Corrected Transcript

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West Pharmaceutical Services, Inc. (WST)

Q1 2015 Earnings Call

CORPORATE PARTICIPANTS

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Managing Director, Westwicke Partners LLC

Donald E. Morel, Jr.
Chairman

Eric Mark Green
Chief Executive Officer

William J. Federici
Chief Financial Officer & Senior Vice President

OTHER PARTICIPANTS

Rafael Tejada
Bank of America Merrill Lynch

Larry S. Solow
CJS Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the West Pharmaceutical Services First Quarter 2015 Results Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] This call is being recorded on behalf of West and is copyrighted material. It cannot be rerecorded or rebroadcast without the company's expressed permission. Your participation in this call implies your consent to our taping. If you have any objection, you may disconnect at this time.

And now, I'd like to turn today's meeting over to Mr. John Woolford from Westwicke Partners. Sir, you may begin.

John R. Woolford
Managing Director, Westwicke Partners LLC

Thank you, operator. Good morning, everyone, and welcome to West first quarter 2015 results conference call.

We issued our financial results this morning and the release has been posted in the Investors section on the company's website located at www.westpharma.com. If you have not received a copy of this announcement, please call Westwicke Partners at 443-213-0500 and a copy will be sent to you immediately.

Posted on the company's website under Investors on the Presentation Materials tab is a slide presentation that management will refer to in their remarks today. The presentation is in PDF format. Should you require a link to a free download of software that will enable users to view the presentation, is also available on the website.

I remind you that statements made by management on this call and in the presentation will contain forward-looking statements within the meaning of U.S. Federal Securities law and that are based on management's beliefs and assumptions, current expectations, estimates and forecasts. Many of the factors that will determine the company's future results are beyond the ability of the company to control or predict.

These statements are subject to known or unknown risks or uncertainties and therefore actual results could differ materially from past results and those expressed or implied in any forward-looking statement. For a non-exclusive list of factors which could cause actual results to differ from expectations, please refer to today's press release, as well as any further disclosures the company makes on related subjects in the company's 10-K, 10-Q, and 8-K reports.

In addition, during today's call, management may make reference to non-GAAP financial measures, including adjusted operating profit and adjusted diluted EPS. Reconciliations and limitations of the non-GAAP financial measures to the most comparable financial results prepared in conformity to GAAP are provided in materials accompanying this morning's earnings release.

At this time, I'd like to turn the call over to Don Morel, West Chairman. Don?

Donald E. Morel, Jr.

Chairman

Thank you very much, John. And good morning, everyone. Welcome to West first quarter 2015 earnings call.

I'm joined this morning by Bill Federici, our Chief Financial Officer; and Mike Anderson, our Treasurer and primary Investor Relations contact. I'm also pleased to welcome Eric Green to the West team, who as was announced on April 15, was recently appointed West next Chief Executive Officer.

Before Bill and I deliver our remarks on the quarter and our outlook for the year, I would like to introduce Eric to provide a little background on his experience of Sigma-Aldrich and initial thoughts on joining West.

Eric?

Eric Mark Green

Chief Executive Officer

Thank you, Don. And good morning, everyone.

Let me start by saying it's a privilege to be here today as a member of the West community. West has a storied 90 year history working alongside customers to provide innovative solutions that impact patients' lives around the world. As a chemist by training, I had the good fortune to develop my career in a scientific environment focused on enabling customers to improve the quality of life. And I'm excited to continue that same journey at West.

I spent 22 years with Sigma-Aldrich in multiple domestic and international markets that serve the research community, including pharmaceutical and biotech firms and also provided small molecule and biologic active pharmaceutical ingredients to those end markets. As a market leader, Sigma-Aldrich was always focused on delivering innovative solutions for its global customers, many of whom are also West customers. So it's safe to say that I spent my entire career in an environment that has much in common with West, a global market leader in its own space and a company focused on expanding, improving its products, technology and services to meet the changing needs of its customers.

Our products are directly involved in delivering care to patients tens of millions of times each day. That is an exceptional achievement, a big responsibility and exciting opportunity for West and for me. For the next two months, I will work with Don to ensure a smooth transition. I will update you on our results and the outlook at our next quarterly call in July.

