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EDITED TRANSCRIPT

MOD - Q3 2018 Modine Manufacturing Co Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Modine Manufacturing Company's third-quarter fiscal 2018 conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to turn the conference over to your host, Miss Kathy Powers, Vice President, Treasurer, Investor Relations and Tax.

Kathy Powers - *Modine Manufacturing Company - VP, Treasurer, IR & Tax*

Thank you. Thank you for joining us today for Modine's third-quarter fiscal 2018 earnings call. With me today are Modine's President and CEO, Tom Burke, and Mick Lucareli, our Vice President, Finance and Chief Financial Officer. They will be using slides with today's presentation. Those links are available through both the webcast link as well as the PDF file posted on the Investor Relations section of our Company website, modine.com.

Also, should you need to exit the call prior to its conclusion, a replay will be available through our website beginning approximately two hours after the call concludes.

On slide 2 is an outline for today's call. Tom and Mick will provide comments on our third-quarter results and provide an update to our revenue and earnings guidance for fiscal 2018. At the end of the call there will be a question-and-answer session.

On slide 3 is our notice regarding forward-looking statements. I want to remind you that this call may contain forward-looking statements as outlined in our earnings release as well as in our Company's filings with the Securities and Exchange Commission. With that it is my pleasure to turn the call over to Tom Burke.

Tom Burke - *Modine Manufacturing Company - President & CEO*

Thank you, Kathy and good morning, everyone. On today's call, I will discuss our third-quarter results including an update on our business segments and strategic initiatives. After that Mick will provide a more detailed review of our consolidated financial results and will review our revenue and earnings guidance for fiscal 2018. I will then provide a few closing remarks prior to opening up the call for questions.

I am pleased to report another strong quarter with significant sales and earnings improvements. Overall, sales increased 47% including an incremental $110 million of sales from our CIS segment in the quarter. As a reminder, we only owned this business for one month in the third quarter in the prior year. Next quarter we will have a more meaningful year-over-year comparison.

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Our adjusted operating income was $27 million, up $8.6 million or 47% from the prior year, and our adjusted earnings per share were $0.35 for the quarter, a $0.14 improvement from the prior year. These improvements were primarily due to strong sales volumes and the addition of the CIS business.

We had $35.7 million in charges to income tax expense during the quarter due to the recently enacted US tax reform legislation. Mick will provide more insight on these adjustments during his portion of the presentation. Now I would like to briefly review the segment results for the third quarter.

Turning to page 6, sales for the Americas segment increased 14% on a constant currency basis to $140.5 million driven primarily by continued strength in our end markets. We saw sales increases across all of our major markets with substantial increases in off-highway, automotive and specialty vehicle sales.

I am pleased to report that gross margins improved 50 basis points to 15.4%. This was driven by the higher sales volumes and improved performance partially offset by the impact of higher material costs. Adjusted operating income for the Americas segment was $9.2 million, an increase of 30% from the prior year driven by the higher sales volume.

The Americas segment continues to benefit from the rebound in the off-highway market with significant sales increases in North America. In addition, many of our plants are launching multiple off-highway programs. We have indications from our customers to expect this growth to continue which will certainly benefit the segment.

Please turn to page 7. Sales for our Europe segment increased 3% on a constant currency basis to $134.6 million primarily driven by higher sales to automotive and off-highway customers. Consistent with our expectations, this growth was partially offset by lower sales to commercial vehicle customers as certain programs continue to wind down.

Gross margin decreased 220 basis points to 13.3%. The decrease in margin was primarily due to a -- $2.3 million of favorable pricing settlements in the prior year on end of program production. We did not have a similar benefit this year. Excluding these settlements we would have seen an increase in gross profit.

Lower gross profit coupled with higher SG&A due to currency led to a $1.3 million decrease in adjusted operating income, which was $7.4 million in the quarter.

The construction of our new production facility in Hungary is complete and we've initiated production. Two years ago we decided to expand our production capacity by building a third manufacturing plant adjacent to the larger of our two existing manufacturing facilities. The combined plant has both aluminum and stainless steel production capabilities, allowing us to quote competitively and providing additional capacity for our most rapidly growing engine product lines.

