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ESE - Q1 2020 ESCO Technologies Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 04, 2020 / 10:00PM GMT

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PRESENTATION

Operator

Good day, and welcome to the ESCO Technologies Q1 2020 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 2020 and beyond revenues, EPS, adjusted EPS, EBITDA, adjusted EBITDA, debt, growth, profitability, ROIC, shareholder value, future Block V orders, success in completing additional acquisitions, 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 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. Before I hand it over to Gary to discuss the first quarter financials, I'll make a few comments. Clearly, the highlight of Q1 was completing the sale of the Packaging business, and receiving $191 million in cash before the quarter end. Gary will discuss the gain from the sale as well as other accounting matters related to the discontinued operations noted in the financials. As you saw in the release, we renamed our Filtration/Fluid Flow group, Aerospace & Defense, which we will refer to as A&D going forward. Following the Globe acquisition last July and in conjunction with the divestiture of the Packaging segment, we decided to make this change. Aerospace and defense better reflects the products, end markets and customers in this segment. Additionally, we believe this is a more direct comparison to some of our peers in these markets.

We've not changed the group's legal entities, reporting structure or management relationships from what was previously presented as Filtration. Moving on to our operations. I'm pleased with our start to the year as we delivered a solid first quarter by beating expectations on sales, adjusted EBITDA and adjusted EPS, which beat the top of our guidance by $0.03. We did better than planned in A&D and Test as both businesses delivered higher sales volumes, along with a favorable sales mix, which drove increased profits. USG's sales were impacted by the monthly timing of orders, which moved some of the expected Q1 sales into Q2. USG orders in December were strong, and we expect this trend to continue, which supports our outlook for the balance of the year.

I think it's safe to assume that the disruption and inefficiency surrounding the Q1 move to Doble's new headquarters building also contributed to the shortfall. Within A&D, the submarine market continues its solid outlook, and we expect to show meaningful growth over the balance of the year. A significant amount of Block V orders have been received as reflected in our Q1 orders, with more expected over the balance of the year. VACCO, Westland and Globe will benefit from these orders as the Virginia Class continues to expand its build rate, and our content on these boats continues to expand.

We anticipate orders for the Columbia Class subs in the back half of the year. On the headwind side, we called out the impact of the 737 MAX production issue and how it impacts us in total. While certainly not good news, given our relatively modest dollar content on that platform, we can absorb the earnings impact with other well-defined opportunities within A&D. While our outlook for the year remains the same as communicated in November, it was good to start the year a little stronger than expected, as that takes a little pressure off of our second half ramp-up.

On the M&A front, we continue to evaluate several actionable deals, and there's a lot of activity underway in this area. The news of the Packaging sale also brought us a few new opportunities from investment bankers, and we continue to pursue ideas that we've identified through our operating units. We continue to look for complementary businesses to acquire in the Aerospace & Defense and USG segment, where we can add to our global distribution network.

Additionally, we'll look to expand our USG solutions offerings into adjacent markets through a combination of internally developed products and software supplemented with acquisitions. Our board is very supportive of our M&A strategy and our current balance sheet provides us with plenty of liquidity to allow us to add to our existing portfolio.

So in summary, we delivered a strong first quarter. The balance of the year looks solid, and we're working hard for some M&A upside. I'll now turn it over to Gary.

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

Thanks, Vic. I'll briefly mention the accounting for discontinued operations as noted in the financial statements related to the packaging sale, where we recognized a $100 million pretax gain on the sale, and we received gross proceeds of approximately $191 million at closing. We expect to pay approximately $26 million in cash taxes on the gain plus some other fees and expenses related to the transaction, thereby netting us approximately $161 million after all of this.

Since the Q1 results of both periods presented were impacted by several unique non-operating items noted in the release, such as the gain on the sale of the Packaging business this year, the gain on the Doble building sale last year, coupled with specific identified cost reduction actions that we've undertaken, I will focus my prepared remarks on the adjusted numbers, as these are more relevant measures of our operating performance. Also using adjusted numbers is consistent with our previous financial statement presentations and related management commentary.

As noted in the release, we reported Q1 adjusted EPS of $0.43 a share, which as Vic mentioned, was $0.03 above the top of our guidance range of $0.35 to $0.40 a share and was also above the analyst consensus estimate of $0.40. Comparing Q1 of '20 to Q1 of last year on an adjusted basis, we increased our sales 5% to $172 million, led by A&D with Globe contributing nicely to that growth together with PTI, Crissair and VACCO.