For today, I want to conclude my brief remarks by thanking Don for his visionary leadership over the past 13 years as Chairman and CEO at West. As a result of his leadership, we are positioned well for a bright future. We have a solid management team, strong financial foundation to build upon, and long-term strategies that position us well to pursue new growth opportunities in new markets and geographies. I'm looking forward to working with the West team to continue our success into the future.

Now I'll turn the call back to Don.

John R. Woolford

Managing Director, Westwicke Partners LLC

Thanks, Eric, and again welcome on board.

Turning to our first quarter results, slide number three provides a high level summary of our financial performance during the quarter. The improving demand we experienced at the end of 2014 carried into the first quarter of 2015, especially for our high value product lines in the Pharmaceutical Packaging segment. Unfortunately, the true strength in our underlying business was masked by the relatively rapid strengthening of the dollar against the euro which started in late 2014 and carried through the first quarter.

Our reported revenues were $335.9 million versus $346.8 million in the prior year period. At constant exchange rates, sales actually grew by 6.5%, driven by demand for high value products in North America and Europe. Our gross margin improved by two full points to 32.7%. And adjusted net income grew by more than 21%, resulting in earnings per fully diluted share of $0.45, an 18.4% increase. Overall, a good start to the year with positive momentum as we begin the second quarter.

Slide number four lists operating highlights for the two business segments. Revenue growth in the Packaging Systems division benefited from stronger sales in North America, South America and Europe, increasing 7.7% versus a year ago at constant exchange rates. High value product sales grew just over 19%, driven by Envision, FluroTec, Westar and Daikyo RSV. A very favorable product mix, coupled with excellent operating efficiencies, lifted the segment's gross margin by 3.7 margin points to a segment record 39.1%. These factors, combined with prudent SG&A and R&D spending, generated an 18.5% increase in operating profit during the quarter despite the top line impact of currency.

Sales in the Delivery Systems segment were up 5.8% excluding currency effects and the disposition of a small tooling business in late 2014. Sales benefited from growth in both the contract manufacturing services business and our proprietary product line. Gross margin in the segment fell slightly, as some of our proprietary and contract manufacturing sales growth came from lower margin development agreement revenues, in addition to increased spending on new capacity.

Slide number five provides an update for several of our key expansion and device development programs. With the recent completion of our projects in India and China, the operations team in the Packaging Systems group is now focused on making sure we have sufficient capacity to meet the growing demand across our advanced high value closure system, such as Westar RU, FluroTec, Envision and NovaPure. This is in direct response to ever tightening regulatory and customer demand for ultra-clean particulate-free systems.

In our Kinston, North Carolina facility, we've added more than 20,000 square feet, entirely dedicated to clean lean manufacturing: B2 FluroTec coating, Westar washing and Envision final inspection. We are now in the validation phase and expect to begin shipping commercial products upon customer approval in the third quarter.

Demand for the recently launched NovaPure line has been strong. And as I outlined in our February call, we continue to expand the range of products we offer under the NovaPure brand. Final design work is being completed on the facility plan for Waterford, Ireland and we expect construction to begin in the next few months.

This facility will add much needed capacity for insulin packaging, in addition to a unique world-class finishing operation for elastomer packaging components. It is targeted to begin operations in the first quarter of 2018.

In the Delivery Systems group, we are in the process of expanding our Dublin facility to accommodate additional volumes for an existing program and one substantial new program we expect to commence production in mid-2016. We are also adding SmartDose capacity to our Scottsdale, Arizona site to support anticipated growth and demand during the latter part of 2015.

This expansion includes the ability to mold CZ cartridges for use in the SmartDose system. We were also notified by our customer that the 50mL CZ vial previously discussed for an existing product had received regulatory approval. We expect revenues at peak volumes for this product to be in the range of $4 million to $5 million per year. On another positive note, at a recent Advisory Committee Meeting, it was recommended that a new oncology product receive approval which is packaged using a 2mL CZ vial.

Overall, I'm very encouraged by the progress seen during the past few months on both our CZ and device platform programs.

As we look at the remainder of 2015, our order book remain strong, with a firm backlog of $352 million, 11% ahead for the same period in 2014, and more than half of which is comprised of high value products. While the second quarter is feeling inconsistent with our expectation, our visibility looking at the second half of the year is somewhat limited at this point.

