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PRESENTATION

Operator

Good day, and welcome to the ESCO First Quarter 2018 Earnings Conference Call. Today's call is being recorded. With us today are Vic Richey, Chairman and CEO; Gary Muenster, Vice President and CFO. And now to present the forward-looking statement, I would like to turn the call over to Kate Lowrey, Director of Investor Relations. Please go ahead.

Kate Lowrey - *ESCO Technologies Inc. - Director of IR*

Thank you. Statements made during this call regarding the amounts and timing of 2018 and beyond EPS, adjusted EPS, adjusted EBITDA, EBITDA, EBIT, EBIT margin, growth, noncash depreciation and amortization from recent acquisitions, tax rate and benefits of the new tax bill, repatriation of foreign cash, profitability, sales, cash flow, orders, success of new products, success in completing additional acquisitions, planned cost reduction activities and other statements, which are not strictly historical, are forward-looking statements within the meaning of the safe harbor provisions of the federal securities laws.

These statements are based on current expectations and assumptions, and actual results may differ materially from those projected in the forward-looking statements due to the risks and uncertainties that exist in the company's operations and business environment, including, but not limited to, the risk factors referenced in the company's press release issued today, which will be included as an exhibit to the company's Form 8-K to be filed. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition, during this call, the company may discuss some non-GAAP financial measures in describing the company's operating results. A reconciliation of these measures to their most comparable GAAP measures can be found in the press release issued today and found on the company's website at www.escotechnologies.com under the link Investor Relations.

Now I'll turn the call over to Vic.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Thanks, Kate. Good afternoon. As noted in the release and as Gary will describe in more detail, I'm pleased with the way we started the year, as our Q1 adjusted EPS came in at the top half of our guidance range and our orders and cash flow were well above our November expectations.

As reflected in our Q1 results, ESCO realized significant benefits from the recently enacted tax bill. We expect to see ongoing EPS and cash flow benefits driven by these lower rates.

Now I'll turn it over to Gary for his financial comments.

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

Thanks, Vic. I'm also pleased with our Q1 results on both the GAAP and adjusted basis. Given the large GAAP EPS impact of the onetime gain resulting from the true-up of our deferred tax liabilities netted against the GAAP P&L charges related to accumulated foreign earnings and cash repatriation charges, I will focus my commentary in Q1 and for the full year on an adjusted EPS and adjusted EBITDA basis. These are more relevant measures of our operating performance when compared to expectations and to prior year.

Before I comment on the Q1 details, I'll recap the raising of our full year EPS outlook, as noted in the release, to help reconcile this to our November view. At the start of the year and before anyone could estimate the impact of the then pending tax reform narrative, we set our original financial goals on a GAAP basis and centered our discussion of expected operating performance around EBITDA, which at the start of the year is expected to be in the range of $141 million to $143 million, reflecting an increase of 15% to 17% over prior year.

We also set our full year EPS guidance on a GAAP basis, reflecting a range of $2.30 to $2.40 a share, with Q1 expected to come in between $0.28 and $0.33 a share. We also described the timing of several large project-related items that were impacting our first half results compared to prior year's first half, which were driving our back half weighting.

Given Q1's onetime tax reform benefit and the noncash items resulting from our recent M&A activities, coupled with the announced cost reduction actions we're taking in USG and Filtration to improve ongoing earnings and cash flow, our GAAP reporting for 2018 becomes a bit less comparable. So we'll continue to focus on adjusted EBITDA and adjusted EPS operating results consistent with how we reported in fiscal '17.

As noted in the release, we are raising our GAAP EPS to $3.55 to $3.65 a share, and we're raising our adjusted EPS to $2.65 to $2.75 a share. And we feel at this point, it's prudent to maintain our adjusted EBITDA expectations.

Now touching on a few of the financial highlights in Q1. We reported an adjusted EPS of $0.33 is at the top end of our guidance. This was led by stronger-than-expected performance in Filtration and USG, with Test and Technical Packaging reporting generally on plan.

