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ESE - Q1 2015 Esco Technologies Inc Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the ESCO first-quarter 2015 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 2015 and beyond EPS, EBIT, tax rate, future growth, profitability and revenue, margin, sales, market share, product development, acquisitions, capital allocation strategy, corporate costs, 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 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 the 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.

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

Thanks Kate, and good afternoon. Before I give my perspective on the quarter, I'll let Gary go over a few financial highlights.

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Thanks, Vic. Consistent with the theme of the last five or six quarters, and certainly since the sale of Aclara, our financial goals have been well-defined, and are as follows: Execute on our financial plan, deliver solid earnings results that meet or exceed expectations, position the Company for sustainable long-term earnings growth, enhance our focus on returns, and follow our capital allocation plan. I think we achieved all of these, given our first-quarter results.

In November, we expected Q1 EPS to be in the range of $0.28 to $0.33, and I'm pleased to report that we beat the top end of our range by $0.08, as we delivered $0.41 a share. The better than expected tax rate yielded approximately $0.05 of this beat, and was driven by the extension of the research credit for one year.

The remainder of the increase in earnings was a result of solid operating performance at Doble and in Filtration, along with ongoing and effective cost management across the Company. During Q1, the impact of foreign currency exchange rates was immaterial.

As a reminder, for comparative purposes, the 2014 results exclude the charges related to the Crissair facility consolidation that we completed last year. I'll call out a few highlights from the release to allow you to better understand the underlying results.

Q1 sales decreased about $4 million from prior-year, driven by the nearly $8 million drop in Filtration, partially offset by a $4 million or 14% increase in sales at Doble. Test sales were comparable year-over-year.

At the beginning of the year, we had expected lower Q1 Filtration sales and communicated this in our November guidance. Filtration sales were expected the decrease from the following: lower space sales at VACCO related to the SLS program, lower KAZ probe cover sales at Tech, and lower sales at Crissair due to timing of obtaining first article test approval from certain aerospace customers, which moved these sales into Q2. Doble sales came in above plan and significantly above prior year, driven by higher-than-expected international sales, including Saudi, a strong quarter of F-Series protection suite products, which carry above-average margins, and additional software and service business, including dobleARMS.

Our gross margin increased 130 basis points to 41.6% in the quarter, driven by Doble's exceptional performance, which carried through EBIT. Regarding, EBIT Doble and Filtration beat our internal plan, while Test was below plan, due to the timing of several projects which slipped out of the quarter. Corporate costs were lower than last year due to the timing of spending, primarily related to professional fees.

On the balance sheet, we continue to maintain a very favorable debt level at $21 million of net debt outstanding at December 31. We remain committed to our capital allocation strategy, which includes repurchases and dividends. As such, we returned $8.5 million to shareholders during the first quarter, and we continued buying shares through mid-January. We expect to opportunistically repurchase shares in the open market throughout 2015, as we continue to be supported by a strong balance sheet.

A significant highlight of Q1 was the continued strength of our entered orders. We booked $152 million in orders during the quarter, reflecting a 10% increase in backlog, which resulted in a $335 million backlog at December 31. Usually, our first-quarter order level is the softest quarter of the year, but this level of orders is a Q1 record on a continuing operations basis.

The Test business had a book to bill of 153%, led by a $10 million automotive chamber in China, followed by the Filtration book to bill of 135%, which includes additional KAZ orders and strong space and aerospace orders. This order strength bodes well for the balance of the year.

Our guidance and overall outlook for 2015, while unchanged from $1.70 to $1.80, is certainly helped by our Q1 results. Getting off to a solid start in the year with our Q1 results provides some additional comfort in our ability to achieve our full-year goals.

Regarding Q2, we are guiding EPS to be in the range of $0.27 to $0.32 a share, which is obviously lower than Q1. It is important to note that the first half of the year is above our original expectations from both an EBIT and an EPS perspective. As noted in the release when compared to Q1, Filtration and Test are expected to generate additional EBIT, as their sales volumes are expected to increase significantly, and Doble is not expected to repeat its nearly 30% EBIT margin, as Q1 was extraordinary, given its sales volume and sales mix.