Sales for the full year will again be driven by high value products from biologics, rising sales of proprietary devices and sample requirements for ongoing development programs utilizing CZ and SmartDose. Although the underlying organic growth of our business will be healthy, our full year sales and earnings will be subject to the currency headwind from the strong U.S. dollar.

For the full year in 2014, the euro-dollar exchange rate averaged $1.33, whereas, at the outset of 2015, that rate has been as low as $1.05 and is fluctuating in the range of $1.05 to $1.10. Assuming an exchange rate of $1.08 for the remainder of the year, currency translation would be expected to reduce sales by approximately $120 million and adjusted diluted EPS by $0.23 to $0.25 per share. On that basis, we estimate our 2015 adjusted earnings per share will fall in the range of $1.69 to $1.84.

For the longer term, we continue to believe the strong pipeline of biologic drugs and expanded indications for approved molecules will sustain HVP growth in the Packaging Systems group and present numerous opportunities for our portfolio of devices.

As we outlined in the February call, West is in an excellent position to capture high-value product and device sales for a substantial number of these new products. Indeed, virtually all of the new molecules that will be delivered by injection either recently approved or undergoing Phase III clinical trials in oncology, autoimmune disease, diabetes and infectious disease will utilize high-value West or Daikyo packaging systems for vial and prefilled syringe formats. And with the recent announcement of the FDA advisory panel meeting in June 9 and 10 on the anti-PCSK9 molecules, we expect these products could receive approval in the third quarter.

I would now like to turn the call over to Bill Federici for a more detailed discussion of our financial results. Bill?

William J. Federici

Chief Financial Officer & Senior Vice President

Thank you, Don. And good morning, everyone.

We issued our first quarter results this morning reporting first quarter 2015 earnings of $32.9 million or $0.45 per diluted share versus the $0.38 per diluted share we reported in the first quarter of 2014. There were no non-GAAP measures affecting earnings in either the current or the prior year first quarter. This quarter's reported 18% increase in diluted EPS was achieved despite the decline in the value of the euro which reduced our reported earnings by $0.08 per share.

Turning to sales, slide seven shows the components of our consolidated sales increase. Consolidated first quarter sales were $335.9 million, an increase of 6.5% over first quarter 2014 sales excluding exchange.

Packaging Systems sales increased 7.7% versus the same quarter of 2014 sales excluding unfavorable exchange. Sales price increases in Packaging Systems were approximately 1.1 percentage point. The favorable mix of products sold and volume increases contributed to the remainder of the sales increase, with our high value products increasing 19% versus the prior year first quarter.

High-value products sales represented 46% of Packaging Systems Q1 2015 sales. The rise in HVP sales was not unexpected and we believe should be considered in the context of the 7% decline experienced in last year's comparable first quarter which resulted from late 2013 customer inventory builds.

Importantly, for the full year 2015, we expect an 8% to 12% growth in high value product sales versus 2014. In short, although we enjoyed a strong growth, we do not believe our first quarter results represent any change in the long-term growth trajectory of our business.

Delivery Systems sales increased by 5.8% versus the prior year quarter excluding exchange and the effects of the 2014 sale of a contract tooling and services business. Crystal Zenith and SmartDose product sales were $5.4 million in the current quarter, approximately $1.6 million above the Q1 2014 levels. Overall, sales of proprietary products were $23 million or 24% of the segment's revenues in the quarter versus 22.5% in the prior year quarter.

As provided on slide eight, our consolidated gross profit margin for Q1 2015 was 32.7% versus the 30.7% margin we achieved in the first quarter of 2014. Packaging Systems first quarter gross margin of 39.1% was 3.7 margin points higher than the 35.4% achieved in the first quarter of 2014. The increase in gross margin is due to price increases, the favorable mix from higher high-value product sale and higher plant utilization, offset by normal inflationary increases in labor and overhead costs.

Delivery Systems first quarter gross margin declined by 2.2 margin points to 15.9% compared to the prior year quarter. The current quarter lower gross margin is primarily due to higher labor costs and increased overhead costs associated with new capability, supporting both proprietary and contract manufacturing programs and relatively lower margin development agreement sales.