We also increased our adjusted EBITDA by 5%, led by Test and A&D, which increased 30% and 18%, respectively. With the proceeds from the divestiture we paid down our net debt to $53 million, and lowered our leverage ratio to 0.92%. This level of debt is well below where we believe an ideal capital structure should be, and we are working hard to utilize our low-cost liquidity to grow our portfolio through additional M&A.

Our cash flow from operating activities was below expectations, primarily due to the timing of several large cash receipts on a few of our major contracts, where the cash came in shortly after quarter end. We continue to focus on this area, and I remain comfortable that our current initiatives are showing progress, which will be reflected in an enhanced cash conversion ratio for the year in total. Since the earnings release lays out other key points and highlights of the quarter, I'll dispense with repeating them here so we can get to the Q&A.

So for my final comment on the quarter, I remain confident with our fiscal year outlook and our ability to generate cash flow from operating activities to fund our future. Given our significant liquidity from the divestiture, along with our recently expanded credit facility, we are well positioned to effectively execute our M&A strategy and support further growth. All of this while remaining focused on ROIC and increasing shareholder value. So with that, I'll turn it over to the operator to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

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

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Nice quarter. Just wanted to start with the quarter itself and kind of the outlook that you've given for Q2, both of which were above the consensus. You didn't raise your annual guidance. Just wondering if there's any shift from the second half than the first half. In terms of profitability expectations or if you're just being conservative relative to the full year?

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

Yes. I'll start out with -- on the numbers, Jon, and then I'll let Vic give his overview on the thinking kind of in the in the aggregate. I think what we started out with a little better expectations in Q1, we think we're going to have that same kind of treatment across the balance of the year but sitting here this early and only 3 months after we put the year's guidance out, we just felt it'd be a little premature. We didn't want to get out ahead of ourselves for the year. But as we alluded to, and we pick out the one pretty decent-sized headwind of the MAX, that we can overcome that with some other things. And I think just the balance of the portfolio. Our risk in total is balanced, but with 10 months left in the year, I just think it's more prudent to kind of hold our position until we get further through the year. So that's my view of the numbers.

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

I'd very -- say I'm very consistent with that. And again, we have our best guess of what's going to happen with Boeing. I mean, it's changed, it's kind of in a fluid situation. So there always is a potential for additional downside there. And so I just think it's prudent to kind of stay where we're at, at this point. But certainly, we're working to improve on that.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Okay, great. And just remind us what the content per plane is on the MAX? And if you have any other risks that you see in front of you, whether it's coronavirus or anything that might be on your horizon a radar?

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

Yes. On the MAX, on the OEM side, obviously, it's not in the aftermarket yet. It's about $15,000 per plane. And what we feel comfortable about is, obviously, they're not producing and putting those into service. So what that really means for the airlines that are flying other 737s, they're trying to cover their routes with stretching the planes a little longer. So what we're seeing is a little bit of uptick in the aftermarket, but not -- by the airlines not having the fleet fully staffed with the MAX. So we are seeing a little bit of benefit, but $15,000 per plane is why we called it modest as the revenue contribution, and that's why I think, regardless of it, they can't go below 0. So it's really, as Vic said, it's a time or duration thing. And so I think we've captured it in our risk profile, and we have enough other identifiable opportunities.

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

Yes. I don't know of any other significant risk, if we did, we'd be talking about them. I did talk to our, head of our Test segment today and asked him specifically about the coronavirus. And he said, as long as it gets resolved in the next 60 days or so, he doesn't think there'll be any impact. It gets much beyond that. And the issue you really have is installation, because we do installations in different parts of China. And so at some point, if it drags out, for ever we could have some impact. I don't think it's anything major, but its something that we're going to track very closely.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Okay, great. I wanted to talk a little bit more about Globe. You mentioned the increase in content in your submarines. Can you talk about what your full content is per Virginia and per Colombia? And how many of those are expected each year for the next -- for the foreseeable future versus what is actually in your backlog?

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

Yes, I'll go with the content side of that question, Jon, I'll let Vic give the overview of the build rates and all that sort of thing. So on the Columbia Class today, and this is across the platforms. So it's Globe, obviously, but it's also Westland and VACCO. So it's right around $29 million per boat on Virginia. And then once the Columbia comes online, which current thinking on that is, we should start getting orders in the back half of the year with some advanced deliveries in 2021, because that's when they're supposed to start hull construction on that. And it's a little bit north of 40 on the Columbia Class. And just as a reminder, they are going to do one of those every other year. So I'd calibrate it as -- if you want to use round numbers, 30 on Virginia Class and 40 on Colombia.