For Doble's six-month expectations, EBIT margin is expected to reflect a more normal level in the low to mid-20%s. Corporate costs are expected to be significantly higher, due to a large amount of professional fees incurred supporting our M&A activities, including the completion of ENOSERV, which happened in Q2. Lastly, we expect a more normal tax rate of 34% in the quarter.

I'll be happy to address any specific financial questions when we get to the Q&A section. I will turn it back over to Vic.

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

Thanks, Gary. As a reminder, the three-year outlook we communicated during our investment day by September included growing our top line 10%, increasing EPS 15% on a compound basis. Over the past five months, and considering our solid start to the year, our order strength and our M&A outlook, we believe these goals are reasonable and remain achievable.

I'm pleased to welcome ENOSERV to the ESCO and Doble families, and I believe their future growth opportunities are well-defined and tangible. ENOSERV's multiple software platforms complement and expand Doble solutions in power relay protection. ENOSERV also expands Doble's position as not only a leading test set manufacturer and service provider, but now a market leader in the very important software space for power providers and users.

We continue to explore additional acquisition opportunities, with the primary focus on adding capabilities and solutions to USG and Fluid Flow. Across the Company, our core business continues to present us with long-term organic growth opportunities, that when supplemented with our M&A strategy create an exciting outlook for ESCO over the next several years.

In Filtration, we remain bullish on our underlying growth and profitability, driven by last year's aerospace program wins, coupled with having some sizable programs such as the A350 moving toward production. The Test business remains solid, both from a top and bottom line perspective, as the outlook contains several additional projects, such as the automobile chamber win in China, which are expected to deliver strong profitability in 2015 and beyond. The EMP market continues to provide enthusiasm, as we are bidding on a number of opportunities, both domestically and internationally.

At Doble, we made significant investments over the past few years, which was necessary to accelerate their growth, both domestically with new products and solutions, as well as internationally, by entering new markets. I think we're seeing the results of that investment being realized this year, and expect it to continue in the future.

We're well-positioned for solid organic growth, and have the capacity both from a financial and management bandwidth perspective to augment our growth with appropriate acquisitions. We look forward to an exciting and successful remainder of the year.

So to wrap up, I'm very pleased with our Q1 results, I'm comfortable that our three-year financial goals remain on track, I'm optimistic about our growth prospects, both short-term and longer-term. Our priorities remain simple and straightforward: execute and deliver our commitments in the core business, maintain our focus on new product development, supporting organic growth, and supplement our existing plan with accretive acquisitions around our core business. I'd now be glad to take any questions you have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jon Tanwanteng, CJS Securities.

Jon Tanwanteng - *CJS Securities - Analyst*

Very nice quarter. So you had almost a 30% margin in Doble. Can you give us more color on what drove that specifically, and is any part of that strength sustainable at all?

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

Yes, it's a couple things really, and some are -- it's really more mix than anything else, as we called out the F-Series, which is one of the more profitable products we had coming out, the outsize number of those which we delivered in the first quarter. Also, some of the service contracts that we have, also carried a higher than normal profitability. So those are the two big things that drove it.

We'll see that from time to time, based on the mix of the business, as Gary mentioned, we're going to return to more normal levels in the second quarter, but obviously, as we're trying to grow the business, invest in the business, we looking to invest in the places that do have higher levels of margin.

Certainly something like ENOSERV will help us in that regard as well, because it not only has a pretty decent profit margin, but also a good bit of that is recurring business, where we are getting that every year from the same customer. So don't anticipate having the same level every quarter obviously, but what really drives that is the mix that we have in the business.

Jon Tanwanteng - *CJS Securities - Analyst*

Okay, great. And then can you talk a little bit more about ENOSERV? One, is it expected to be accretive? And two, how does it mesh with Doble's businesses, and what are the revenue and margin opportunities?

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

Sure. The margins, I think, are going to be consistent with what we see at Doble on an average basis, the mid-20%s type thing. I forgot the rest of the question already; I'm sorry.

Jon Tanwanteng - *CJS Securities - Analyst*

Is it going to be accretive?

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

Accretive, I'm sorry, so it would probably be a push this first year, just because of professional fees and bankers fees and those kind of things. But certainly, going into next year, we anticipate it to be accretive.

