

---

**— PARTICIPANTS****Corporate Participants**

---

**Kathleen T. Powers** – Vice President, Treasurer & Investor Relations, Modine Manufacturing Co.

**Thomas A. Burke** – President and Chief Executive Officer, Modine Manufacturing Co.

**Michael B. Lucareli** – Vice President, Finance, and Chief Financial Officer, Modine Manufacturing Co.

**Other Participants**

---

**Robert Kosowsky** – Analyst, Sidoti & Co. LLC

**Joe D. Vruwink** – Analyst, Robert W. Baird & Co., Inc. (Broker)

**Shivangi D. Tipnis** – Analyst, Global Hunter Securities LLC

**— MANAGEMENT DISCUSSION SECTION**

Operator: Good morning, ladies and gentlemen, and welcome to the Modine Manufacturing Company's Fourth Quarter Fiscal 2014 Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Ms. Kathy Powers, Vice President, Treasurer and Investor Relations.

**Kathleen T. Powers, Vice President, Treasurer & Investor Relations**

---

Thank you for joining us today for Modine's fourth quarter fiscal 2014 earnings call. With me today are Modine's President and CEO, Tom Burke and Mick Lucareli, our Vice President, Finance and Chief Financial Officer.

We will be using slides for today's presentation. Those links are available through both the webcast link, as well as a 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 two is an outline for today's call. Tom and Mick will provide comments on our fourth quarter results and provide our revenue and earnings guidance for fiscal 2015. At the end of the call, there will be a question-and-answer session.

On slide, three is our notice regarding forward-looking statements. I want to remind you that this call may contain forward-looking statements as outlined in today's earnings release, as well as with our company's filings with the Securities and Exchange Commission.

With that, it is my pleasure to turn the call over to Tom Burke.

**Thomas A. Burke, President and Chief Executive Officer**

Thank you, Kathy, and good morning, everyone. Our revenues for the fourth quarter were up 9%, with sales growth in each of our segments other than South America where economic conditions remain somewhat challenged.

Of particular note were our European region, which delivered 15% year-over-year sales growth and our Building HVAC segment which had a record heating season in North America. In addition, our Airedale subsidiary in the UK had a strong quarter despite the challenges of the fire that destroyed our manufacturing facility last year. And we also completed the acquisition of Barkell, a manufacturer of air handling units in the UK.

We delivered adjusted earnings per share of \$0.15 for the quarter, which was down \$0.03 from a strong fourth quarter last year. For the full year, we delivered 7% sales growth and adjusted earnings per share of \$0.73, ahead of our previous guidance and up 83% from fiscal 2013.

Overall, I am pleased with our financial performance this year, and in particular, with our \$51 million of free cash flow generation. Our balance sheet is strong and we have created the financial flexibility to execute our growth strategy. Mick will provide some more details on our financial results in a few minutes, but first, I would like to comment briefly on our segment results and market outlook for fiscal 15.

Turning to page six, revenue was up 4% in the North America segment, with higher sales to commercial vehicle and automotive customers offsetting a decrease in sales to off-highway customers. Although gross margin was up in North America year-over-year, operating profit was negatively impacted by a \$2 million warranty charge related to a unique matter associated with a specific product manufacturer in North America for our Building HVAC segment. We've identified the root cause and have fully addressed this problem.

Last month, we announced plans to close our McHenry, Illinois manufacturing facility and to consolidate all North American parallel flow heat exchanger manufacturing into other North American facilities. Although making the decision to close a plant is never easy, we believe this move is necessary to maintain the scale that we need in our manufacturing operations to deliver cost competitive products to our customers.

We recorded \$2.4 million in restructuring and impairment charges in the quarter, and we expect to incur total closure costs of approximately \$5 million, in addition to some manufacturing cost inefficiencies that are inherent with winding down an operation. Once the plant is closed, in fiscal 2016, we expect approximately \$5 million of annual savings.

Looking forward, we expect mixed market conditions in North America to continue during fiscal 2015. We expect heavy truck production to be up 10% to 15% and medium truck production to be up 3% to 8% versus the prior year. Our outlook for the off-highway is flat to down 10%, with the agriculture equipment segment of the off-highway market remaining challenged in fiscal 2015.