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

Yes, with the Virginia Class, the current plan is 2 a year. Going forward, there's some talk of increasing it to 3, but we certainly don't have that in our forecast, and it's yet to be seen whether it's going to happen in a couple of years, they'll start to retrofit of some of the existing summaries that are out there. And again, we don't have that in our forecast yet, but that's something that we certainly think we're well positioned when they start that process to participate in.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Okay, great. Just on the backlog question, do you have a specific number of boats in your backlog?

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

The answer is yes, but I don't have that readily available. I know in the backlog they haven't fully funded. Block V is 9 boats with an option for a 10. In the orders that we received -- so the way we treat it, kind of, to be conservative, is you get the contract for the full allotment, but we don't put them into backlog until we actually get the purchase order that's boat specific. And so the the backlog today reflects the boats that we have POs for -- and normally what they do is, they release the POs to us in a 2 or 3 boat configuration. So the conceptual backlog relative to contract value is substantially larger. And again, our prudence in doing this is just booking the orders specific to a PO release. So I would say, and again, let me just point out one more thing, it's not just Block V, and we're still delivering product for Block IV, okay? So there's several more boats in Block IV that are going to hit the water over the next few years. So the beauty of our positioning is, we're well out ahead. Our stuff is getting delivered to the boat builders, Electric Boat and Huntington Ingalls, and those folks well in advance of the boat hitting the water. So you see the backlog coming in. But what we're really shipping. A lot of the stuff what we're shipping is still for boats numbered on a Block IV.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Got it. I believe you've been tracking a high number of M&A opportunities. Can you give us an update on the number and size of target size of their valuations and kind of relative closest to a transaction happening?

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

Yes. So we probably are, we're not probably, we're tracking about 8 different potential acquisitions now, and they're in various stages. I mean, everything from pretty far down the road to start to take a look at some things. It's something that we just had a board meeting last week, and we spent a lot of time reviewing those with the board, because obviously, this big opportunity for us going forward. And it seems like more and more things are popping up. So we feel really good about the pipeline that's out there now. We're being prudent, as always, on these things, but we do think we'll be able to have some success this year.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Okay, great. And then Gary, just one last question. I think you've completed the move for the Doble headquarters, some other restructuring programs. Just remind us how much you're expecting to save on a year-over-year basis as a result of this?

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

Yes, I'd say we're trading dollars. Obviously, when you own the building and that sort of thing, you have a cost, but some of it is depreciation on the facility versus now it's cash rent. I think the net savings will be upper hundreds of thousands, maybe just a hair less than $1 million just on the facility aspect of it. And then the intangible savings that come along, which really it's too early to quantify, just the efficiency of having everyone in one building and having a more state of the art building that has -- the workflow is a lot more efficient and that sort of thing, plus the next intangible is retention of people plus hiring of people. Those intangible values, I think, will benefit us in the future, but we can't assign a dollar value to that other than to say they're greater than 0.

Operator

Our next question comes from the line of Robert McCarthy with Stephens. .

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

I guess, first on USG, could you just talk a little bit about the timing? And I guess, presumably, of revenues? And do you expect kind of that to hit in 2Q, and that informs kind of the 2Q guide? Or how do we think about that and some of the volume and profitable -- and profitability shortfall and how that plays out?

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

Yes. I'd say, as we look at the cadence of the order and the conversion of that into revenue, some of the stuff comes in and ships the same week. But for the most part, when we get an order, it's in the 30 to 60-day kind of delivery window, unless it's a large project like an arms or a double prime or something like that. And that's why the comment in Vic's remarks about December being strong in the order profile gives us confidence that the Q2 revenue has a step function up from where we were here. And again, the disruption of moving, you're physically doing things back and forth. So there's a little distraction aspect. So those 2 things you set aside, and I think we have a pretty good profile for the year. And again, if you go back to the November guidance, when we talked about the relationship of this year versus last year on a quarterly profile, it's more steeply back-end loaded that more closely resembles fiscal '18. And if you remember, where we had a pretty predominant -- greater than 60% relationship with back-half EPS to the front half. It's driven by the boats, the Virginia Class stuff we just talked about. So across A&D, we got strength there, but then Doble's really strong in the back half of the year because there are several large projects that come across the P&L there. And then the Test business just, we tried forever to try to figure out why the fourth quarter is what it always is, but it is, again, this year a dominant player. So that's why the cadence of the profile is the way it is, and our confidence level is supported at USG by the orders we booked so far.