Sales exceeded expectations by $8 million, with all 4 operating segments reflecting these gains. With the clear leaders being Doble and Vanguard, compared to prior year, sales increased $27 million with $18 million of the increase coming from acquisitions and $9 million or 6% being organic.

We reported $24 million of EBITDA in the quarter, which drove this EPS to the high end of our range. And cash flow from operating activities was $18 million, also well above expectations. And this was driven by strong cash collections across the company. This cash flow allowed us to pay down debt by $15 million and reinforced our view that our significant cash generating capabilities over the balance of the year as well as our credit capacity and available liquidity have us well positioned to continue to execute our strategy. Additionally, while still being quantified, we're confident that our lower U.S. federal tax rates going forward will allow us to generate a meaningful amount of additional cash flows as a result of our lower tax liabilities.

We plan to repatriate a significant amount of the $30 million of foreign cash on hand at December 31 to pay down current debt. That's realizing a favorable interest rate arbitrage and lowering our leverage ratio from the current 2.1.

And finally, entered orders were over $200 million in Q1, reflecting a book-to-bill of 1.5x, an increasing backlog by $27 million or 7% from the start of the year. Test orders were $58 million, on top of last year's $200 million, which brought their backlog to $136 million at 12/31. This provides us confidence in our ability to achieve the back half of the year financial commitments they've made.

Turning to our guidance for the balance of the year, the short answer is this. We remain on track to meet our financial commitments for the balance of the year, and we feel that we have sufficient protection and contingencies to protect us from any unforeseen risks. Additionally, I'm confident that our current backlog and program delivery profile supports this outlook. I'll be happy to address any specific questions when we get to the Q&A. And now, I'll turn it back over to Vic.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Thanks, Gary. As we entered fiscal '18 and we spoke last, I was confident that all our businesses were in solid financial condition with solid growth opportunities. Standing here today, I continue to feel the same confidence. And seeing our Q1 performance, I feel we're well positioned to deliver our projected results.

While we're not immune to challenges, but with that said, I strongly believe the breadth and diversity of our end markets and the specific niches in which we operate in provide us with the protection to mitigate a lot of these pressures.

I like the position we're in across our various businesses and anticipate that we can achieve our longer-term stated growth rates. As noted in the release, our second quarter EPS is lighter than anticipated, as a couple of large programs previously projected in Q2 will now be completed in the second half of the year. These include a ship set Navy valves that had their customer acceptance date pushed to Q3 and a couple of large chamber projects in tests, which have a different delivery profile than originally planned.

Additionally, in USG, our fiscal Q2 ending March 31 represents the first quarter for the budget spending for a majority of our customers. And therefore, historically, this calendar quarter tends to be the lowest spending quarter for utilities within the year.

I'll provide a few specific thoughts or comments on the individual businesses. In Filtration, we continue to expect solid results in '18, and I remain comfortable with our outlook for 6% to 7% growth in adjusted EBITDA in the segment compared to prior year.

All of our served markets remain strong, as the Virginia Class sub program continues on track, commercial aerospace backlog continues to grow, Mayday's MRO market is showing early strength and our space programs led by SLS continue to progress nicely.

Our Technical Packaging group's future continues to improve as a result of our scale and leadership positions across several growth markets and geographies. Our domestic performance and outlook are very strong as we recently extended our KAZ program through 2020 and have numerous multiyear programs now in backlog or soon to be entered.

In USG, we delivered solid performance in Q1 led by Doble and Vanguard. We'll continue to see lower solid growth opportunities across the global platform, including hardware, software and services. Our rep and distributor network rationalization is essentially complete. And through this process, we've identified several meaningful operational and financial benefits where we can reduce USG's operating costs and expand future margins.

Through these cost reduction initiatives, we plan to take a charge in Q2 of approximately $2 million to $3 million. Considering the annual cost savings from these actions are meaningful, the payback is essentially 1 year. At Test, we beat our Q1 sales plan, hit our profit targets and remain committed to our 13% EBIT margin expectations for the year.