As reflected on slide nine, Q1 2015 consolidated SG&A expense decreased by $1.2 million versus the prior year quarter. As a percentage of sales, first quarter 2014 SG&A expense was 16.4% versus 16.2% in the first quarter of 2014. Pension cost declined by $500,000, benefiting from the strong returns on plan assets in 2014.

Stock-based compensation and incentive costs were $2.2 million higher than a year ago, primarily as a result of the relative increase in our stock price during the current year's first quarter versus Q1 of 2014. Foreign exchange had a favorable effect reducing SG&A expenses by $2.9 million.

Slide 10 shows our key cash flow metrics. Operating cash flow was a negative $2 million in the current quarter, $11 million less in the prior year quarter, reflecting the voluntary $20 million pension contribution made in Q1 2015. We will continue to manage our pension plan with the goal of reducing the associated financial risk and operating volatility.

Our capital spending was $30.4 million in the current quarter. We expect to spend approximately $145 million to $160 million in capital in 2015. Approximately half of the planned capital spending is dedicated to new products and expansion initiatives, including approximately $25 million for the construction of our new Ireland facility.

Slide 11 provides some summary balance sheet information. Our balance sheet continues to be strong, and we're confident that our business will provide necessary future liquidity. Our cash balance at March 31 was $207 million, $48 million less than our December 2014 balance. In addition to the Q1 pension funding, approximately $17 million of the decrease is due to the foreign exchange impact on our overseas cash.

A large majority of our cash remains invested overseas and is generally not available to be repatriated to the U.S. without incurring tax consequences. Debt at March 31 was $330.7 million, $6 million less than at yearend. Our net debt to total invested capital ratio at quarter end was 11.6%.

Working capital totaled $328.5 million at March 31, $78 million lower than at yearend. The majority of the decrease is due to the reclassification to current liabilities of our Series B Euro notes which mature in February 2016.

Our backlog of committed Packaging Systems orders stands at $352 million at March 2015, 11% higher than at yearend excluding exchange and 15% higher than the March 2014 backlog ex currency. At March 2015, high value products represent 55% of the total backlog approximately 2% stronger than the March 2014 backlog. Based on our Q1 2015 results and our analysis of the orders on hand and the continuing unfavorable currency effects, we have narrowed our full year 2015 earnings guidance in this morning's release. That guidance is summarized on slide 12.

We have based our guidance on an exchange rate of $1.8 per €1. By contrast, our previous guidance was translated at $1.15 per €1 rate. As a remainder, each one penny strengthening of the dollar versus the euro results in approximately a $0.01 decrease in full year forecasted EPS as a result of translations.

For Q2, we expect a $0.07 to $0.08 currency translation headwind. In addition, our 2015 guidance excludes any impact from a devaluation of the Venezuelan bolívar as the company continues to operate primarily under the official exchange rate and excludes charges associated with our CEO succession.

I'd now like to turn the call back over to Don Morel. Don?

Donald E. Morel, Jr.

Chairman

Thank you very much, Bill.

Finally before we open the line for your questions, I'd like to simply say what an honor it has been for me to service shareholders, employees and customers of West these many years.

I have a deep rooted faith in the management team and people of West around the globe and every confidence that the company will continue to prosper under Eric's leadership. Now I look forward to being an engaged shareholder for many years to come.

We now look forward to answering your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question is from Rafael Tejada with Bank of America. Your line is open.

Rafael Tejada
Bank of America Merrill Lynch
Q

Hi. Good morning. And Don, it's been great working with you. Eric, looking forward to building relationship with you as well.

Donald E. Morel, Jr.
Chairman
A

Thank you, Rafael.

Rafael Tejada
Bank of America Merrill Lynch
Q

Welcome on board. So just a couple of quick ones for me. I guess I just want to start off with some bigger picture items just looking at what's going on, on the generics landscape further consolidation. Is that at all being contemplated in the guidance that's been put out today or is that at all impacting the way that you're thinking about the business?

Donald E. Morel, Jr.
Chairman
A

Yeah. The guidance is based on the demand pattern we see across all segments of our business. So the information we currently have at hand, it's baked in.

Rafael Tejada
Bank of America Merrill Lynch
Q

Okay. And looking at just a Q2 backlog composition. You have been noting strong trends there, a very favorable mix in terms of the high value product mix. But is there any change in terms of the burn that you're anticipating and what's baked in into that backlog?