We continue to see a high level of global activity relating to electric vehicle in the automotive, specialty truck and bus markets. We are working with our current customers as they develop their strategies and we see significant quote volume. We recently won a program for an automotive battery chiller program with an existing customer in Europe and are confident we are well positioned in this important area.

Please turn to page 8. Our Asia segment continues to report significant sales and earnings growth. Overall Asia segment sales grew 44% compared to the prior year on a constant currency basis. We still have growth in all end markets in China, India and Korea with the most significant increases in automotive and off-highway sales in China.

Higher sales volume led to a 140 basis point improvement in gross margin which hit 19% this quarter. This resulted in a $3.2 million increase in our gross profit from $5 million last year to $8.2 million this year. Operating income for the Asia segment nearly doubled to $5.1 million due to the higher sales volume.

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As I mentioned last quarter, our rapid growth in Asia over the past year has nearly filled one of our manufacturing facilities in the region. In order to provide additional capacity for growth we will be expanding our manufacturing capacity at our site in Changzhou.

Our fourth vehicular plant in China will be built adjacent to our existing facility allowing us to leverage our seasoned management team at that location. We expect to begin construction in the spring and complete the project in 2019. This expansion is critically important to meet our ever increasing customer forecasted demand for engine oil, transmission cooling products, as well as additional powertrain cooling products.

Turning to page 9, the CIS segment reported $144.9 million of sales compared to $34.7 million in the month of December last year. Gross profit was $18.6 million which resulted in a gross margin of 12.9%. This segment reported adjusted operating income of $4.9 million, a $5.2 million improvement over the operating loss reported last year.

The third quarter is the seasonally weakest quarter for the CIS business and we expect both revenues and margins to be higher in the fourth quarter. We continue to focus on addressing our performance challenges at certain CIS locations and on driving operational improvements. There are many opportunities to drive efficiencies in the business and we have the right leadership team in place to leverage operating discipline built by Modine with the product and market knowledge of the CIS business.

Operating margins are clearly lower than we would like them to be, especially when you include the significant impact from purchase accounting. However, we are focused on achieving our synergy targets for this business while bringing technical and manufacturing resources to grow both revenues and, of course, profitability.

In November we took our first major step towards this goal by announcing the closure of our manufacturing facility in Gailtal, Austria. This closure reduces excess capacity and lowers our manufacturing cost in Europe.

Please turn to page 10. Sales for our building HVAC segment increased 16% on a constant currency basis compared with the prior year, continuing the upward momentum we have seen each quarter this fiscal year. The increase in sales was driven by improvements in ventilation, North American heating, and UK air-conditioning.

Gross profit increased 24% and gross margin improved by 140 basis points to 33.8%, benefiting from operational improvements in this segment. This resulted in adjusted operating income of $9.2 million, up 36% from the prior year driven by the good conversion on higher sales volume.

We are benefiting from a better heating season this year after experiencing two years of market declines. In addition to market growth we are also gaining market share in our historically strong Midwest and Northeast region along with making gains in the Canadian market.

We also expanded our product offering in our ventilation line in North America launching the D-cabinet, which is the largest capacity rooftop ventilation product to date. We showcased this product at the recent AHRI (sic - see slide 10 - AHR) Expo in Chicago and quoting activity is now underway.

With that, I would like to turn it over to Mick for an overview of our consolidated financial results and Mick will also review our revenue and earnings guidance for fiscal 2018.

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

Good morning, everybody. Please turn to slide 12. As Tom mentioned, sales increased $147 million or 42% on a constant currency basis. Sales in our CIS segment totaled $145 million, which was $110 million more than last year. As a reminder, the prior year only included one month of results.

Besides the favorable markets, revenue also benefited from favorable foreign exchange rates and metals pass through. Excluding CIS, constant currency sales were up $39 million or 12%. Gross profit of $85.4 million was up $26.4 million or 45%. $14.2 million of the increase can be attributed to the year-over-year impact of CIS.

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Excluding CIS, gross profit was up $12.2 million or 22%. There was good growth in gross profit in the Americas, Asia and building HVAC including margin improvements. Our gross margin was down slightly for a few reasons.