Given our current mix of business which – the good news in the truck market will be somewhat offset by weakness in the off-highway, particularly in the agriculture and mining equipment sectors where we have a heavier concentration.

Several of our off-highway customers continue to emphasize cost competitiveness and are aggressively seeking productivity improvement from their entire supply base. Despite these challenges, we see opportunities with these customers, as we have demonstrated our ability to successfully compete in this region. In the North American automotive market, we're starting to see new opportunities develop with Detroit-based customers resulting from our latest design innovations for the engine products in support of the OE's need to improve fuel efficiency.

Please turn to page seven. Our Europe segment sales increased 15% in the fourth quarter, driven by higher sales to commercial vehicle customers, higher tooling sales, and the impact of the stronger euro. Excluding the impact of currency, sales grew 11%.

Sales to commercial vehicle customers were up 25%, driven by higher launch volumes of components for Euro VI vehicles, partially offset by a decrease in sales of Euro V components. We anticipate that overall production volume of commercial vehicles will be flat to down 5% in Europe, driven primarily by the pre-buy of Euro V vehicles prior to the January 1, 2014 changeover. That being said, we expect our increased market share of Euro VI components will result at higher year-over-year production increases for Modine.

Sales to automotive customers in Europe were down slightly in the quarter as higher sales of components were offset by a decrease in automotive modules as the BMW program continues to wind down. We expect the broad European auto sector to be flat to up 5% in fiscal 2015, and we expect to see smaller declines in sales of BMW modules as the remaining programs near completion. Europe's gross margin was negatively impacted by a \$2.4 million warranty charge in the quarter, which was spread across a number of different products.

As you know, our strategic focus over the past two years has been on restructuring this business. We are entering the final stages of this process, and I'm pleased with the work that's been completed so far. We have reduced our assets in the region by \$30 million and have lowered our annual costs by \$16 million. During this period, we have also ramped up production on our Euro VI commercial vehicle programs and managed the wind down of the BMW module business.

We've a few remaining challenges to overcome before we reach our ultimate financial goals in Europe. First, we need to complete the last remaining consolidation of our manufacturing operations in Germany. As I've mentioned last quarter, we are combining operations from two German manufacturing plants into one. I am pleased to report that the initial phases of the consolidation are going very well and we estimate that the transfer will take approximately 18 months to complete. This is a very complex move and we have a dedicated team working to make sure it is completed successfully. As with any consolidation, there will be some added costs and inefficiencies that will impact our results during the consolidation period.

Second, we need to improve the production efficiency of the Origami radiator. As I mentioned during the past several quarters, we have made changes to the manufacturing processes related to our Euro VI compliant radiators. Our original Origami radiator plants call for a highly complex automated manufacturing process.

We were not satisfied with the consistency of this process during the initial launch phase. As a result, we made the necessary changes to the manufacturing process while maintaining the high quality of the product. However, as a result of these changes, we are not at the margin levels that we initially assumed in our plan. Most importantly though, we are fully meeting customer demand and quality performance requirements. I am confident we'll continue to improve our margins as we move forward with the plant consolidation.

Another obstacle facing Modine Europe is the current level of production volume. Our volume in Europe is still significantly lower than it was three years ago and is lower than we anticipated when we set our objectives for the European restructuring program. We expect the pre-buy of Euro V vehicles to continue to impact our fiscal 2015 volumes and are projecting European commercial vehicle market to be flat to down 5%. Despite these challenges, the team in Europe is driving the necessary improvements and I'm confident we will meet our goals in this segment.

Moving to South America on page eight, excluding currency impacts, sales were down 6% with decreases to OE customers partially offset by a slight increase in aftermarket sales. Brazil is

experiencing declines in their main markets namely commercial vehicles, bus, and off-highway equipment. In particular, the drop in the agricultural equipment market during the past quarter was primarily due to delays in government subsidized PSI program, which provides low cost financing for machinery purchases in Brazil.