Q1 orders were a highlight of Test performance again, as we booked nearly $60 million in new business, have not seen a slowdown in Q2 and January was a very strong order month.

I'm also pleased to see the diversity of the end markets where we're winning this new business. In Q1, for example, we booked large orders for satellite testing facilities, automotive related to antenna test facilities, electric vehicle motor testing chambers in China and several large projects related to the developing 5G market.

So in summary, I continue to feel good about the growth opportunities we have across all of our businesses and see tangible avenues for additional growth in future years. Regarding M&A, the pipeline remains robust and we have several opportunities in process, which would supplement the Filtration and utility segments. Acquisitions remain a key component of our ability to meet our longer-term growth targets. We certainly have the balance sheet capacity to do more M&A, and we will remain disciplined in our approach. Our focus remains constant, to continue to improve our operational performance and to execute on our growth opportunities both organically and through acquisitions.

I'll now be glad to answer any questions you have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Sean Hannan with Needham & Company.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

So I want to see if I could dig into 2 areas for USG. First, want to see if we could get perhaps a little bit more detail in terms of the momentum that you're seeing with new products, knowing we typically hit this and this is something that you touched on a little bit earlier. But if it's possible to get a little bit more of an explicit understanding of what's driving incremental dollars, and perhaps if there's a way to rank order, what's pushing that then within USG group, that would be the first question I have for you tonight.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

So looking at specific new products, I mean, the Doble universal controller, we call it DUCe, we continue to have a lot of success with that. We had a big year with that last year, I think, momentum is remaining continuing this year. We introduced a new kind of high-end tester last year than M7000. And so that is getting good traction so far this year. So those are the 2 primary ones, the Doble itself and then, of course, the other thing, which is really helping us with the growth this year is the addition of the new businesses with both Vanguard and then NRG. They're providing good growth opportunities as well as Morgan Schaffer. So we did have a bigger arsenal I guess, if you will, as well as making some significant investments at Doble, which are really paying the benefits. And we'll continue to do that. I mean, you're in that type of business, you never kind a get to declare victory. It's just you're going to keep upgrading products as you have the opportunity. And that's something we'll continue to do to make sure we stay ahead of the competition.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Okay. That's helpful. And then as a follow on, within the USG group, provide some commentary in terms of NRG product deliveries being delayed, partly as a consequence of the ambiguity around tax reform. How do we think about the timing of that layering in here, either F2Q and forward here in '18, not sure if I had heard that detail on the call.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Yes, it was interesting. I mean, like immediately after tax reform passed, people understood what was in there, the orders really picked back up. So we don't think it's going to have a meaningful impact during the year. There will be some -- but fortunately, the management team there said, okay, we're going to be a little short there, so we've got to do something about it. So we did some cost trimming there to make sure that we're able to hold our margins. So this is not a long-term issue. It really and quite honestly kind of got us by surprise, because the first 2 months of the quarter were pretty strong from an order perspective. And then we saw really the break set, and as we dug into it, figured out there were some real concerns by customers that some of the incentives were going to go away. Once they didn't, the order activity picked right back up.

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

And Sean, to put some numbers around that profile that Vic was alluding to with the kind of January -- December slowdown there, did start picking back up in January. But from a quarterly revenue profile as that lays out, obviously, you don't book an order and ship it the next week. So in Q1, in the actuals, we did about $8.5 million of revenue at NRG and it goes up a little bit in Q2 to about $9 million, $9.2 million. But then in Q3, that would jump to around $12 million. And in Q4, it's up around $14 million. So that profile that you see there is where you see the little pause in the order book in December, relaunches in January and then the products at about a 60- to 90-day delivery profile on the back end of that. So going from $8.5 million to $14 million and the fourth quarter profile should give you a little bit of understanding of why the back half weighting is the way it is.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Okay. And that's actually helpful, Gary, because it segues into last question I've got for you for the moment. When we think about that back end of the year, now we have kind of the profile, the first half set up. We think about the back end, 3Q versus 4Q. How should we think about what's remaining there in terms of the allocation, third quarter to fourth quarter revenues, earnings profile? Any general sense of how that might look?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

Yes, and it follows along with the revenue. Obviously, when you get that kind of incremental revenue up there, you are covering the fixed cost pretty substantially. So the $8.5 million, that's a $32 million, $33 million annualized profile. And that's not how the company is built. It's $40-something million. And so when you put the back half -- I'm sorry?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Please (inaudible).

