line adjacencies that complement our Distribution business, and it continues to post same-store sales growth in excess of 20%. The largest product line, Ammonia, suffered volatile cost increases and significant supply chain disruption, which depressed margins this quarter. We are implementing pricing actions and supply chain solutions to address these issues.

Our Refrigerant business, the smaller component of Airgas Specialty Products, has had two strong quarters in a row. The Refrigerant business has a seasonal dynamic during warmer weather, and our growing presence in the business enhanced our sales this year. One element of our Refrigerant strategy is to be a leader in reclamation, as production of various refrigerants will be phased out over the coming years, and the need for reclamation services will grow.

In addition, we want to be a leader in distribution, leveraging our footprint to reach refrigerant customers nationwide. We were excited to announce in June that we have a definitive agreement to acquire the assets and operations of Refron, a leading national distributor of refrigerants that also provides technical services and reclamation. They generated $93 million of revenue in 2007, and will be integrated with our existing Refrigerant business into a new company called Airgas Refrigerant. We expect to close the transaction in the coming weeks, and we believe this combination will prove to be a powerful growth engine as the Refrigerants business continues to develop.

Our acquisition strategy continues to contribute strategic value in many ways, as you can see from the chart on slide three. While fiscal '08 was a great year, fiscal '09 is off to a strong start as well. We have already completed or announced more than $130 million of acquired annual revenues, and our pipeline remains strong. The integration of the Linde Packaged Gas business continues to progress. There are still some infrastructure work in progress and migration of business to appropriate channels, but most of the heavy lifting is behind us, and we look forward to realizing the value of this acquisition for years to come.

Our first acquisition in '09 was A&N Plant, a European-based supplier of positioning and welding equipment for sale and rent. A&N operates in Europe, Asia and the Middle East, serving a diverse customer base in offshore and on-shore oil and gas, petrochemical, power generation, environmental, industrial plant and steel fabrication industries. The company joined Airgas as part of Red-D-Arc, and is an excellent addition as we expand into foreign markets.

We were also excited to expand our domestic offering for construction customers by acquiring Oilind Safety this quarter. Oilind is a leading provider of rental safety equipment and safety services, and it's a strong complement to our construction strategy.

As we've mentioned before, we continue to evaluate international opportunities, although our primary focus remains on domestic core and product line acquisitions through fiscal 2009. While we focused on growth initiatives to build sales and gross profit, we remain on schedule for delivering our $10 million goal of run rate savings from operating efficiencies this year. UT cylinder test savings are the largest component of savings to date, while distribution logistics initiatives are starting to take hold and produce meaningful results. Great programs, fuel management programs and fill plant efficiencies are also making a difference.

Another step in our pursuit of operational excellence relates to our enterprise systems. As we conveyed at our analyst meeting last year, we obtained rights to modify and implement Linde's SAP system that they use in their U.S. Bulk and Packaged Gas business. The system is a mature and stable platform that has an effective proprietary module for managing the cylinder side of our business, and the Linde team of experts who had developed and run the system became part of the Airgas team in the acquisition.

We ran the acquired business on this system from July through October last year while we converted to our legacy system. We then engaged a team of Linde and Airgas associates to evaluate the SAP system and compare it with our current systems. We believe the SAP system is the right choice for Airgas, offering better features, functionality and scalability.

Consequently, we've decided to move forward with a multi-year phased implementation. We have reached a license agreement with SAP, and we are in the process of evaluating systems integration firms. Once we select an integrator, our plan calls for at least 12 months of design and testing, followed by three to four years of phased implementation. Our decentralized operating structure, where our operating units share a common platform but different data sets, will allow us to convert one business unit at a time.

The process will minimize business disruption and convergence risk while building conversion expertise. We already have strong capabilities in system convergence due to our acquisition strategy, and we have performed multiple conversions from SAP to our existing system. So, we are favorably positioned to manage this transition with a minimal amount of disruption while creating maximum long-term value. Near-term operating costs of $0.03 to $0.05 per share are included in our fiscal '09 guidance. In the long-term, this is another step that will position us in our quest to be a world-class operation in all of our markets.

Finally, our 2008 annual report is now available on our website. The theme this year highlights our ability to make each one of our one million-plus customers feel like they are truly one in a million. This is also the central focus of our core strategy, too, whereby we will sharpen our ability to execute on the blocking and tackling fundamentals of outstanding customer service.

I have never felt as good about our business as I do today. We have the right strategies, the right operating model, and, most importantly, the right people to continue delivering exceptional results. We are seeing success in our market strategies, such as Energy and Infrastructure Construction, Biotech and Life Sciences and Medical Gases. We continue to engineer solutions for our customers, meeting needs with technology and innovation, enhanced supply chain capabilities, and our national footprint. Our sales and operations teams are the strongest they've ever been, and we will continue to gain strength together in pursuit of outstanding customer service.

Bob will now give us the financial review of the quarter.