Donald E. Morel, Jr.
Chairman
A

It'll probably happen in the latter part of the year, Rafael. We don't expect it in the second quarter. As Bill indicated in his remarks, the composition of the backlog is several percentage points higher in terms of the high value products. The only issue we see is that some of those sales are going to occur in higher tax jurisdiction. So we won't flow as much to the bottom line as we would like.

Rafael Tejada
Bank of America Merrill Lynch

Q

I see. Okay. And it sounded like in terms of the proprietary product and as it relates to CZ and SmartDose, the remarks in the prepared comments were very favorable in terms of that portfolio. But I still see that the company is still expecting about $15 million to $20 million proprietary products. Is there a potential upside to this figure, or it's just the nature of the business in terms of being conservative as to how the testing and product evaluation unfolds through the year?

Donald E. Morel, Jr.
Chairman

A

It's really the latter part. As we've talked about before, it's the unpredictability of the validation stability and clinical trials for those products. So we're going to continue to see some lumpiness. Yes, there is some upside, there may be some downside. We will comment on that quarter-to-quarter as best we see it. All I can say is where I sit, looking at the plan that we laid out, our performance against that plan has been very good. And my expectation is that over the next 12 to 24 months, we will see a ramp-up in both CZ activity and SmartDose activity. So we're very encouraged by both development agreements and by the potential for these systems in later stage clinical trials to go commercial.

William J. Federici
Chief Financial Officer & Senior Vice President

A

And Rafael, just one more clarification. Remember that these products, the customer controls the timing of all of that, whether it'd be stability testing, the application, the answering the regulator's questions, et cetera and then timing of the launch. So that's what makes it a little bit lumpy and a little bit less predictable.

Rafael Tejada
Bank of America Merrill Lynch

Q

Got it. Okay. And just a couple on the – just in terms of the P&L in the guidance. The R&D spend was a little bit lighter than what we had baked in, into our model. And so, I'm just thinking about how is West thinking about the R&D spend for the rest of this year?

Donald E. Morel, Jr.
Chairman

A

Yeah. It's going to unfold based on customer requirements. Really there are some areas where we can soften up a little bit as we look towards the end of the year, those are really the far out programs. There may be cause for us to ramp up that spending depending on how we see some of their trials unfolding as their requirement. So I wouldn't read anything into it other than we have the opportunity to cut a little bit and we will look at it quarter by quarter.

Rafael Tejada
Bank of America Merrill Lynch

Q

Okay. And a couple of more just on guidance. Just clarifying, maintain the 6% to 8% constant currency guidance but before you were saying the high end. So just want to make sure that nothing there has changed in terms of how you're looking at the business?

William J. Federici
Chief Financial Officer & Senior Vice President

A

Other than currency, that's really all the impact that we see. Everything else remains unchanged.

Rafael Tejada
Bank of America Merrill Lynch

Q

Okay. And on the bottom line, there is an incremental $0.05 hit from unfavorable FX. And I'm assuming the rest of it is related to the tax rate or is it also an impact from the mix?

William J. Federici
Chief Financial Officer & Senior Vice President

A

It's really the currency. Our previous guidance was at $1.15 Rafael and we gave this guidance at $1.08. And again, if you look at that, use that €0.01 to $0.01, €0.01 decrease in the value in euro versus the dollar over a full year, each one cent is about worth of $0.01 of EPS. So somewhere between $0.05 and $0.07 is what we think is the number.

For the first quarter of 2014, just as a reminder, we were at an actual exchange rate of $1.37 per euro. That same number is what we're expecting for Q2 in terms of what it actually was last year, was about $1.37 also. And so, using that same dollar rate, the differences in the second quarter as we've stated is somewhere between seven cents and eight cents of impact of currency.

Rafael Tejada
Bank of America Merrill Lynch

Q

Okay. That's helpful. Well, thank you for the questions. I'll jump back in queue.

William J. Federici
Chief Financial Officer & Senior Vice President

A

Great. Thanks.

Donald E. Morel, Jr.
Chairman

A

Thanks, Rafael.

Operator: [Operator Instructions] Our next question is from Larry Solow with CJS Securities. Your line is open.

Larry S. Solow
CJS Securities, Inc.

Q

Hi. Good morning.

William J. Federici
Chief Financial Officer & Senior Vice President

A

Good morning.