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

Okay.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Yes, I was looking in terms of aggregate across segments.

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

(inaudible) Okay. Now you know how the USG's profile (inaudible). Okay. so if you look across the platform within Filtration, it moves up as it has in the past, in the back half of the year, because we have the large shipments at VACCO relative to the Virginia Class and then at Westland. We won that program on the SLT. And you have the revenue shipping in the back there. So Q4 will be very strong in Filtration. The packaging business has a little bit of seasonality. So it's going to be up in the back half. KAZ, as it has over the last 5 or 6 years, it's biggest quarter will be Q4. So if you look at the profiles from last Q4 to this, we'll be up a little bit in revenue, which will pull the profit through. And then consistent with the energy conversation, the entire USG profile continues to support that weighting in the back half with again Q4 being the most dominant. So there is a lot of generalities, but I think you can kind of get a flavor as to: a, why we have confidence in the back half; and because most of the things are in backlog, and as you look at the fixed cost, we are lowering them. So as the revenue comes across at a higher level, you win even bigger than you have in the past.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

So for second half, revenue split between third quarter, fourth quarter, is it kind of 40% then 60%?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

I'd say Q3 to Q4, Q4 is about 10% higher than Q3 on revenue. So if you profile it off of where we started at 120, I'm sorry, 173, you move up a little bit in Q2 and then substantially in Q3 and then 10% higher than Q3 as you migrate to Q4 for all those reasons I just indicated.

Operator

Our next question comes from the line of Drew Lipke with Stephens.

Andrew Jay Lipke - *Stephens Inc., Research Division - Research Analyst*

So with Westland and VACCO, do you expect to see any maybe incremental timing delays or shipment delays just as a result of the ongoing continuing resolution? Is there any risk there to the back half of the year in your opinion?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Well, we already assumed that in our forecast. It's a frustrating thing to say the least, but we kind of assumed that, that was going to continue throughout the year. So if they do get their act together and turn back on, we might be able to have a little acceleration, but we're certainly not counting on that.

Andrew Jay Lipke - *Stephens Inc., Research Division - Research Analyst*

Okay. So any...

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

I should also say -- I mean, really where that impacts is really just at Westland. It really doesn't have an impact at VACCO for the most part, because those are going on submarines. Those things have been scheduled for a long time. So we've been delivering those even through this time period. So really that risk that we have is at Westland, and we think we've captured that in the forecast we have out there.

Andrew Jay Lipke - *Stephens Inc., Research Division - Research Analyst*

Okay. That's helpful. And then in Filtration and in looking at aerospace and commercial aerospace there, can you talk about the trends you're seeing on both the commercial OEM side and then on the commercial aftermarket? I think you kind of called out strength in the aftermarket and the orders there?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Yes, I'd say there's not really any change from what we've seen over the past year or so. The buying remains solid. I mean, so much of that is in backlog that we really don't have a lot of impact there. The only place we've seen anything is schedule moves around a little bit on our A350, but I think generally is playing out as proposed. But the other thing is we are having some strength, as we mentioned either, I don't remember, is in that press release or the script here earlier, but the MRO market at Mayday is picking up some there. So we're seeing some aftermarket growth there, which is obviously good. And it's not something they were really involved in that much prior to our acquisition of them, but we're really seeing some good activity there.