BOB MCLAUGHLIN, SVP AND CFO, AIRGAS: Thanks, Peter, and good morning, everyone. We continue to execute well across the board and delivered strong results for our first quarter. To review our consolidated results, we'll start with slide number four. As I go through these results, please note we have GAAP reconciliations for various metrics on slides seven through nine.

First quarter earnings per diluted share grew 29% to $0.81 compared to $063 in the prior year. Sales increased 22% to 1.1 billion, reflecting strong performance in our strategic product categories and with acquisitions contributing 15% of the growth.

Same-store sales increased 7%, with gas and rent growing at 7% and Hardgoods at 6%. Overall, price contributed 4%, and volume accounted for 3% of our sales-store sales growth. Gas and rent represented about 59% of our sales mix, consistent with the prior year. Gross margin was 51.8%, a decrease of 30 basis points from last year. As peter mentioned earlier, the dip was primarily related to the pace of rising costs impacting our atmospheric gases and ammonia. We are addressing these with appropriate pricing actions and supply chain efficiencies.

Operating expense as a percent of sales was 35%, an improvement of 10 basis points over the prior year and 30 basis points sequentially. Operating income for the quarter was 135 million, up 21% over last year. Operating margin was 12.1% and essentially flat with both the prior year and sequentially.

Our Distribution segment operating margins continued to expand, increasing 50 basis points over the prior year, but the consolidated margins were negatively impacted in the quarter by accelerating costs and sales mix shifts in our Ammonia business, as well as power cost escalations at our ASUs.

There were 85 million weighted average shares outstanding for the quarter, up about a 1.5% from last year and flat sequentially. While we reinstated our share repurchase program in March this year, we did not buy back any shares during the first quarter. We currently have about $116 million of authorized spend available on our buyback program. Our return on capital was 13.3%, 10 basis points below the prior year, and up 10 basis points sequentially.

Due to the trailing 12-month nature of the calculation, the impact of the Linde package gas acquisition continues to be dilutive due to the impact of integration expense and the inclusion of their operating results for periods prior to achieving fully targeted synergies. Subsequent to full integration and synergy attainment, the acquisition will contribute returns consistent with the base business, which is generating strong improvement in return on capital.

Our primary working capital metrics held consistent with recent trends, with DSO at 48 days and inventory turns at 4.7. Free cash flow was 58 million compared to 28 million last year, driven by strong growth in operating cash flows and effective working capital management. We have generated free cash flow at or above $58 million for the last four consecutive quarters, which reinforces the strong cash flow nature of our business and the quality of our earnings. Adjusted debt at the end of the quarter was a little over $1.9 billion and roughly flat with last year. Our free cash flow was able to fully fund acquisition spending of 184 million over the past four quarters. Our adjusted debt to EBITDA ratio is now below three, comfortably in the middle of our target range of 2.5 to 3.5.

We were encouraged by our successful bond offering in June, which priced 400 million of 7 and an eighth senior suborned notes at par. The notes are due in 2018, and help to extend and balance our debt maturities and enhance our liquidity. The improvement in our credit profile was acknowledged by the rating agencies. S&P raised our rating to investment-grade at triple-B-minus, while maintaining our positive outlook. Moody's maintained their current rating and raised their outlook to positive.

Please turn to slide five, and we'll look at our segment results.

Distribution sales were up 22% to 927 million for the quarter, with same-store sales growth at 6%. Distribution, gas and rent was up 6%, and Hardgoods was up 6%, with price accounting for roughly two-thirds of the growth and volume one-third.

Gas and Rent represented approximately 54% of our Distribution segment sales mix, consistent with the prior year. Gross margin was 50.1%, an increase of 20 basis points over the prior year, as we have done an effective job at managing our cost and pricing disciplines in this escalating cost environment. Operating income in the distribution segment was 113 million, up 26% over the prior year. The related operating margin improved 50 basis points to 12.2%, primarily driven by the leverage on strong organic sales growth and operating efficiencies.

Sales for all other operations increased 29%, with same-store sales up 13%, driven by strong growth in refrigerants and ammonia sales, as well as CO2 and dry ice. Operating income was roughly flat for the quarter. Operating margin declined by 260 basis points, driven primarily by the rapid cost escalations in the ammonia business and power escalations in our ASUs. As previously mentioned, we are addressing these challenges with appropriate pricing actions and supply chain efficiencies. Sequentially, operating margins are up 110 basis points as seasonal CO2 and dry ice sales accelerated from the fourth quarter.

Please turn to slide six, "Capital Expenditures.

Year-to-date capital spending was 86 million versus 63 million last year. As a percentage of total sales, capital spending increased by 70 basis points, driven by major plant projects such as ASUs, CO2 plants, and post-acquisition spending. These type of expenditures are reported in the Other category of our capital. Excluding the Other category, capital spending as a percent of sales dropped 70 basis points from 4.4% last year to 3.7% this year.