First, we had a sizable sales mix impact on a year-over-year basis due to the inclusion of CIS which had a lower gross margin than the Company average. Second, net metals impact was negative compared to the prior year. In addition, Europe recorded some special pricing settlements last year in the third quarter that did not repeat this year. Despite these impacts our business, excluding CIS, showed year-over-year margin improvement.

SG&A of $60.8 million was up $10 million, which is primarily due to the incremental increase from CIS and the change in foreign exchange rates. CIS accounted for $9 million of the increase along with another $1.4 million from unfavorable exchange rates.

Please note that at the bottom of the page we've included a table with adjustments to operating income which totaled $13.1 million for the quarter. The single largest item was the announced closure of a manufacturing facility in Austria within the CIS segment. This resulted in restructuring expenses and an asset impairment charge totaling $9.5 million during the quarter.

We also adjusted for $1 million of acquisition integration costs along with $1.2 million of strategy consulting fees. The remaining balance relates to restructuring expenses in Europe and Americas and environmental expenses for a plant that was previously owned.

Third-quarter adjusted operating income of $27 million was up $8.6 million or 47%. Our adjusted earnings per share was $0.35, an improvement of $0.14 or 67%.

Note that Modine's GAAP EPS, a loss of $0.57, was significantly impacted by tax reform legislation enacted in December. We recorded $35.7 million of provisional charges to income tax expense in the quarter related to tax reform. This included an adjustment to our deferred tax assets of $20.7 million due to the reduction of the US federal corporate tax rate and $15 million for the transition tax on foreign earnings. After adjusting for the tax reform charges we had a low effective tax rate which was positively impacted by a credit in Hungary.

Turning to slide 13, year-to-date operating cash flow was $105.6 million, which is $70.6 million higher than the prior year. The year-over-year increase was due to the combination of several items including the inclusion of CIS this year and higher earnings along with improved working capital.

Capital expenditures were higher than the prior year by $9 million and we expect capital spending for the full year to be around $70 million. This is higher than last year primarily due to the unfavorable foreign exchange rates and capital spending in our new CIS segment. In addition, we made equipment purchases to expand manufacturing capacity in China.

We reported year-to-date free cash flow of $50.6 million, which was better than the prior year by $61.6 million. Please note this includes $20 million of cash payments for restructuring activities, acquisition and integration costs along with legal and environmental expenses.

Finally, our debt leverage ratio is currently 2.5, down from 2.9 at the end of fiscal 2017. This is well below our current covenant ratio requirement of 3.25 times. We set a goal of getting our leverage ratio back to 2.5 times by the end of this fiscal year. With strong cash flow performance through the first nine months, I am pleased to report that we are ahead of schedule.

Now let's turn to our fiscal 2018 guidance on slide 14. Based on the tailwinds in some end markets along with additional FX benefits and favorable taxes, we are raising our fiscal 2018 sales and adjusted earnings per share guidance. We are also tightening by raising the lower end of our adjusted operating income and adjusted EBITDA guidance.

To summarize our revised guidance, we project sales to be up 36% to 40% from the prior year. We expect adjusted operating income to be in the range of $112 million to $117 million. We raised the lower end of this range and currently expect an increase of 55% to 62% compared with the prior year. We anticipate adjusted EBITDA to be in the range of $187 million to $192 million. Our current expectation equates to an increase of more than 50% over the prior year.

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As usual I want to review our other key assumptions. Metals prices have continued to increase and we are seeing an increase in sales due to the metals pass-through process. This is contributing to our change in the sales outlook. In line with last quarter, we assume annual interest expense of approximately $26 million.

Moving on, we expect our adjusted EPS to be between $1.44 and $1.52, which is up significantly from $0.78 in fiscal 2017. This includes the change in our expected mix of earnings and the impact of the lower US tax rate resulting in an adjusted tax rate of approximately 10% to 12% in fiscal 2018.

So to wrap up, we progressed nicely as a Company following the Luvata acquisition. Our earnings through the first three quarters of 2018 -- fiscal 2018 I should say -- are more consistent than the past few years. And we have an opportunity to close out a truly great year in terms of financial results and shareholder value. With that, Tom, I'll turn it back to you.