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

Yes. And I'd just say just one more comment on USG specific because I think that's what we're focused on is, we just had a -- we had a soft month in November and the Doble products, as Gary said, turn pretty quick. And so if you have a soft month, that does turn into an issue fairly quickly. But again, we had a strong month in December and solid month in January. So I think it's going to be fine. I mean, it's hard to predict the exact timing with that business.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

That makes sense. And in terms of the resegmentation or renaming of the segment, Aerospace and Defense, just remind the layman in the room, namely me, what is your relative mix now between defense, I guess, commercial aerospace, submarine, defense aerospace, rather, in terms of your relative mix of the overall segment? Do you have any kind of breakdown of that?

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

Well, certainly, the Navy business now is about $100 million of sales specific. And that was really a big driver on this because it's kind of hard to talk about filtration when we're not really filtering anything in those products. If you look at a broader sense, you get some specific numbers there?

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

Yes, about 35%.

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

Of that segment is military.

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

Is military. So like 35% of that segment is military. So that's the naval as well as some products at PTI and Crissair that also go on the defense side. Everything else is aerospace, commercial aerospace.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

Commercial aerospace. Okay, that's great. And then do you think you are -- in terms of your opportunity set, in terms of those 8 acquisitions, are you kind of getting the word out? Or maybe this is the naive of my -- from my standpoint, but are you being -- started to see -- being seen as a strategic acquirer of a certain size of choice in the submarine space?

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

Certainly, I think we've made it to the top of a lot of people's list of a certain size, I would say. So we've gotten more attention from a couple of those folks that maybe wouldn't have in the past. A lot of it is just getting in with the right investment banks. So when things are going to come to the market, whether it be on the Navy side or the aerospace side, to make sure that we get in the queue on those. And I think we've been more successful in cultivating those relationships to make sure that we do.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

Fair enough. And then, I guess, in terms of level setting your -- from the cash proceeds that you have and the state of your balance sheet and your comfort level, I mean, what would be your outer bound for M&A appetite in the aggregate? How many deals could you reasonably do, maybe, over the next 1 year or 2 without really issuing equity or taking -- making a it about the company or of a debt laden type scenario?

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

I'll let Gary talk about specific numbers because we just went through this exercise again with our board. And then I'll talk a little bit more about timing and numbers and those kind of things, because there really are 2 different things.

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

Yes. And so not to get into a math exercise, but the beauty of the way the credit facility works is, when you buy something, you get to pull along their trailing EBITDA as part of the leverage ratio. So to help level set this with the board and again, we have no expectations to complete all 8 of these things that we're looking at. But if you just pick a random sample of those 3 and pick a large one, a medium and small. Hypothetically, let's say, we spent $500 million to $600 million we would pull along something in the neighborhood of $60 million of EBITDA with a 10 multiple. That would bring us up to a leverage ratio of about 2.6, and that is not uncomfortable. Our capacity can go up 3.5, and then we get a holiday for a year, should we find something extraordinary. But the beauty of the math is, for us to get ourselves north of 3, we would have to pay a pretty outsized multiple. So if you just kind of think of our history as we kind of pay 8 to 10x. And if we did a small, medium and large, where we spent $500 million, we'd be right in the sweet spot of a capital structure that makes sense if you're levered 2.5, 2.6x. So it's the math.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

and that would be over a 12-month period, right?

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

Yes, that'd at a point in time, hypothetically, if you bought 3 of them at the same time, and you brought those in. And then obviously, you would delever off the cash flow of those operations.

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

So as far as what we could do, would do or different things, I think it really depends so much on what businesses you buy as far as what you could do. So if you're buying a larger business with a good management team that are comfortable they can run that with that without a tremendous amount of oversight, you get them integrated then, that's one thing. If you're buying smaller businesses that you really need to put systems in place, sometimes that can be more complicated than a larger business. So it really depends. I mean, I hate that answer, but it's a fact on what the business is, where it is, what size it is, what state it's in. We never buy fixer uppers, we always say. So we're not going buy a business where we've got to drop a team in there and go run it, but some businesses are going to be easier to integrate than others. So it really depends on what those businesses are and where they are. And we're very fortunate that we've got people that can help us with the integration. I think we've talked before, we usually send the finance person in to help with the integration, because it's usually the most difficult part. And then with the sale of the packaging business, we've got a more senior person that can help out in that regard as well. So I feel comfortable that we could integrate several businesses, maybe not the same exact time, but probably at the same time, or very close to each other. So it's really going to depend on what business we end up being successful and moving forward with.