Capital expenditures related to our SAP project are estimated to be in the range of 55 to 60 million, of which approximately 20 million will be spent this fiscal year. The two ASUs that we have under construction are progressing according to plan, with the Indiana plant scheduled to be online by January 2009 and the Kentucky plant online by April 2009. Plans to load both plants are ahead of schedule.

For the second quarter, we expect to earn between $0.82 and $0.84, representing a 22 to 25% increase over the prior year, excluding the $0.03 national welders charge and $0.04 of acquisition integration costs, both incurred in the prior year. We are increasing our full year guidance to $3.30 to $3.40 per diluted share, including an estimated $0.03 to $0.05 of expense associated with the SAP project that Peter outlined earlier. Our previous guidance did not incorporate these incremental SAP costs. We have assumed a continuation of the current U.S. economic environment in our guidance, with virtually no recovery in the latter part of the year.

I'll now turn it back to Jay to begin the Q&A portion of the call.

Questions and Answers

JAY WORLEY: That concludes our prepared remarks. As we begin the Q&A portion of the call, we ask that you limit yourself to two questions and one follow-up, and then get back in the queue if you have further inquiries. The operator will now give instructions for asking questions.

OPERATOR: Thank you, Mr. Worley. (OPERATOR INSTRUCTIONS.)

Bob Koort with Goldman Sachs.

AMY JAO, ANALYST, GOLDMAN SACHS: Good morning. This is [Amy Jao] sitting for Bob. Thanks for taking my questions.

My first question is related to the same-store sales growth trend for gas and rent versus the Hardgoods. Compared to last quarter, the same-store sales growth for your gas and rent looks decelerate, but the Hardgoods look accelerate. So, I was wondering, going forward, do you expect this similar trend into the next quarter?

PETER MCCAUSLAND: Right now, we're seeing a continuation of the same, and we're assuming that our sales will sort of be in the sort of mid single-digit ranges for the rest of the year.

AMY JAO: Okay. And then, I think PDI was essentially talking about a continuing softness with their Hardgoods business. Can you just give us a little bit of color why your Hardgoods has outperformed your competitor?

PETER MCCAUSLAND: Not really. I don't know what's driving their business. I think we're doing well because we have the broadest product service offering in the business and the infrastructure to support it on both the gas and the Hardgoods side. And a lot of customers are deciding to give their business to Airgas, and we're thankful for it in this moderating economic environment.

BOB MCLAUGHLIN: We certainly are also getting a lot of benefit from our safety products, which is part of our strategic product category, and we continue to see and are optimistic about our cross-sell opportunity with that product line.

AMY JAO: And my final question is what's the magnitude of the cost inflation during the quarter, because it looks like your pricing (inaudible) were a little bit behind the cost escalations. Do you expect additional pricing actions to outpace the cost increase that -- when we head into the second quarter?

PETER MCCAUSLAND: Well, the answer to -- yes. We expect our pricing actions will put us ahead of the curve again. The two areas where we had cost inflation that we didn't fully pass through were in our ASUs and our ammonia business. And the ammonia business, that's simple. Ammonia is a volatile agricultural commodity, and we expected one price increase. We got two. So, that's a more volatile business in our Distribution group, so we're going to -- you'll find situations where we're a quarter behind there or a quarter ahead, you know? It's harder to do that predict there.

At the ASUs, we had to buy through power, just like every other industrial gas producer in the United States, but most of our ASU output is sold through our regional company. And the bulked customers are customers of the regional companies, and those customers buy a lot of other things from us, too, in many cases. So, rather than hassle the customers with an immediate price increase on the bulk, we decided to wait until we were able to make a comprehensive price increase covering all of our products, which we announced and which will be effective August 1st. And yes, we intend to be ahead of the cost curve again as we implement that price increase.

AMY JAO: Okay, thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: Laurence Alexander with Jeffries & Company.

LAURENCE ALEXANDER, ANALYST, JEFFRIES & COMPANY: Good morning.

PETER MCCAUSLAND: Morning.

LAURENCE ALEXANDER: First, just a few small details. With the cost headwinds in the all Other segment, can you break out roughly how much of a headwind was tied to the ammonia versus the ASUs? Was it roughly equal, or --?

PETER MCCAUSLAND: It was equal.

LAURENCE ALEXANDER: Okay.

PETER MCCAUSLAND: Just about equal.

LAURENCE ALEXANDER: And then, when you -- how much -- with the acquisitions you've done so far this year, how much of a integration expense drag do you expect in the balance of the year that is embedded in your outlook?

BOB MCLAUGHLIN: Nothing significant from the acquisitions that we've done to date, Laurence.

LAURENCE ALEXANDER: Okay, perfect.

And can you just give us an update on the M&A pipeline, both in the U.S. and outside the U.S., and also tied to -- on the process chemical side?