Tom Burke - *Modine Manufacturing Company - President & CEO*

Thanks, Mick. Please turn to slide 15. Following on the success of our Strengthen, Diversify and Grow strategic initiative, Modine is now a more profitable, diversified industrial Company. At the same time we have reorganized our regional vehicular business segments into one global business unit, enabling a more structured approach to optimize our portfolio across our served markets.

We are performing a strategic review of all of our business units that will help us prioritize our capital and resources where we see the best opportunities for profitable growth. This will help to create our capital allocation plan and prioritize future investments. These investments may be in the form of R&D spending, capacity expansion, and/or acquisitions.

It has been a year since we completed the acquisition of the CIS business and overall I am very pleased with the result. As promised the acquisition has been immediately accretive to earnings and has generated significant cash flow to repay our debt. This will allow us to evaluate our next major strategy moves to grow the Company and drive value for our shareholders.

We continue to see both top- and bottom-line growth resulting from strength in our end markets along with market share gains and new program launches. We are clearly benefiting from a strong automotive and off-highway market situation and are capitalizing on our leading position in engine cooling to win business in electric vehicle space.

I mentioned earlier that we secured a significant order for battery plate cooling with an existing customer in Europe. Our teams are engaged in multiple opportunities globally and we are very well positioned with our products and footprint and have a strong "right to win" as the acceleration to electric vehicles continues in the automotive as well as specialty truck and bus markets.

I'm very pleased with our results so far this year, which has resulted from all the hard work done over the past several years to strengthen and diversify our business. In addition, I'm excited for the new fiscal year especially given our strategic initiatives which provide us with the opportunities to continue investing in profitable growth for years to come. And with that, we would like to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). David Leiker, Baird.

David Leiker - *Robert W. Baird & Company - Analyst*

I don't usually say this -- awesome quarter, way to go.

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Tom Burke - *Modine Manufacturing Company - President & CEO*

Thank you.

David Leiker - *Robert W. Baird & Company - Analyst*

On the off-highway business and the strength you are seeing there, is there a way you can break that out a little bit of how much of it is the market, how much of it is new launches, how much of it is share gains? And I know it's going to be tough to do, but any thoughts you have there?

Tom Burke - *Modine Manufacturing Company - President & CEO*

I can't quantify it, but I'll try to give you qualified response to that. Clearly we are seeing the tailwinds of strong construction and infrastructure changes in China which has really boosted up there. North America as well with construction and we are seeing that. You know the names we are dealing with there.

But what's most exciting is that -- besides taking those tailwinds, is we are winning a lot of business in new programs that we are launching right now on work that has been done with our product portfolio -- focusing on a more competitive situation that leads to more profitable opportunities on winning business both in the construction side and in the ag side. So we've won some significant business with the major global players there.

So, we probably have not been in this strong an off-highway position in a long time, being able to capitalize on tailwinds, but bringing the right products at the right time that's bringing new business which means share gain as well. So, that's kind of the high level summary. I can't really break that down any deeper by numbers. Mick, do you have any thoughts on that?

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

Just as we went through the data and the performance in the quarter, I was going to make the same comment, David. Generally across the markets we were in line with market growth, slightly ahead. And then the biggest impact, as Tom mentioned, is the win rate, the quote activity and the order book is clearly outpacing the last few years and the market growth rate. So we are really optimistic about the order book that is building.

David Leiker - *Robert W. Baird & Company - Analyst*

How broad-based is it across the products? Is it a handful of products or -- some sense that you have there in terms of the product offering you are winning with?

Tom Burke - *Modine Manufacturing Company - President & CEO*

I think this is a really good example of the global product strategy we put in place years ago, getting that matured up and really determining what we need to be to be in a strong right to win position. So, when you think about the PTC module aspect, we brought in some new products to go along with that on the oil cooler line to compete against some of the stronger players out there that we've gone head to head with over the years. It really is conquesting sales.

So, it has been both on what I would say the PT side and PTC side, powertrain cooling, as well as the engine products that are going into those businesses as well, oil cooling and so on. I can tell you this is a broad strategic focus on really building up the off-highway product portfolio that's really paying off for us now. And with the singular focus on the VTS side we're able to really deploy those resources critically.