Jon Tanwanteng - *CJS Securities - Analyst*

Okay, thanks and then just on the Test segment --

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

As far as, is it working in with the Doble business, what they really bring to the party is a couple of test suite softwares that interface with the Doble business hardware and software already. They're going to roll it into their ARMS product, as well, as I think it gives us an opportunity to sell more of our hardware as a result of having a more robust software.

Jon Tanwanteng - *CJS Securities - Analyst*

Great, thanks. And then just a quick question on the Test business, you pushed out a couple projects to March, I believe. Does that push anything else out into June, or do you expect it all to be caught up?

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

It should get caught up, but there's some chance, as we have talked about before, part of the problem with that business is these things will move from quarter to quarter. But we think the majority of that get back into the quarter, but some of it may slip into the third quarter, as well.

Jon Tanwanteng - *CJS Securities - Analyst*

Okay, great. I'll jump back in the queue. Thanks.

Operator

Jim Giannakouros, Oppenheimer.

Jim Giannakouros - *Oppenheimer & Co. - Analyst*

Just to follow on, on the Test business, I get that it's lumpy, but the orders, even excluding that $10 million order you got in China, pretty stellar. Is there anything inflating, any other big project, big order in there? In your 1Q orders?

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

I'd say the next biggest order was we had a big shielding order from Finland, I think it was about $5 million. And then the next biggest order is probably $1.5 million, so I would just say that was really good performance, really good orders for the quarter, because we did have the one and then the Finnish shielding order, but other than that, there was nothing out of the ordinary, no other very large order.

Jim Giannakouros - *Oppenheimer & Co. - Analyst*

Okay.

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Jim, carrying that out forward, what we like about that is that, hopefully, when you start talking about aggregation of $1 million and $1.5 million orders, that you get a little bit more of a smoothing effect over the next three to five quarters, instead of the big lumpy one-offs that hit $5 million or $6 million in a quarter and go away.

So we're really pleased to see the number of quote small orders, small being $1 million, and $750,000 to $1 million, too, around that is, it's really impressive to see that level of volume hit this early in the year.

Jim Giannakouros - *Oppenheimer & Co. - Analyst*

Okay. Great. And can you help us, from a magnitude perspective Gary, just as far as how much, can you size the slippage that your saw in 1Q? And maybe just if you can walk us through how we should think about the related, I guess, revenue recognition of what you have in backlog in Test? Admittedly, it is lumpy, but just trying to get a feel for how 2015 from your perspective should map out.

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Yes. I'd say it was about $5 million on the top line that was in the baseline, that moved to Q2. And to clarify how Vic mentioned it, a lot of that catches up, but what we also look at is at the end of that quarter, there is projects that are expected to complete in March, that might not -- most likely aren't these same ones. And so it's just -- you're trying to throw a dart at a board that's moving in 400 projects all over the world.

And so, we've always tried to talk about an annual view here, and we do our best to try to track down the quarters, but if you peg $5 million coming from Q1 into Q2, that moves you up into Q2 expectations of $45 million to $48 million kind of revenue; and I'd put $2 million of risk on the back end of that, just because projects that we have today scheduled to complete in March, if they slip a week into April, they're a third-quarter thing. So it's really a $5 million band around the quarters, is how it seems to have stabilized itself over the last five or six quarters.

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

Yes. I think one good thing, though, is getting more and more backlog. Going into this quarter, we've got the largest backlog that we've had in that business. So that gives us a little more comfort that the year is going to -- in that business will turn out like we (technical difficulty).

Jim Giannakouros - *Oppenheimer & Co. - Analyst*

Okay. Great, understood. And then yes, on the backlog, I share that sentiment, that's definitely a good thing. On the profitability, just one last question on Test, is that 13% or low-teen level still what you're eyeing for 2015 and longer-term, or has that shifted at all?

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

That's certainly still our target, for sure.

Jim Giannakouros - *Oppenheimer & Co. - Analyst*

Okay. I guess same question for Filtration, it definitely came in lower than I had anticipated, and I believe that your comments last quarter led us to believe that profitability should stay in that high-teens, maybe even knocking up against 20% in Filtration. Has that changed, given the puts and takes in that segment?

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

I think our expectations are still very solid for the Filtration business. I'd say that -- and maybe we just didn't do a good job of explaining it last quarter. But we had a couple things that we were fighting in this first quarter, but I think we identified those, in that TekPackaging had the one line shut down for the whole quarter, so that was impacting the margin.