PETER MCCAUSLAND: Yes. Well, I would say that our pipeline is full. Most of the opportunities represent core business acquisition opportunities right here in the U.S. or adjacencies, like in process chemicals, and then we're exploring a number of overseas opportunities. But, as I said, I think the vast majority of our acquisitions over at least this year would be -- will be domestic.

And it's hard to predict when you'll make acquisitions, but I can say that we're off to a good start this year and the pipeline's full, and we're optimistic that we're going to probably exceed the guidance that we had given, the 150 million acquired sales guidance that we hive every year.

LAURENCE ALEXANDER: Perfect. Thank you.

BOB MCLAUGHLIN: Sure.

OPERATOR: Kevin McCarthy with Banc of America Securities.

KEVIN MCCARTHY, ANALYST, BANC OF AMERICA SECURITIES: Yes, good morning. I was wondering if you could advise the volume and price split in your Hardgoods business, please?

BOB MCLAUGHLIN: It was roughly two-thirds price and one-third volume.

KEVIN MCCARTHY: Okay.

And if you look at some of the product lines within Hardgoods that you would consider leading indicators, maybe larger ticket welding equipment or on the consumable side welding wire, what are you seeing in June and the order book for July in terms of trends there?

PETER MCCAUSLAND: Well, sequentially, our equipment business, which is a capital item and usually foreshadows an increase in activity, actually improved. We're also seeing lots of -- which is unusual, given the economic environment, everybody's saying doom and gloom. We're also seeing a lot of interest in automation, and I think that's driven by a number of things.

One is it's hard to get skilled labor, and number two, people want to take the labor element out of production. Number three, automation has improved. But number four, I think it also reflects optimism on behalf of our metal fab customers that, yes, this is a slowing economy, but, overall, the metal fab business is faring relatively well, and we find that a lot of our customers are pretty optimistic.

KEVIN MCCARTHY: Okay.

And then finally, Peter, in the wake of the Refron deal, do you see other acquisition opportunities in refrigerants? And maybe you could elaborate a little bit on the long-term strategy and long-term opportunity, given the need for recycling, et cetera.

PETER MCCAUSLAND: Well, we do see other opportunities in refrigerants. They tend to be -- most of them would be smaller distribution-type companies in regions, but there are a couple other interesting opportunities, not just domestically. There's also opportunities in other parts of the world.

Refrigerants are going to be with us for a very, very long time. They're the kind -- very -- many, many of our industrial customers use refrigerants. Industrial and commercial customers use refrigerants. It's a hassle product. They want a reliable, reputable company handling them. There's an environmental play here because reclamation of distributors is -- distributors -- refrigerants is taking hold and is going to be a big business, and we have the reclamation capabilities, and we intend to be a big player in it.

So -- and returnable containers may very well become -- they should -- we should have returnable containers in this business. Whether we'll end up having them or not is another question, for the smaller ones. They are returnable for the larger one.

So, we think it's a great adjacency for us. We think it can become a rather large business, and we think it can be an international business as well as a domestic business. So, we're pretty excited about it.

KEVIN MCCARTHY: Great. Thank you very much.

PETER MCCAUSLAND: Sure.

OPERATOR: David Manthey with Robert W. Baird.

DAVID MANTHEY, ANALYST, ROBERT W. BAIRD: Hi, good morning.

PETER MCCAUSLAND: Morning.

DAVID MANTHEY: Morning.

I was wondering if you could talk about -- in the press release, you mentioned moderating economic environment, and that may just be a general question. But, Peter, you've already addressed a couple of the areas where you're seeing strength. Could you talk about any geographies or market verticals where you're seeing softening over the last quarter?

PETER MCCAUSLAND: Well, it's very hard to get a read on it, to tell you the truth. I read one regional company, and they say that metal fabrication is very strong. And then, you go to another regional company, and they say that small and medium metal fab customers are slowing down, but the large ones that -- customers that manufacture equipment for export or for infrastructure projects are still strong.

And then, you go and -- there's five new auto plants going into the United States, all foreign producers. There's a new rail car plant coming in, a new -- several new steel plants and things like that. So, it's very, very hard to get a read on it -- what's going on, but, when I say moderating, I'm saying we're coming off double-digit sales growth over the last few years. So, when you're only at 7%, it's moderating.

And I read the papers like everyone else and read about the credit crunch and residential construction -- by the way, which we have nothing to do with, practically -- and there is a disconnect between Wall Street and Main Street. Main Street is not that bad, but it's slower than it was two years ago.

DAVID MANTHEY: Got it. Okay. Thanks.

And then the second, is it my understanding that the distribution segment bore the burden of the electricity price increases at the ASUs? And then, as we look to the new price increases here August 1, do these not only recapture cost increases from other suppliers, but also would help alleviate transfer pricing and help margins back in your other operations segment?