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So this is North America and Asia I mentioned, but Europe and South America are also benefiting well. We know Brazil is still challenged down there, but we feel very strong with the position we've established down there and we will definitely capitalize on the upside as that market comes back because we have gained a lot of share in that region as well.

David Leiker - *Robert W. Baird & Company - Analyst*

Yes, it's great to see the actions you've taken there or discussions in terms of the global structure of the business. And it seems like this has really put you in a position to win.

And then just one other item here. It has been a year since you bought Luvata. Just some thoughts on where you are on the integration and the synergies, cost and revenue synergies. And some context of how that's tracking versus what you would've expected.

Tom Burke - *Modine Manufacturing Company - President & CEO*

Yes, I will kick this off and let Mick take the backend of those questions you mentioned when it comes to synergy achievement and his thoughts. But could not be happier with the acquisition. Yes, we have some margin improvement opportunities but we knew that going in. And that was very keyed up in the due diligence that we did and the engagement upfront in negotiations.

The action we took with closing the plant in Austria was something that was keyed up inside of due diligence. We knew we had to take action there. We got some other product portfolios specifically maybe in the industrial side of the business at one of the locations that's going to need some support. So we knew those going in.

Taking those off to the side, the core business, being the largest coil supplier in the world, adding our portion of that North America. Could not be happier with the synergy of the teams, the cultural integration which, again, is very important in any successful acquisition of that size. Very pleased with how our leadership teams have come together. You can see it all the way down through each function that's been engaged.

So from a strategic standpoint it's delivering exactly what we wanted to, leveraging our thermal management expertise across a broader set of products and markets that we can use the synergy there. Again, a leading position in coils that is generating the accretive aspect of earnings. Cash flow of the business is excellent, as you know that what I call the quality of earnings, the capital intensity is less, but yet the business is very different.

At the same time, it is thermal management, but they have thousands of customers versus the handful that we deal with on the vehicular side. And that diversification, small order size, responding quickly to orders gives us a whole different dynamic that we really are benefiting from and look forward to supporting even more and making sure we capitalize on every opportunity.

We just came off of the AHRI (sic - see slide 10) show down in Chicago where we had two booths set up, one being our building HVAC booth and a separate booth for the CIS segment because they are separate channels of market. CIS is more of an OE supplier. A lot of good engagement with a lot of the big names you know on the building HVAC, on the commercial heating and cooling and refrigeration side. And very pleased with the feedback we are getting there.

So, all in all strategically I'm very pleased. Again, work to do on driving share, but -- as far as driving margins. But Mick, do you want to add any of your thoughts on synergies and the like?

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

Yes, just quickly on that, David. We talked about the onset of the acquisition, $15 million in three to four years. And in the last couple quarters Tom has pulled that in. So we are well on track to exceed the $15 million in synergies. The step up, if I recall correctly, of all the purchase accounting was right in that $13 million to $15 million range and our goal at a minimum was to offset all of that. And our plan is to get to $15 million plus within the first two years.

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And have been really happy, as Tom said, on the cash flow side. We've talked about it being a very stable business. It has a slightly different seasonal pattern, but kind of a GDP grower. I think the things we need to continue to focus on this first year is a big pop. We get the first year-over-year benefit of the acquisition. As Tom said, we know it needs to refresh the product portfolio and keep up with the conversion in the industry to aluminum.

We have to ensure they've got a low -- lowest cost footprint and manufacturing cost. You saw our first move here with the closure in Austria. And then making sure they've got the right infrastructure and that's really around -- we are going to have some aggressive plans to implement an ERP system globally here in the next couple years.

David Leiker - *Robert W. Baird & Company - Analyst*

Great, great, thank you. Again, great quarter.

Operator

Mike Shlisky, Seaport Global.

Mike Shlisky - *Seaport Global Securities - Analyst*

So starting off, in the heating world, whether it is CIS or building HVAC, what you're talking about today has been the results through 12/31. It got a lot colder in January over much of the country -- snowing in Florida and Texas and things like that.

Could you comment, I guess, on the order pattern to kind of start the quarter? And is there a long tail that goes through the entire calendar year as people and institutions want to make sure that they are prepared for next winter? Or is it a very short-term short tail kind of a product for you?