Our outlook for fiscal 2015 for this segment is for market conditions in Brazil to continue to deteriorate. We are projecting that the commercial vehicle and agricultural equipment markets to be down 10% to 15% and for the aftermarket to be flat to down 5%. We believe that there is a risk of further slowdowns associated with the World Cup this summer, but that the resumption of the government-sponsored financing programs for commercial vehicles and off-highway equipment may help the markets get back on track later in the year.

The recent slowdown in the Brazil economy has challenged our near-term growth expectations. We will, therefore, focus on reducing our cost base and making it more flexible in order to maintain the profitability objectives at these lower production levels. These actions include head count reductions that will result in some severance costs during fiscal 2015.

Please turn to page nine. Sales for our Asia segment were up 19%, once again driven by export sales from India. We saw increases in sales to automotive and off-highway customers along with higher tooling sales in both India and China. Our team in Asia has worked hard to manage our costs over the last several years as the heavy-duty market stagnated with the slowdown of construction activity in China.

We have focused on diversifying our business model to become less reliant on the construction markets and are now launching several new products for the automotive and commercial vehicle markets in China, India and Korea. However, in order to be competitive in these markets, we must continue to maintain our intense focus on cost competitiveness. We plan to use our increasing knowledge of the local markets to gather decisions regarding growth opportunities in this region.

The outlook for markets in Asia has improved slightly. We are beginning to see signs of improvement in India, specifically for off-highway equipment and commercial vehicles. In China, however, expectations of growth in heavy construction equipment have been somewhat stifled by recent comments from the government indicating that a short-term economic stimulus may not be forthcoming.

In Korea, the strength of the Korean won has led to a softening of the Korean off-highway market, particularly for exports. Our team in Asia will be watching the market developments carefully and will act accordingly.

Please turn to page 10. Sales in our Building HVAC business were up 24% in the quarter. This was driven by a \$4.6 million increase in sales from our Airedale business in UK. Airedale is currently producing at nearly pre-fire capacity levels in their temporary manufacturing facilities. They have worked diligently to reduce their lead times to meet their customer expectations and order levels have remained strong. We'll break ground on our new manufacturing facility and tech center in early July and plan to begin production at the latter half of 2015.

The quarter includes approximately \$2 million of sales of Barkell Limited after our February 28 acquisition. Barkell is a manufacturer of custom-built air handling units located in the north of England. This acquisition will allow us to expand our product offering into the air handling segment, further extending our overall business offering to the HVAC market. Barkell has been a commercial partner with Airedale for some time and we're very pleased to welcome them to Modine.

In North America, our heating product sales were up \$3.9 million in the quarter, continuing a record-setting trend. The long, cold winter extended our selling season and our ability to keep up with demand led to an increase in market share.

Our Building HVAC group has proven that they're truly a growth driver for Modine. The work that this group has accomplished this year with the recovery of the Airedale fire, the acquisition of Barkell and the management of unprecedented volumes in the North American heating market has truly been remarkable.

Looking forward, given the elevated levels of heating product sales in North America in fiscal 2014, we do expect this market to be down somewhat in fiscal 2015. However, we continue to see positive trends in the UK data center and air handling markets and expect these markets to be up 3% to 8%.

And with that, I'd like to turn it over to Mick for an overview of our financial performance and guidance.

---

**Michael B. Lucareli, Vice President, Finance, and Chief Financial Officer**

---

Good morning. Please turn to slide 12. As Tom mentioned, we had a strong quarter with a 9% increase in sales. This includes favorable FX and tooling impact of \$5 million. As a result, our core sales were up approximately 7%. In the quarter, gross margin increased 30 basis points to 15.9%. The margin improved despite large adjustments to warranty reserves in North America and Europe. In total, we incurred approximately \$4 million of additional warranty cost. I am pleased that we were able to drive year-over-year gross margin improvement in each of the four quarters.

SG&A was up \$9 million, with several items accounting for nearly \$6 million of the year-over-year change. The major items are as follows. In the fourth quarter of last year, we received an insurance rebate of \$1.1 million and payments received for testing services was \$1 million higher. This quarter includes \$2.4 million of higher incentive compensation. Our SG&A in the UK was higher by \$900,000 due to the Barkell acquisition and Airedale fire-related costs. Last, the current quarter includes business development activities that resulted in transaction costs and professional fees of \$0.5 million.