PETER MCCAUSLAND: Exactly. We -- you know, the region companies are big buyers of product from our ASUs. They buy most of the product, most of the output. I think it's, like, high 80s percent. So, it's all in the house. We are raising our transfer prices to our distribution companies, and -- at the same time that the distribution companies are going to the market and getting price increases. And so, this is a comprehensive price increase designed to get us ahead of the curve. I think we're -- done a good job of this in recent years, and I'm expecting good results here.

DAVID MANTHEY: Great. Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: David Begleiter with Deutsche Bank.

DAVID BEGLEITER, ANALYST, DEUTSCHE BANK: Thank you. Good morning.

Peter, just on this August 1 price increase, how much, if any resistance, are you meeting, and what portion of your overall business do these price increases impact?

PETER MCCAUSLAND: The price increases impact most of our business. We're raising prices across the board in our distribution business, in our gas ops division. We're raising prices in ammonia, CO2, refrigerants. We're raising prices all over. The initial feedback has been good. Customers understand.

I wrote a letter to the customers this year, a three-page letter, and we put a lot of thought into it. We got a lot of input from our field people on this letter. And we explained in that letter that our three major inputs are electricity, which is about 70% of the cost of producing atmospheric gases and CO2, diesel fuel, because we run to Mars and back about three times a year, and steel.

And because the containers that we use to store and transport gases are all made of steel, and filler metals are almost 100% steel. And that those three commodities were in rapid inflationary escalation, and that we were under severe pressure, and that we needed to pass through these costs.

But, we also went on to explain in the letter what we were doing for our customers, and we explained the investments we're making in efficiency programs, in safety programs, emergency response and things like that, so that the customer wasn't just -- so we could explain to the customer that we were trying our best to keep prices as low as we possibly could. And the response has been very good to the price increase, the letter, and our people tend to execute pretty well.

Customers tend to understand, in a rising energy environment, that we need price increases. So -- and it's not over till it's over. You never know how well a price increase goes until a couple of months after, and there's always give-backs and things like that. And we're working hard to make sure that this is a very good price increase.

DAVID BEGLEITER: Understood.

And just on the two new ASUs, you mentioned the -- it's going well trying to fill them. When do you expect to have them filled, either before or after they begin operation?

PETER MCCAUSLAND: Well, the first one's going to be on-stream in December in New Carlisle, Indiana, and then the second one in Carrollton, Kentucky is April 2009. We have ramp-ups scheduled. We're ahead of both schedules. And -- but you mean when will they be operating at 88% capacity, which is kind of max for distribution group -- I mean for an ASU? Pretty soon after they're built, because we buy huge amounts of gas from third parties, and we'll be able to maximize those loads almost immediately.

DAVID BEGLEITER: Thank you very much.

OPERATOR: John Roberts with Buckingham Research Group.

JOHN ROBERTS, ANALYST, BUCKINGHAM RESEARCH GROUP: Morning.

PETER MCCAUSLAND: Morning.

BOB MCLAUGHLIN: Good morning.

JOHN ROBERTS: I wanted to compare the delayed price increase on the bulk customers with what you might do, say, if you didn't have a bulk relationship with some customers. So, for example, there are a lot of customers that buy bulk from Air Products, and you serve the packaged gas based on the acquisition you did a few years ago. I assume they got immediate price increases on bulk from Air Products, and you've held back, though, on your bulk customers. Why not treat them the same as they're getting when they've got a mixed mode of service?

PETER MCCAUSLAND: Well, first of all, I don't know if your assumption's correct or not. I don't know. But, I did note, when I read the transcript of the Air Products call, that they were a little behind the curve also in raising prices. But, what they do in prices is their business. It's just that our gas-air separation plants are in gas hobs, and then there's a transfer of pricing mechanism.

So, we have a little bit of a disconnect there, and we just felt like for -- it was only, like, $0.01. So, why disrupt a nationwide multi-product pricing initiative involving a lot more than the $0.01 or $1.3 million, whatever it was, to -- and race to get to the price increase? Our business is good. We knew we were going to have a good quarter and that we were going to hit the high end of the estimates. And so, we run the business for the business, and the numbers take care of themselves.

JOHN ROBERTS: Okay. I didn't realize it was as small as you've just made it out to be.

PETER MCCAUSLAND: Yeah.

JOHN ROBERTS: Secondly, did you quantify --?

PETER MCCAUSLAND: And it was mostly June, John.

JOHN ROBERTS: Okay.

Did you quantify how much the new incremental SAP cost would be for the current fiscal year?

BOB MCLAUGHLIN: Yes, $0.03 to $0.05 is our estimate.

JOHN ROBERTS: So, you were saying, had you not made this decision during the quarter to go after SAP, you might have raised guidance by another $0.03 to $0.05?

BOB MCLAUGHLIN: Well, we effectively did.

JOHN ROBERTS: Yes. Okay, thank you.

OPERATOR: Steve Byrne with Merrill Lynch.

STEVE BYRNE, ANALYST, MERRILL LYNCH: Hi, thank you.