Larry S. Solow
CJS Securities, Inc.

Q

Don, I wish you best of luck as well. And I obviously knew the name but more respect and I wish you all the best.

Donald E. Morel, Jr.
Chairman

A

Thank you.

Larry S. Solow
CJS Securities, Inc.

Q

Just on the high-value products, I realize it was certainly an easy comp, but you still achieved pretty good growth there on the top line. Is the guidance for the full year bring you down to more of the normalized 10% to 12%, is that because you don't have a lot of visibility in the back half? So do you sort of choose to err on the side of conservatism or how do you look at that?

Donald E. Morel, Jr.
Chairman

A

Well, I think, there's a couple ways to look at it. The first of which is that we go back and look at trends over the past eight quarters roughly. And if you normalize the quarter-to-quarter numbers what we've seen is that 8% to 12% type of growth in those categories.

You may recall from the chart that we show in the investor presentation, you map that out over five years, our CAGR is in that range. And we know that we'll continue to see some lumpiness there simply by our customer's inventory strategies and by slight changes in demand in the marketplace.

The important takeaway is that we believe we will see low-to-mid double-digit growth in that product category for the foreseeable future and certainly the approvals as you look at the biologic pipeline coming through, bodes very well for sustained growth.

Larry S. Solow
CJS Securities, Inc.

Q

And I realized obviously the gross margin which was a phenomenal number obviously lifted by the high-value products. Did you guys expect it to be that high or was it even a little bit a surprise to you? How much lift you got from that?

Donald E. Morel, Jr.
Chairman

A

I think we were a little surprised by the total lift. But a large part of that is the analysis of the operating efficiencies which tend to flow through on a quarterly basis. You get a little bit of an indication month to month in the financials. But it just shows the quality of the job done by our guys in the operating facilities. They are just nailing it to the wall.

Larry S. Solow
CJS Securities, Inc.

Q

Absolutely. And does that – is there a possibility that – we've seen more benefit in the back of the year that you're not necessarily building in?

William J. Federici
Chief Financial Officer & Senior Vice President
A

Yes.

Donald E. Morel, Jr.
Chairman
A

It's little difficult to predict Larry because as you know we get the seasonality in Q3 with the European plant shutdowns and PM that's done in the Americas. And with the pharma guys, demand will be a little bit lumpy in the fourth quarter because they're going into the end of the year. So it's our traditional pattern. I wouldn't read anything with that gross margin into flowing through the rest of the year other than solid first quarter and we'll manage the business appropriately going forward.

William J. Federici
Chief Financial Officer & Senior Vice President
A

And Larry also comps get a little tougher as the year goes on, if you remember.

Larry S. Solow
CJS Securities, Inc.
Q

Right. Absolutely. Just on the PDS side of it, obviously some impact on margin, I think it's mostly high-class type problems with increased development activity and expand initiative capacity. Do you expect some of these issues, it seems like you do expect a little bit of them to subside as the year progresses and the margins come back a little bit. Is that...

Donald E. Morel, Jr.
Chairman
A

Yeah. Again, a lumpy picture, back to Rafael's question with the timing of orders for things like CZ and SmartDose, as well as the other proprietary products. The issue in the quarter was that we had a fairly large amount of development revenue recognized which does not carry very high margins. As our percentage of proprietary products increases, you will see the impact of that mitigation.

Larry S. Solow
CJS Securities, Inc.
Q

Got you.

William J. Federici
Chief Financial Officer & Senior Vice President
A

And Larry, we did provide some guidance for the full year on the margin and you can see that margin is roughly equivalent or slightly higher than last year's margin for PPS.

Larry S. Solow
CJS Securities, Inc.
Q

Right. Okay. Great, appreciate it. Thanks a lot.

Donald E. Morel, Jr.
Chairman
A

Thanks, Larry.

William J. Federici
Chief Financial Officer & Senior Vice President

A

Thanks, Larry.

Operator: [Operator Instructions] And I'm not showing any further questions. I now like to turn the call back over to Mr. Morel for closing remarks.

Donald E. Morel, Jr.
Chairman

Thank you very much, operator. And thank you everyone for your time this morning. We look forward to speaking with you again on our second quarter results in the latter part of July. Thank you.

Operator: Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. Everyone have a good today.