Tom Burke - *Modine Manufacturing Company - President & CEO*

Well, it's a little early to give you the full answer there. Clearly we saw a market rebound, as I mentioned, over the last two years of a market that was a little bit down compared to some of the polar vortex winters of three or four years ago. So we are pleased with that. And on top of that, as I mentioned, market share gain has been very improved. We've got a lot of focus on sales channel and rep engagement out in the field.

As far as the extended performance of the heating season, typically you start seeing, as you get into January, a tail off of sales, okay, as the major work is done as the replacement business, which is about half the business in the heating sales is kind of determined because of the cold snap that usually happens before -- in the early part of the winter season.

The longer tail is definitely seeing some benefit this year. Can't quantify it yet, but pleased with what that's driving and we think that has some positive effect on Q4 opportunity in the building HVAC business.

What that does coming out of the winter season, replenishment of inventory is really a great question, number one, and one that we keep a real close eye on. Typically we have some restocking programs that we offer in the spring. We try to help with that and hopefully what we'll find is that we took a lot of product off-the-shelf over the winter and that we don't have to necessarily be as aggressive.

The restocking program is getting into the late winter/ early spring setting up the next season. So, we will have more clarity of that in our Q4 call and year-end call in May. But right now we are pleased with what we see and it's a really good question, Mike.

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Mike Shlisky - *Seaport Global Securities - Analyst*

Okay, got it. Secondly, can you update us on the raw material situation going into calendar 2018 here? I know some of these prices have gone up for the last couple of months. Is there a point where you see us lapping in calendar 2018? Or is there going to still be a headwind through much of the year?

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

Did you say a lapping, Mike, or a catch-up kind of question?

Mike Shlisky - *Seaport Global Securities - Analyst*

Yes, or just -- it's been high for a year and so you've had a chance to price it in over a period of time.

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

Yes, I think as we -- probably the biggest change we've seen since October was I really thought our Q4 would probably be the end of the negative impact. Year to date the first three quarters the net metals impact to us has probably been in the $10 million range.

With the rise in the last few months again of metals it just kind of pushes out the curve. So, if we hold and metals start to stabilize we will get some catch-up in the new fiscal year.

It's these environments where if it's a long and steady increase it's not a huge quarterly impact and you've seen that in the last three quarters for us and eventually you catch-up. And it just seems to have been pushed a little bit out with the additional run here in the last few months in metals.

Mike Shlisky - *Seaport Global Securities - Analyst*

Okay. Can you update us on the electrified commercial vehicle programs that might be out there? I keep hearing about some companies out there looking to launch electrified platforms as early as calendar 2019.

I guess I'm curious, are you involved, [and assuming] that you are, in electric automobiles? Could you confirm with us that in general it's a bit higher dollar content in an EV truck as opposed to a diesel truck from your contract perspective?

Tom Burke - *Modine Manufacturing Company - President & CEO*

That's a great question. Looking at my list of what I'd say EV customers right now, and there's at least 2.5 dozen customers we are dealing with across auto, bus, commercial vehicle and specialty vehicle. I really like to make you throw that in there, specialty vehicle and bus. Our engagement right now in this segment is extremely high.

Obviously there's the names of people that you know well on the vehicle side, on what I'd call light-duty, that we are engaged with. I mentioned the recent purchase that we had with a European automotive supplier of note that we won the battery plate cooling. We are seeing that same dynamic across both existing players as well as new entrants, startups and, by the way, in every region of the world. So US, Europe and specifically in China.

On the commercial vehicle side, yes, we are engaged with names that are out there and content can be significant. Development work is high and, as far as to announce any sort of sourcing, it would be premature at this point. But I can tell you that our teams are heavily engaged.

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I really want to talk about is that you kind of mentioned the commercial vehicle. And really getting off the light-duty vehicle that gets all the attention is the specialty truck and bus segments that we serve. And by the way, as you know, we have a strong participation rate there both in North America and Europe.

The EV what I would say transition into those segments is really moving fast. And we are talking about significant content. But the municipalities that have both infrastructure benefits for the EV because of recharging capabilities and things that are already kind of in place, plus the fact that you have a lot of municipalities that are starting to demand more let's say green type policies on how urban centers need to be managed as far as the environment. So, we really see a lot of activity there and it's very, very encouraging.