Your mid-single digit forecast for same-store sales this year, does that apply to both gases and Hardgoods?

BOB MCLAUGHLIN: Yes.

STEVE BYRNE: And so, if we look back seven years ago when your -- the last time IP contracted year-over-year, your Hardgoods contracted sharply at that time, and obviously you're not expecting that this year. Is that a reflection of maybe market share gains that you are also getting in addition to the products mix that you talked about earlier?

PETER MCCAUSLAND: Well, part of it is pricing of steel. Part of it is we also don't expect non-residential construction to do what it did seven years ago when it fell negative at the same time IP fell negative. The outlook for our customers in infrastructure construction is very good. They have very -- historically large backlogs. And we have a rising price environment versus a falling price environment, and we're a very different company, and we didn't -- we bought Air Products back then on the down side as we were moving into further recession, and its sales were falling pretty rapidly at the time.

And so, there were a lot of reasons why we're more confident -- we are confident that we won't have a repeat of that, subject to no severe deterioration in the environment from here. We're assuming sort of no improvement, but now severe deterioration, either.

STEVE BYRNE: Okay.

And you reported some pretty robust sales growth in items like Radnor and safety products and so forth. Do you believe that you are gaining market share in some of those Hardgoods products well?

PETER MCCAUSLAND: Yes, we think we are gaining some market share, and we're also -- in the private label area, we're -- we bought a lot of companies, Linde and Merriam Graves, and then we merged National Welders into Airgas, and that's a lot of branches, a lot of distribution, Hardgoods distribution business that we can convert to Radnor.

And so, part of it's driven by that, and Radnor's tends to be a lower price solution for a lot of our customers. And that was actually one of the things that I highlighted in my letter that we were doing for our customers, having high quality but a lower priced solutions on the Hardgoods side.

STEVE BYRNE: And then just lastly, on your pricing, what portion of your contracts would you say you are able to implement a fuel surcharge rapidly versus a more formal price increase like you posted for August 1? Do you have that ability to push through fuel surcharges quickly?

PETER MCCAUSLAND: Yes, we do. First of all, we have fuel surcharges in place now, and they go up and down with the price of diesel fuel and as often as every two weeks I think now. So, we weren't complaining about the diesel fuel prices impacting our earnings because pretty much we're matching the revenue with the expense there.

The thing that -- where we were a little bit behind the curve was the electric power costs at our air separation plants, particularly in the month of June. So -- and we're attacking that with price increases.

STEVE BYRNE: Okay, I got you. Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: Mark Gulley with Soleil Securities.

MARK GULLEY, ANALYST, SOLEIL SECURITIES: Good morning, guys. Two questions.

Peter, at the risk of beating to death this last Linde price increase and how it relates to other products sold to large customers, forgetting about the policy taken thus far, on a go-forward basis, would it be your intent to continue to link the two, or would you segregate the two and more closely tie (inaudible) price increases to cost, as the majors do?

PETER MCCAUSLAND: Yes. Well, that's a good question, and those plants are in the gas op s segment, and they sell 90%-some of their output to the distribution segment. So, we're looking at segment analysis and reporting and seeing whether or not we've got it properly aligned. But, again, I think everybody's making too big of a thing here. This is $1.3 million, and it's going to be more than recouped through our pricing action, and we're going to get ahead of the curve.

And I think that going out once with a comprehensive price increase where the salesman has to go and talk to large customers about his bulk, about the cylinder gases, about the rent, and all at once is a much better situation in terms of effectiveness, and it is a better -- in terms of hassle factor for the customer.

MARK GULLEY: Okay.

Secondly, I want to explore the SAP conversion.

PETER MCCAUSLAND: Sure.

MARK GULLEY: Investors sometimes are understandably nervous about companies that undergo these things because, oftentimes, the benefits are delayed and the costs are greater than expected.

PETER MCCAUSLAND: Right.

MARK GULLEY: So, can you kind of walk us through why investors may not have to be nervous about your conversion?

PETER MCCAUSLAND: Well, I'll comment first, and then I'll let Bob comment because he probably has a different view. First of all, we have very high -- we have pretty high costs now. We maintain, like, 28 different data sets, and we're holding this system that was made for small companies together by -- with all kinds of extraordinary efforts. We also have a different system that's running our distribution centers, and the interface with them is working, but it's not as good as it could be if we were on one enterprise system.

So, number one, we're not going from a low cost to a high cost maintenance environment. In fact, we don't expect any significant increase in cost -- maintenance costs of our systems as a result of this.

Number two, we're really good at systems conversions. We do them all the time. We do them backwards and forwards and six ways to Sunday because we're an acquisition company and we've got a great team, and these people are just -- they're animals. They're so dedicated, and they get companies up and running over weekends. And that's really something remarkable when you consider how data-intensive our business is, with an average invoice of less than $200. And so, I think investors can take comfort from that.