And then the other thing that was maybe a little unexpected was, with the move into Crissair, the consolidation of Crissair and Canyon, we thought we would be able to get all of the sign-offs from the customers. Because what you have do in these aerospace programs is, if you change a facility, you have to send the customer all the information about their parts, and they have to sign off and say, okay, you're good to produce it in the new facility. We thought we had gotten all of those done in the first quarter.

Some of those have slipped into the second quarter, as a result of the customer just not getting them signed off. It's not an issue of them not going to do it, it's just one of these administrative things that they didn't get around to. So some of those now had slipped into the first quarter, but we were just -- in fact, Gary and I were both just out there last week, and all of those approvals from the customers now are in hand, so that will all be a catch-up in the second quarter.

Jim Giannakouros - *Oppenheimer & Co. - Analyst*

Okay, great. That's all I had. Thank you.

Operator

Kevin Maczka, BB&T Capital Markets.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Congratulations. To piggyback on that Filtration question, so you expect the volume to be up significantly as we go from Q1 into Q2. Vic, is it these customer approvals that you now have that allows you to do that, or is there something else going on either in the VACCO or the Tek program, or something else that drives volumes up significantly in Q2?

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

Well, again, we'll have the line at TekPack up and running, in fact it actually has started two weeks early, so that went well. As we mentioned, we got orders in advance of that. Then we do have all those approvals done now, and I think there's just some additional volume, I think, at VACCO, as well.

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Right. Kevin just to put posts around that, if you remember the KAZ issue at Tek was at $3 million basically, and it's just, we're down and now we're up, because the line is completed. So if you look at the Tek business alone, it's $2.5 million to $3 million up sequentially.

And then to put posts around the Crissair thing that we were talking about, on the first article testing, that was a couple million, and now we're fully rationalized in the facility, so we're blowing and going there. So that's expected to be up $4 million or $5 million sequentially.

To Vic's point, on the space business, that's why I tried to highlight the additional orders that we booked in Q1, not related to SLS. Those will be shipping in Q2, so we expect about $2 million increase at VACCO. So when you bring all of that together, we're pretty confident that we can do a $10 million sequential increase in Filtration Q1 to Q2.

And then you obviously absorb all the overhead, now that KAZ is back up and running, we're not getting killed by the idle facility while they're retooling. So when you pull $10 million of incremental revenue through that business, you'll see a significant step change in their EBIT contribution.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Got it. That's very helpful. Gary, if I can go back to Doble, and I understand this was an exceptional quarter, the margins nearly 30%, and that won't always be that way. It sounds like you had very favorable mix on this F-Series project and in the services. But can you just help me understand, if you're thinking it normalizes for all of the first half down as low as 20%, or the low 20%s anyway, how do we get all the way down there? Can you maybe size the F-Series and service?

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

I'd say in the quarter -- we sell this every year, and you don't sell it every month, though. So in the quarter, we had three customers that basically stepped up their buy, because we were looking at raising the prices after January 1, so that was part of it. So just to put total dollars around it, that was about $4 million of revenue on the F-Series, and we had planned about $2 million. And I don't really want to get into specific margins for obvious reasons, with competitors and customers and that sort of thing, but it's well above the Company average at Doble.

So if you step down about $3 million of that $4 million out of the quarter, and then obviously on the dobleARMS at SoCal Edison, we had all the software put in and all that, and obviously you don't install software every quarter, so that's worth about $1 million on revenue that pulls out. And again, because that's software it's high-margin.

The other thing from the cost side, this is when we have our big Doble conference in the quarter, up in Boston, where we had about 1,200 customers come, and obviously we take the expense on that, which is about $1 million. So you get a little bit of cost headwind, which hits every second quarter, but obviously sequentially it wasn't there in Q1. So a combination of lower F-Series, lower software, with the dobleARMS on the SCE project, and then some costs going in the other way.

So you will see a step-down there. And then if you just add the two together, I don't think Kevin, you should think about it as 20%, I think keeping it in the 23% or 24%, so obviously the step-down off 29%, it needs to be in the high teens.