Andrew Jay Lipke - *Stephens Inc., Research Division - Research Analyst*

And on A350, I know it's an important platform for you, there's been some kind of mixed commentary; through the channel. So I'm talking about destocking associated with that program. Others are talking and pointing to the fact that we're stepping up to a rate of 10 per month at the end of '18. What are you guys seeing specifically on that platform?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Yes. I think they're generally on track now. I mean, it's been a little bit of a rocky road getting there. But it looks like -- and the other thing I remember is they buy our product pretty far in advance with more long-lead item. So we don't think there's been issue on that project, and it will be pretty conservative in this year in our forecast as well.

Andrew Jay Lipke - *Stephens Inc., Research Division - Research Analyst*

Okay. And then overall in Technical Packaging, sales were up 11% there, good performance in the quarter. Can you kind of elaborate on what that was attributable to and then kind of the outlook for the remainder of the year within packaging?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

I think that we could -- on that, we split up into 2 conversations: 1 on the domestic side and 1 on the international side. We're seeing a disproportionate share of strength in the domestic side. As Vic mentioned, the KAZ program got renewed. So that's really going well. So that added a little bit to the contribution. We won 4, 5 reasonably sizable for that business. $1.5 million to $2.5 million is a good size contract. So we've picked up some new business over the last 1.5 years that we had been in pursuit of for a year before that. And so we're starting to see that coming through. So I'd say, of that, the increase you see there, it's a little bit more heavily weighted domestically, so the legacy tech business. And then within the European side of the business, at Plastique, which we bought 1.5 years, 2 years ago, we see nice strength there. There is some additional medical stuff coming through. We built a new clean room, very state-of-the-art in the U.K. We're seeing volumes increasing there. And the investment we made in the plant expansion last year, we're seeing some of the volumes come through there. So that's sort of that increase you see there, it's about 60%-40% domestic to international, so we're pleased to see that growth.

Andrew Jay Lipke - *Stephens Inc., Research Division - Research Analyst*

And I think usually, that's kind of a GDP plus type of growth business. I mean, should we see something accelerated above the GDP growth this year? Or how should we think about that?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

I think for this year, that's probably the right way to think about it, because if you remember, in the November conversation, where we had a razor company over there at Gillette, kind of internally or insourced their packaging to try to compete with the mail order folks and that sort of thing, the Internet folks. And so we had a little headwind there, but we're still showing growth. And that's why, I say, as you look forward on the medical side, I think our medical device and our medical and pharmaceutical kind of groupings are going to grow faster than GDP. But this year, I'd hold it at GDP just as a little bit of headwind that we had, by the comparable downturn in the Gillette business this year that we talked about in November.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

If you remember, when we bought that business, one of the primary reasons we did -- or really 2 primary reasons. One was to get into Europe, because we didn't have a presence there. And the other was to get in the medical business. And then there's more profitable than our underlying business. So it's one of those little chicken and the egg things. That you know we're going to medical customers saying, we want your business and trust us we're going to build something so that we can build it, and so what we had to do was go ahead and put the facility in place, clean room in place to be able to support those customers. And now that we've done that, we're starting to get a lot of interest. And I think we won maybe 3 medical jobs there so far. And we think that over time will accelerate and improve profitability in that business as well.

Operator

(Operator Instructions) Our next question comes from the line of Jon Tanwanteng of CJS Securities.

Unidentified Analyst

It's, [Pete Lucas] for Jon. You said it was -- you mentioned it earlier, talking about still trying to quantify in terms of the tax benefits. But any more detail you can give us on the onetime tax benefit for the quarter?