Number three, we bought the SAP system when we bought the Linde Packaged Gas business. They had the -- it was running. We continued to run it for a number of months. We got the SAP team at Linde, which is a really bunch -- a good bunch of people who had developed the software and implemented it at Linde.

And then, the next item I would say is we tested it. We put a team together of about 150 people, and we tested the upgraded version of SAP with the cylinder gas -- or the cylinder control module that Linde had, and -- which is very good, and it worked perfectly. So, we tested -- the tests we ran were in our environment.

The next point I would say is that other companies in the distribution space, like Granger and Graybar have implemented SAP with great results. Linde runs SAP. Air Products runs SAP. So, we know it's good for the Gas business. And we think we've got a very favorable arrangement with SAP, and we hope we get a similar one with the integrator. So, no one was -- pushed back harder than I did on any kind of system change, but I'm convinced that the work that this team did and the recommendation they made are both good.

And I also would point out that the conversion process is going to be very easy because of the way we're organized, with 28 different data sets. Every one of our regional companies, every one of our operating units has a CIO, okay, and we can just go one at a time. And the first one probably won't be really smooth, but we may take the old Linde Packaged Gas business, or the recent companies that were -- they've got most of that business, like Great Lakes, and we might take them first because they've all been on SAP and they know how to run it.

And then, we develop teams to go to the second one, and our implementation skills get better and better as we go, and there's no danger in -- because we have all the translational programs from SAP to CU and back again, and to our data warehouse. So, there's not -- I think we've got it pretty well covered. I'm not really worried about it.

MARK GULLEY: Thank you.

OPERATOR: Edward Yang with Oppenheimer.

EDWARD YANG, ANALYST, OPPENHEIMER: Hi. Good morning.

PETER MCCAUSLAND: Good morning.

EDWARD YANG: Just following up on the earlier question about your Hardgoods performance versus PDI. What's your exposure to Canada? I would think that Ontario Manufacturing is fairly weak, and maybe some of your geographic exposure could account for the difference.

PETER MCCAUSLAND: Well, maybe. I don't know. We're in Western Canada. We're mostly gas. We have a Medical business out there, and we do have our core business out there, which is sort of half gas-half Hardgoods, but it's not that big.

So, Canada didn't really have a major impact on our Hardgoods performance. I don't know what kind of impact it has on [Praxa's] performance in Canada. But, Canada's Hardgoods, I would think, in Praxair's world are relatively small compared to their total North American Hardgoods. So, I wouldn't jump on that as an explanation for the differential, and there must be some other reason.

EDWARD YANG: Okay.

And just a couple of modeling questions. Your interest expense moved down this quarter, but the debt was flat relatively from the prior quarter. What drove that?

And second, your inter-company revenue elimination's been growing as a percentage. What's driving that? Is just -- is that a function of your greater bulk exposure?

BOB MCLAUGHLIN: The interest rate -- the decline in interest rate is a function of a relative decline in our variable interest rate from the fourth quarter into the first quarter, so that's the sole reason driving that. With respect to inter-company, yes, it is related to an increase in sales from our Bulk business to our Distribution business is the primary driver with respect to that.

EDWARD YANG: Thank you.

OPERATOR: Mike Harrison with First Analysis.

MIKE HARRISON, ANALYST, FIRST ANALYSIS: Hi, good morning.

PETER MCCAUSLAND: Morning.

BOB MCLAUGHLIN: Morning.

MIKE HARRISON: You had talked a little bit about the cost issues in the Ammonia business, but you also noted that there were some supply chain disruptions. Can you give us some more details on what happened there and what you're doing to remedy that situation?

PETER MCCAUSLAND: Yes.

Well, it's been hard to ship ammonia by rail because of new Homeland Security regulations and because the railroads are really, really busy right now, and they're making it more difficult. And we don't think this is going to last forever, but we've had to go to over-the-road trucking in some cases, and -- but we've got that pretty well straightened out and don't expect it to be -- have much impact, going forward.

MIKE HARRISON: So, should we expect the additional cost there to pretty much be confined to Q1, both on the supply chain side and the higher cost before they get offset by your price increase?

PETER MCCAUSLAND: Yes.

MIKE HARRISON: Okay.

And then, the other question I had was on kind of your M&A strategy broadly. Is there an increased focus on broadening your product offering through acquisitions at the expense of acquiring independent distributors, or are you really just capitalizing on whatever opportunities come your way?

PETER MCCAUSLAND: Well, we like to think we're pretty discriminating, and there are a lot of opportunities that come our way that no one ever hears about because they just go on by. We don't grab them.

But no, I wouldn't draw that conclusion. I would say that our principal emphasis is on our core business and acquisitions. About 45% of the market has $11 billion Packaged Gas and Welding market in the United States still held by independents. And we think there's lots of opportunity out there, and we have a bunch of those companies in our pipeline. So, that's going to be our primary focus.