So across all markets of the vehicular side -- and I also want to say there is EV and then there's this hybrid -- plug-in hybrid aspect as well. We are very engaged with that. So the product portfolio that we've established through the engine product work of the last several years and making sure that that can be integrated and used on EV content is really paying off. We are going to see a benefit in both battery EV, BEV and plug-in hybrid EV.

And the content -- we have kind of done some work on this, Mike, on we've kind of said in general, thermal content -- ICE thermal content electric vehicle, significantly higher for EV when you take everything into account. We've kind of broken it down on a product portfolio basis for us and we see a significant proven opportunity there.

That's not including things like cabin cooling where you're going to have specific HVAC kind of systems where we're not participating. But when it comes down to the traditional engine-related products such as chillers, liquid condensers and getting into the powertrain cooling aspect of [inverter] cooling, those things, our products are very well-established as well as the powertrain side on light-duty radiators and the like.

So, our portfolio is right, the research and development we're putting into it is the right time. And I'm really excited with the pull that's starting to come from the market that we've seen over the last year.

Mike Shlisky - *Seaport Global Securities - Analyst*

Great. And then looking at the current dealer truck market, it's kind of been in the news recently. One of the big US truck makers has teamed up with one of the big global European truck makers on a JV with the intent of -- I'm not really sure how to explain it -- but perhaps to squeeze the suppliers and perhaps even pit them against each other for a single global contract.

I'm kind of curious, is this a big risk to your business right now? Or perhaps do you think that your new structure is actually optimal for this type of global procurement JV, versus your competitors.

Tom Burke - *Modine Manufacturing Company - President & CEO*

I think the work we've done over the last several years really culminating with this singular focused vehicular business unit has us well prepared to engage with the market dynamics wherever they may fall.

The confidence we have in the portfolio, the confidence we have in how we've built a strong engine business, how we've built PTC products that can be used across off-highway and in commercial vehicle space so that we can really use that asset the right way has given us position where we don't need to -- I want to use this word -- run scared.

I think I made this comment last quarter, that we don't feel the need to go chasing market share. We feel confident that we have the options, now that we have this stronger right to win, that we can participate accordingly and feel confident with what that will year for us and namely for our shareholders.

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So, the portfolio, the diversification, the focus we have on vehicular now so we can make good global decision has us very well positioned to let's say engage appropriately with those new market dynamics you described.

Mike Shlisky - *Seaport Global Securities - Analyst*

Okay. I'm just going to squeeze in one last one here. And I told myself I would not ask about the fiscal 2019 outlook, and I'm not going to. This is more of a housekeeping question.

As far as the tax rate goes now that you've gotten past the tax reform, can you give us a go-forward cash rate we could start to model for fiscal 2019 at the very least?

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

Yeah, Mike, I think for now I would say we think we'll most likely be in the low 20s and (multiple speakers) total company blended basis.

Mike Shlisky - *Seaport Global Securities - Analyst*

And that is -- is there still a Hungarian tax benefit next fiscal year or that's over by the fourth quarter?

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

No, that's over -- that will be -- after this year we'll be done with that. So we would expect to be after that next year low 20s.

Mike Shlisky - *Seaport Global Securities - Analyst*

Alrighty. I've got it. Thanks so much, everybody. Appreciate it.

Operator: Matthew Paige, Gabelli & Co.

Matthew Paige - *Gabelli & Company - Analyst*

Good morning and congratulations. I wanted to touch on -- on your balance sheet. You demonstrated your ability to delever obviously through free cash flow, but you also mentioned some capital projects, especially in Asia. So, what are your thoughts on current leverage? Are you comfortable here?

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

Yeah, we've -- our goal since the acquisition was to get the leverage back to 2.5 times and we'd like to keep it below 2.5 times and continue to push it down. Next year we should be able to drive it further down with our optimism next year from earnings and still continuing to hold CapEx tight. And that just really allows us to keep the dry powder of the balance sheet for the next strategic move or acquisition we want to make. But we do feel comfortable with the path we are on and where we are going.