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

And Rob, let me add one more thing just to the math that you might need for your modeling. Again, this is theoretical. In the example that I gave, if we were to spend $500 million or so. With that, we would be adding about $175 million of revenue, again, with those multiples. Again, this is all theoretical math.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

Right. Right, of course. No, that's helpful. Yes.

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

And then just again, I want to point everyone to the focus within USG and A&D. Those individual contribution margins are greater than the sum. So what that would mean is, if we're targeting those areas, that would inherently raise the consolidated operating margins by buying companies that are at the more consistent with our A&D multiple -- or A&D margins and our USG margins as well. So as you carry that across your model, it has a nice uplift to it on an EBITDA -- based EBIT and EBITDA basis.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

Not to go back to the backlog, but I'll go back to the backlog of M&A. Would you say that it's pretty levelly set between aerospace defense opportunities and utility opportunities? Or is it a skew to where the opportunity set is?

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

Well, it's always a point in time. So the point in time today, there were more opportunities on the utility side.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

Oh. Interesting. Okay. And then in terms of, if you indulge me for a couple more, in terms of op tempo in association with maybe a conflict with Iran or a limited one. Could you just remind us from history and maybe what your new portfolio would be? What -- how stimulative that could be to your aftermarket within Filtration.

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

Yes. I don't think there would be a real near-term issue there. I mean, obviously, the outside of the Navy, which wouldn't be impacted at all. As the Navy, you're really talking about replacement parts for aircraft. And so it might accelerate it some. But you probably -- that's something you'd see 6 months from that point rather than the next quarter.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

Right. Right. And then the last question. Could you talk a little bit about where you are in terms of how your journey around cash and cash conversion, particularly with this divestiture and kind of level setting for what we should be thinking about cash conversion going forward because the portfolio has changed a bit with the the sale of technical packaging and some of these M&A opportunities? How are you thinking about kind of free cash flow generation and conversion going forward?

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

Well, it certainly will improve. And again, this isn't disparaging to the Packaging business, but it inherently had a lower cash conversion percentage than the whole. So it will move favorably just by the absence of that. So that's one. Second is the initiatives that we've undertaken have very finite goals and very tangible processes that we're implementing across, again, it's not a digital thing. It just -- overnight, we flipped the switch and off it goes. Because this goes from a sales cycle, when the salespeople, we have to write contracts better, we have to get better terms in there all the way to paying attention to collections and payments. So it's everything in between. So I never want to say we can't get to 100%, but it will be a challenge to get to 100%, because within the Test business, we have processes in the contracts where you get milestones along the way where you might be recognizing revenue and profit faster than you're collecting cash against the milestones. So that's why I referenced it on a yearly basis, not a quarterly basis because it is going to have peaks and valleys in the quarter. And then kind of the same thing on the Virginia Class. You'll get a big cash down payment, as we did in Q4 at VACCO last year. And then you burn that off, then we're spending the money against that in Q1 and Q2. And so you're going to have the earnings there for the percentage of completion stuff, but you're not going to have the cash because you've already received the cash, now you're doing outflow. So our goal, there's a lot of words around to say, our goal is to get us into the mid-90s. I think last year, Kate, we were at upper 80s, I want to say, 87%, 88%. Our goal is to get to 95%. And I think we have a clear path to that, but it's not going to be by Q2. It's a process that I think, as we get to the end of fiscal '20, we'll be in a lot better shape. And by '21, we'll be in even better shape on that conversion.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

And remind me, this is the last housekeeping item, just how much amortization should we expect for full year 2020?

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

Bear with me a second. $42 million would be a good round number. Rob, just to be clear, that's depreciation and an amortization.

Robert Paul McCarthy - *Stephens Inc., Research Division - MD & Analyst*

Oh, that is. Okay. All right. Well, we'll drink a double espresso and figure it out and then I'll talk to you offline.

Operator

(Operator Instructions)

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

Okay. It doesn't look like we have any further questions. So thanks, everybody, for joining us. Look forward to talking to you on the next call.

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

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.