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

Well, I'd say, if you look back at our year-end 10-K or in the annual report there, we had a substantial deferred tax liability. And so without getting into the accounting side of it, the liability gets revalued from roughly 35% down to 25%. And the reason it's 25%, with us being a September 30 year-end, we have kind of a unique application of the effective rate, because it's 35% for Q1 and it's 21% for Q2, 3 and 4, and it's weighted by number of days. And so our headline rate, if everything was equal, would be 24.5% this year, because of that Q1-- because they signed it basically effective January 1. So what's nice is that as you go into next year, you step that down to kind of a blended 21 statutory number is 21 and you got the pluses and minuses around that. So we'll get one more little take of that, but we won't get the onetime item, it will become the effective rate going forward, because what we did in Q1 here on the true-up is mark that down or adjusted it down with a favorable benefit to the 21%. So the big onetime item is done. And then the go-forward way to think about it is, for the back half or back three-fourths you know at 24.5% with some other 1% or 2% around it. And then as you go into next year, the effective rate as a going comparable concern there, moves closer to 21%. So we'll get another favorable and that's cash and earnings favorability as we step into '19 as well.

Unidentified Analyst

Very helpful. And in terms of the run rate for cost reductions you're getting from USG and PTI, are those separate from acquisition synergies?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Yes. I mean, that would be -- that's just because we're going to have to take some costs out or have that ability as a result of some of the consolidation we'll have underway. So that's in addition to what we're getting from synergies.

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

And to tie that off, if you remember, we announced exiting one of the industrial markets at PTI, one of the lower margin businesses we have. Unfortunately, there's going to be some people that have to be severed there and have some equipment disposed of and things like that. So that is really a function of exiting a lower-margin business that we announced in that segment of the business that we announced in November. So it's cleaning up behind that.

Unidentified Analyst

Great. Helpful. And as far as the tech business, any impact you're seeing from the flu season: Last time this happened, I think, you saw a bit of a bump. Is that something you're seeing and you're incorporating that into expectations?

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

We really have not seen anything there. I think we see that that's going to be a little later in the year because of the restocking, because they buy these things pretty far in advance. And so unfortunately, I don't think they've burned through them all yet, but that's something we may see in the next couple of months as they burn their inventory down.

Unidentified Analyst

And last one from me. The book-to-bill in the Test segment was pretty great at 1.55x. How should we think about that on a forward basis? I know you mentioned momentum continuing there and just any thoughts on that.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

I wouldn't count on it being quite that high every quarter, but they've had a really good run. I mean, a lot of it has been where you see them above a 1.0 is usually onetime. It's usually some of the larger jobs. As I mentioned, we've got some real success over the past 15 months of landing some of these larger jobs. There seems to be a lot of activity out there between defense contractors with the EV market in China is really strong, some of the automotive opportunities. And so there's been a number, an EMP job. We won EMP job earlier this year -- earlier this month, I should say. So it's been nice and strong. And 5G, of course, is the other one where a lot of people, because that impacts everybody from the chip manufacture to the device manufacturers to carriers. And so as that rolls out over the next couple of years, we think we'll be very successful there.

Gary E. Muenster - *ESCO Technologies Inc. - Executive VP, CFO, Principal Accounting Officer & Director*

Yes. And let me add some of math around the optics of the ratio. The orders are going to still be kind of strong, but now you start getting -- the denominator starts shipping. And so all the stuff that we have in backlog, so you're going to see a pretty significant sales ramp. So you're still going to see dollars of orders that look strong, but you're going to see -- in Q3 to Q4, you're going to see an inverse relationship, because you're shipping the stuff you have. So your sales are going to be greater than your orders because of the back half profile. So the math of the ratio will be below one in the back half, but the dollars to dollars will still be very attractive.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

I think people don't understand. It's a little more insight into how this stuff rolls out. I mean, not only the second half of the year, but a lot of these larger jobs will actually be delivered in '19. So I'm obviously happy about the impact it's going to have on '18. But the real thing I'm happy about it, it gives us some protection going into '19. And it's not like we're done entering orders. So I think we'll have a good strong year this year, but a lot of these big projects that I kind of detailed earlier, the majority of that work ships in the next year.

Operator

I'm showing no further questions at this time. I would like to turn the call back over to Vic Richey, the company's Chairman and CEO, for closing remarks.

Victor L. Richey - *ESCO Technologies Inc. - Chairman, President & CEO*

Okay. Well, thanks, everybody, for calling in today and I look forward to talking to you in the next call.

Operator

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