And I think because of the costs of the conference, and then I think we have opportunities to do a little better than that, relative to the plan. So that's how the year shapes out. So from the six-month perspective, when we talk three months from now, it will be at or above your historical view of the margins that are contributed there.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Right, so that's great. But just be clear, your guidance is unchanged for the year at 24% but you're saying we may even see the high teens in Q2?

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Potentially, yes.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Okay. And then, just finally from me, the corporate costs will be higher on the deal in Q2. Can you give some numbers there, and do you expect that to continue to stay elevated as you pursue other deals?

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

Yes that's a little bit of an unknown, but obviously the costs associated with closing ENOSERV will hit in the second quarter. I kind of hope we do have some additional corporate costs, because that means we got good opportunities to pursue acquisitions, but I think it will go back to a more normalized rate, like maybe you saw some normal quarters last year. You take the first few quarters and average those out, and I think that's more what you're going to see.

There is nothing in sight that's going to have a big impact one way or the other on the corporate costs. So it really will depend on opportunities that present themselves from an acquisition perspective.

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Kevin, the way the model lays out, other than if we are successful with another acquisition, the step-up in Q2 obviously involves a bank fee. We used a banker to keep it exclusive, and then obviously the professional fees to close it. So it will step up, the costs will step up in Q2 for that one time bank fee.

And again, based on the model, nothing else is -- we don't predict when an acquisition will close, so it will step back down in Q3 unless we drop another deal in. So what you anticipate with this step-up in Q2 is not the plan for the rest of the year, absent the one-off transaction.

Kevin Maczka - *BB&T Capital Markets - Analyst*

So normal has been $6 million or so, and, what, we see an extra couple million in Q2, just one time?

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Yes, I wouldn't say a couple million. I would say in the low $1 million, $1.5 million maybe, and then step it back down to the $6.2 million, $6.3 million level for just the normal hunting and fishing stuff we do with it.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Okay, great. Thank you.

Operator

Sean Hannan, Needham & Company.

Sean Hannan - *Needham & Company - Analyst*

Can you talk a little bit about the backlog, in a little bit more detail? How you expect this to materialize in the coming quarters? I think there's been some detail you've provided tonight; just see if we can summarize all of that.

And then to what extent should we expect then a pullback in margins in the near term based on that mix? I think we alluded to, or talked about Doble coming down a little bit, so just trying to also get a summary viewpoint of how that transpires Q2 and moving forward, based on -- especially as we look at other aspects of booking, such as Test being so strong, and how that plays into the whole scenario. Thanks.

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

I think as you look at our backlog, just from a macro perspective, it's consistent with what it's been historically, as far as how it's going to play out. The only difference I would say is, we've always carried some level of these hovering orders at VACCO, there's a good bit of that, which we'll deliver over the next several years rather than all this year.

And then in the Test business, really everything that we have in backlog now should deliver this year, except for the automotive chamber. We may get a little bit of that at the end of the year, we may not; that's a little bit unclear this far out for a project that size, so that's another one, which at least the vast majority of it we deliver in 2016.

But other than that, I would say it's pretty typical. Most of the things that -- Doble is a book to bill business, what they bring in they send out within the year. The Test business, I mentioned everything other than the one project will probably be delivered this year, or the vast majority of it, and then the Filtration business, with the exception of what we have at VACCO, that will deliver this year, as well.

Sean Hannan - *Needham & Company - Analyst*

Okay, that's helpful. And then, within the Test business, I think there was a lot of early smaller expectations, but optimism around developments for EMP, I think that you started to see some momentum there. I think we've also got a sense that maybe that's perhaps paused a little bit. Just want to see if we can get a perspective around your viewpoints on the development of that marketplace, and your play within that.

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

Yes. I'm very happy with our position in it, first of all. I do think that the jobs that have been let, we've been able to get the vast majority, particularly the higher-end projects. I was just in Asia two weeks ago with all of our Asian team, which included Japan, Taiwan, Korea, India, and there's a lot of interest there.

It's not turning into orders as quickly as you ever hope, but we think there is a great opportunity there, particularly in Korea, which we have entered a number of projects there. Finland I mentioned as well. So I think the opportunity is there, and it's just going to be a matter of how quickly it materializes, but we feel like we're very well positioned for it. I think we got the right people pushing it, and it's just a matter of the uptake of the industry.