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Tom Burke - *Modine Manufacturing Company - President & CEO*

Let me just add on that as far as the investment in China specifically. When we went to China with our greenfield site strategy we were aiming ahead towards a day when emission requirements in China were going to start matching Western world standards, namely Euro 6 and the like.

So the products we invested in were the aluminum products, higher efficiency, kind of euro focused because of the strong association with the OEs coming out of Europe supporting into China. That strategy laid down by the leadership team years ago is now really starting to pay.

This investment that we're making is a reflection of the success of that strategy. Having to add a fourth vehicular plant inside of China is a great story that's going to have great returns. So, I just want to say that this is a go forward strategy built on investment because of the growth of that focus years ago they put in place.

Matthew Paige - *Gabelli & Company - Analyst*

Yes, absolutely. And maybe along those lines, could you speak to what is in your current M&A pipeline? And what areas, either geographically or product line wise, do you want to expand or get into?

Tom Burke - *Modine Manufacturing Company - President & CEO*

I will say this is early days. I noted, you might have noted in my comments that we are doing a strategic evaluation over each of our business units now. We've brought in some help to really kind of what we call the next phase of our Strengthen, Diversify and Grow initiative. That is, where are we going to put our investment for the best possible growth in returns. And with that the opportunities for looking at adding via acquisition as well.

So, it is early days in that yet, but we've established a formal structure inside the Company and have a new Vice President of Global Strategy and Business Development that's been assigned. We're putting in the right resources so this becomes a focus every day of what we are updating.

So, I look forward to bringing new findings and developments of how that's going to go in the future. But right now I feel pretty positive that we've got multiple options in front of us and we're making the best decisions for our shareholders.

Matthew Paige - *Gabelli & Company - Analyst*

Great. Well, congratulations again and thanks for taking my questions.

Operator

Douglas Dethy, DC Capital.

Douglas Dethy - *DC Capital - Analyst*

Good morning, Modine team. Good quarter, terrific, thank you. A question, you had recently announced a couple major hires I think in the IT, general counsel area. Can you just come in on those? You had some consulting fees during the quarter. Just a little bit of like is the focus here you're trying to keep up with what you've already got on the plate or is it really about looking forward or both probably? If you would elaborate.

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Tom Burke - *Modine Manufacturing Company - President & CEO*

It's clearly looking forward. I will say first since she is sitting in the room, Sylvia Stein has joined the team just recently and we're very, very thrilled about that. It was an opening because of our previous GC having a personal opportunity to move into a new role for her. And we had a great search and really I can tell you a great result. And I'm very pleased with the experience that Sylvia brings where she was at Kraft Heinz before and a lot of global experience that's going to help us out significantly.

And Mick mentioned the need for IT work and strategy going forward. And so, we did a deep search there and likewise Steve Langer will be joining us again with a lot of experience coming from a consumer business background globally very focused. So that's going to be a key element for us as well.

You mentioned some -- I mentioned the strategy work that we did before. That was really the expense we put into some outside consulting. I can say that our focus is to build that capability in-house. So we invested some to make sure we had a good current state assessment of our businesses, as I mentioned, so that we can now make the right decisions going forward on how to best do that.

So that SG&A hit on consultancy will minimize -- be minimized this fiscal year and build up with the team I mentioned before on the strategy side. Mick, did I miss anything?

Mick Lucareli - *Modine Manufacturing Company - VP, Finance & CFO*

Just to emphasize that what Tom said, we put an existing leader in charge of strategy and we are going to put a team under that individual linked to our business units to drive strategic thought and discussion daily within the building and IT side. I was glad Tom used the word where -- lots of opportunities.

We have to put a few of the foundation pieces in place with IT, but thinking strategically about maximizing IT and how to use it and in some cases it being a competitive advantage for us on the front lines and in the marketplace. So excited about the investments we are making.

Douglas Dethy - *DC Capital - Analyst*

Okay, good. Thank you very much.

Operator

Thank you and I'm showing no further questions at this time. I would now like to turn the conference back to Kathy Powers.

Kathy Powers - *Modine Manufacturing Company - VP, Treasurer, IR & Tax*

Thank you. And this concludes today's call. Thank you to everybody who joined us this morning on the call and thanks for your continued interest in Modine. Goodbye.

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