However, we've done a good job building adjacencies over the last several years, and we continue to look for process chemical acquisitions, refrigerant acquisitions, we bought a couple of safety companies in the last 24 months. So, that will continue to be a focus of ours, and these adjacency capabilities really strengthen our platform. We have more to offer the customer. We can remove hassles from the customer's operations, and we can cross-sell all of these product lines back and forth.

So, it's -- those two things will be our principal focus through the fiscal year at least, and probably beyond. And then, we look -- we're also looking overseas at a few acquisitions.

MIKE HARRISON: All right. Thanks, Peter.

PETER MCCAUSLAND: Sure.

OPERATOR: Holden Lewis with BB&T.

HOLDEN LEWIS, ANALYST, BB&T: Thank you. Good morning.

PETER MCCAUSLAND: Morning.

HOLDEN LEWIS: Can you give us a little bit more color in terms of how the -- sort of the price pass-through through the ASU is done on distribution? I guess I'm curious is, if on the Other Gases side you were absorbing a lot of the cost (inaudible) and not passing those on as quickly as, clearly, you're going to in the future, were you being more aggressive on the gas Hardgoods side, so maybe those profits and that business was benefiting from the late pass-through on the other side, and maybe that would create a bit of a windfall in one quarter that maybe goes away next quarter? Any of that interplay in there, or were the gas Hardgoods (inaudible) slow just because they weren't seeing the price pass through from the ASUs?

PETER MCCAUSLAND: Well, first of all, let me address the Hardgoods. When you get a price increase from a vendor, you adjust the pricing in the computer. It's instantaneous, and that's pretty simple.

The gas thing was no big deal. We had to buy-through power during the month of June. It came in at about a million-three, or $0.01 a share higher than we expected. Instead of immediately changing the transfer price to our regional companies because, in our regional companies, we have managers who have to manage their costs and their prices and their businesses, we decided that we would absorb that in Gas Ops and raise prices when the regional companies went to their customers for their overall price increase.

So, you had that delay, and that's all it is, is a delay, and it's for the month of June and probably July, and then it'll be gone because our price increase will get us ahead of the curve, and you've got our guidance for next quarter. So, we feel like we'll be effective. And we don't think it was a complicated or ineffective way of handling it.

HOLDEN LEWIS: Okay, great. Thanks, guys.

BOB MCLAUGHLIN: Sure.

OPERATOR: And we have time for one more question.

Laurence Alexander with Jeffries & Company.

LAURENCE ALEXANDER: Hey, Peter, would you mind discussing what you're seeing in terms of the impacts of the current environment of -- demand environment and raw materials on competitor behavior, or your relative competitive strengths versus your competitors?

PETER MCCAUSLAND: Right.

Well, we still fight for business every day, and customers, especially customers for our products, are suffering because prices have moved up pretty rapidly. So, we're relying on our long-term relationships with our customers, the importance of our supply chain to our customers, and special services and safety and other things, emergency response special services that we provide the customers. And we hope that that will lead to an understanding of why we need these price increases.

I think the whole industry has been raising prices because they've had tremendous cost pressures on electricity, on diesel fuel and whatnot. So, we're not alone out there, and -- but still -- we still fight for customers every day, and it's not easy. There's plenty of competition out there, and we do the best we can. We make our pricing decisions based on our costs, and that's the way we operate. I don't know if -- is that responsive? There was a second part to the question that I thought --.

LAURENCE ALEXANDER: Well, I think -- I guess part of what I was just trying to touch on was are you seeing in some regions, either due to regulatory changes or competitors having trouble handling the raw material costs, is that making it easier for you, to some extent?

PETER MCCAUSLAND: No, we haven't really seen that except maybe with the Home Medical segment, which is one-third of our Medical Gas sales. And they've been under all kinds of regulatory uncertainty for now a long time. And it looks like some of the ambiguity has been lifted, and, hopefully, things will stabilize. The prices of home care companies have come back up, so that if -- market might be saying that it's (inaudible). So, that's the only area where we've had a group of customers under severe pricing pressures or other pressures that I know of.

LAURENCE ALEXANDER: Okay. Thank you.

PETER MCCAUSLAND: Sure.

OPERATOR: And that concludes our question and answer session. Mr. Worley, I'll turn things back over to you for any additional or closing remarks.

JAY WORLEY: Well, again, we thank you all for joining us today, and I will be available all afternoon for follow-up questions.

That concludes our call.

OPERATOR: And that does conclude today's conference. Thank you, everyone, for your participation.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER **DECISIONS.**]

**LOAD-DATE:** July 28, **2008**

**LANGUAGE: ENGLISH**

**TRANSCRIPT: 072408a1881753.753**

**PUBLICATION-TYPE: Transcript**

Copyright 2008 ASC Partners L.L.C.

All Rights Reserved.

Copyright 2008 CCBN, Inc.

All Rights **Reserved.**