But I think at some point, that's going to accelerate. We just saw an article today where the US is looking at all their nuclear plants and whether those need to be EMP shielded, apparently it's getting a lot of attention, so obviously we're going to continue to chase that as well.

So it's one of those things you never hope for an incident, but if there ever is an incident, I think we'll have a hard time keeping up with the business. But in the interim, it's a matter of us pushing it pretty hard. But there's a lot of interest, there's a lot of opportunities we're bidding. We have been brought in on a consulting basis at a number of places, that are looking to do this, or at least evaluate in that. And obviously, if you are on the consulting side first, you get a better opportunity to actually win the business, if it does go to tender.

Sean Hannan - *Needham & Company - Analyst*

Okay. That's very helpful. And then last question here, do we have any further insight at this point, in terms of within your Doble business, and specifically within Saudi Arabia, in terms of follow-on projects beyond what you were initially engaged for, for those first 1,000 transformers? Any further developments or viewpoints around how that may materialize there? Thanks.

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

Well, a couple things. We've got people in country now talking about the follow-on contract, and we've talked all along that it's going to be hopefully a multi-year deal. We don't have a contract there yet, but we are in discussions about that.

Additionally, the best thing is, contract's going very well. The customer's happy, they're getting what they wanted, we're making decent money on it, and so I don't anticipate there would be any reason for it not to go forward. Obviously, with the price of oil being down, that's always a concern. But my view is, this is pretty low down the food chain, if you will, and it's going to save them money.

So this is a place where, for a relatively small investment, they're really improving the efficiency of their grid, which is something they need to do, and something that's going to save them money. So we feel good about what's going on over there. I think we mentioned we entered an order with another utility in Saudi Arabia for a little over $1 million. Both of those are getting a lot of interest around the Middle East, so we think this should be a nice entry point for us, and that we'll be able to exploit with a number of other utilities in the area.

Sean Hannan - *Needham & Company - Analyst*

Great. Thanks so much for taking my questions.

Operator

Ben Hearnsberger, Stephens.

Ben Hearnsberger - *Stephens Inc. - Analyst*

I wanted to dig back into the Doble margin. So last year, first half, you did 24% margins, and this year, you're kind of guiding to flattish margins, despite the fact that we've got some higher margin revenue rolling through with the Saudi contract. Can you just help me understand the puts and takes, maybe the mix last year versus the mix this year, and why the maybe conservatism around the margin guidance in Doble?

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

I think one thing that happened last year, and it's always kind of a -- you never know what's going to happen, but we have this lease program, where we lease these things on a yearly basis. On occasion, a customer will say: Hey, I want to buy mine out. And so I think we had that, I think it was in the first quarter of last year, where a customer came to us and said we want to buy that out. While it wasn't a huge contract, I wouldn't say it was all profit, but it was basically all profit.

So you on occasion have those, which certainly helps your margin. We have not projected that that's going to happen this year. There's always that opportunity, but we haven't projected that, because nobody's come to us to date and said that's something they're looking to do. So that's probably the biggest difference.

Ben Hearnsberger - *Stephens Inc. - Analyst*

Okay, thanks. And then, maybe at a higher level, the five large platforms in Filtration relative to three months ago or the last call, are those ramping or expected to ramp, according to your initial expectations, or has anything changed in the last three months with regards to those?

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

No, nothing has changed I would say that the kind of plans that we've had with our customers have remained very consistent. In fact, as I mentioned, we were just out there and real time update on those, and they all feel really good, so I don't anticipate any change in those rollouts.

Ben Hearnsberger - *Stephens Inc. - Analyst*

What about engineering expenses ahead of those? Are they running higher than maybe you expected, or lower, or no change?

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

No, I would say there's really no change. In fact, the vast majority of that has been completed. The biggest project we had, obviously the A350, and we produced like 63 of those already, so it's not in full-scale production, but having that many, and now the plane has flown, and so we have really got the heavy lifting done on that one.

Now, there's always going to be some with some of the newer projects, and hopefully we'll win some new projects that will be -- do some non-recurring engineering on as well. But I would say, as far as just the plan that we had going into these projects and how we were able to execute on them has been consistent with what we anticipated.

Ben Hearnsberger - *Stephens Inc. - Analyst*

Okay. And then Gary, can you tell us how much buyback authorization you guys have left?

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Yes, it's approximately $67 million. Obviously, that's not what we're shooting for at this point, but we started out at $100 million a couple years ago and we're bleeding it down. So I think if you put it in the upper $60 millions, that would be fair.

Ben Hearnsberger - *Stephens Inc. - Analyst*

Okay. And then cash from ops, it looks like it was flat. Was there some more working capital needs than expected, or how do you expect that to play out throughout the year in terms of cash flow from op generation?

Gary Muenster - *ESCO Technologies Inc. - EVP & CFO*

Yes. Obviously, with the step-up in sales at the two units that really have inventory -- Doble per se, doesn't really push a lot of inventory out the door. They do have the F-Series, but a lot of their work is -- the revenue is driven off of the lease pool and the service contracts and things like that, where you don't have a lot of inventory tied up.

But as I mentioned earlier, when you step up the sales expectations in Filtration by roughly $10 million, and Test by $7 million or $8 million, some of that obviously we already have in inventory, but we had a little higher inventory level, required inventory level to meet the near-term demand.

And we also had some, when you look at last year, where we were in our payables for the fiscal 2014, we came into the year with a little higher level of account trade payables than normal, so we had to make those payments to pay them down. So that was an anomaly, this year.

When you look at the first quarter, we tend not to generate a whole lot of cash. And so we expect that to obviously step up meaningfully in Q2, as we don't have the same level of working capital requirements.

Ben Hearnsberger - *Stephens Inc. - Analyst*

Okay, thank you very much.

Operator

John Quealy, Canaccord.

John Quealy - *Canaccord Genuity - Analyst*

So, I got a question for you. For this ENOSERV acquisition, my understanding it's a little bit more of a software business that runs, I guess, on top of some hardware, including Doble's, and some of Doble's competitors. Just talk to us a little bit on how this either grabs share or changes the channel a little bit. I'm just trying to figure out, I know it's not a big deal, but I think it's interesting, given it's more, I think, software-server centric, and it's, I'd say, changing up a pretty staid channel. So I'm just interested in your thoughts there about how this can benefit ESCO in the channel.

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

Yes, a couple things, and it is -- it's really all a software business. At the end of the day, ENOSERV is. And so where they fit is they're really helping relay tests. They do sit on top of our products as well as some of the competitors. We're going to continue sell that to the competitors.

There's been some concern, particularly by the competitors and some of our customers that they were going to get shut out from that. That's not our intent; this has been a good business. But what it does, obviously it does give us an opportunity where we can go in with a package to a customer, or to customers that maybe have ENOSERV software but they don't have hardware, or they don't have our hardware, to try to push that.

And so certainly, we anticipate not only continuing to sell the software, but maybe helping us strengthen our position in the relay test hardware area, as well as incorporating it with our ARMS program project, as well as, they have got a nice workshop like we do with some our products, and so we think even from the customer education and workshop-type activity that we'll be able to bring that in as well.

So I don't think huge changes for ENOSERV itself, but we do see this as an opportunity to provide a better product to our customers and to our future customers in this relay area.

John Quealy - *Canaccord Genuity - Analyst*

Okay. Thanks. And then just in terms of the M&A funnel, if you will, especially on that utility technology Doble side, how big is that funnel? How well do you think it matures moving forward, or do you think there's other areas to do business in the Filtration and Test space?

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

As I mentioned earlier, our focus is the utility space, and that can be in addition to Doble, like the ENOSERV acquisition was. Or it could be a business that could stand next to Doble rather being part of Doble, but in that utility space, that as we've defined, where they're using technology to automate a lot of what's going on within utilities.

But then certainly, we're continuing to look at aerospace Fluid Flow as well. So we're not going to limit ourselves to one of the other. I would say that today, we're not actively looking for additions in our Test business, not because we don't think that's a great business, because we do, but our focus there is on executing the business as it stands today, and we're going to focus our acquisition efforts on the other two segments.

John Quealy - *Canaccord Genuity - Analyst*

All right, thanks, Vic.

Operator

We have no further questions at this time.

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

Okay. Thank you everybody for your interest, and I look forward to talking to you on our next call.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.