Please note that we recorded \$6.8 million of restructuring expenses and impairment charges. \$4.4 million was tied to the consolidation of manufacturing operations in Germany and was mainly severance related. The remaining \$2.4 million relates to the decision to close our McHenry, Illinois manufacturing facility.

You can see that we had a significant benefit in our income tax line. As a reminder, in 2008, we established a valuation allowance against our U.S. deferred tax assets. In this quarter, we reversed valuation allowances based on a variety of factors, including our earnings improvements and expectation that these trends will continue. The reversal of the valuation allowance resulted in a one-time positive benefit of \$119 million or \$2.49 per share.

While the accounting can be somewhat confusing, this is truly good news for Modine. First, the reversal of the valuation allowance is recognition of the hard work in previous years to return the region to profitability. In addition, this means we will not pay cash taxes in the U.S. for the next several years as we realize these significant tax assets.

The only downside is that we will now record tax expense in our income statement relating to the United States. Therefore, our tax expense, as shown on the income statement, will be significantly higher next year. However, as a reminder, this is only a book accounting entry, and we will not be paying cash taxes. We reported GAAP earnings per share of \$2.49 in the quarter, and adjusted earnings per share of \$0.15 after adjusting for restructuring related costs and the tax impact.

Turning to slide 13, we generated \$51 million of free cash flow during fiscal 2014. This is a \$52 million improvement from the prior year. The free cash flow was negatively impacted by approximately \$9 million of cash costs for restructuring activity. So excluding this amount, free cash flow would've been \$60 million. Positive cash flow is continuing to strengthen our balance sheet. Net debt of \$77 million is \$63 million or 45% lower than the prior year. And our cash balance has increased to just over \$87 million. Please note that about \$17 million relates to temporary insurance proceeds from the UK fire.

Slide 14 highlights the results for North America and Europe. And in North America, fourth quarter sales increased \$6 million or 4%. The segment's gross margin improved 10 basis points, but was negatively impacted by the previously mentioned \$1.7 million of higher warranty expenses. As I previously stated, we recorded \$2.4 million of expenses related to the McHenry plant closure. Adjusting for the plant closure cost, operating income was \$9.8 million.

Now, looking at our European business segment on the right side, Europe had a strong quarter with sales up 11% on a constant currency basis and 8% excluding tooling sales. Despite a \$2.4 million increase in warranty costs, our gross margin improved 50 basis points to 12.3%. SG&A increased \$2.2 million versus the prior year. This was partially due to a lower rate of VAT recovery, which actually works as a credit or reduction to SG&A. Excluding the \$4.4 million of restructuring costs, operating income increased \$1.1 million from \$6.9 million to \$8 million.

Moving on to slide 15, we have a summary of the South America and Asia business segments. On a constant currency basis, sales in South America were down 6% or \$2 million. The gross margin declined 240 basis points to 15.2% on lower sales volume. Overall, the lower sales volume and higher SG&A in the quarter resulted in a \$2.3 million decline in operating income.

As Tom mentioned, we are not expecting economic conditions to improve in Brazil in the near future. For that reason, the focus of the region is on lowering costs to match the lower sales volume. We are anticipating some severance costs in the new year, as we plan to reduce personnel costs. And obviously, this will result in lower salary and wage expenses.

Now, turning to the right side at our Asia segment. Fourth quarter sales increased \$3 million or 19% continuing the trend of the past several quarters. The gross margin improved significantly, 700 basis points to 14.3%. We are continuing to experience good conversion on the higher sales volume. And SG&A expenses increased \$1.3 million, which includes \$300,000 of professional service fees in support of our business development activities over there. The results still show an operating loss, but we continue to move towards breakeven and this represents a \$400,000 improvement from the prior year.

On slide 16 is the Building HVAC segment. Sales were up \$8 million or 24%, as the Airedale business has returned to near pre-fire production levels. As Tom mentioned, the Barkell acquisition added \$2 million of sales in the quarter. Gross margin decreased slightly 20 basis points to 28.4% primarily due to sales mix.

While earnings are up, there are several items to highlight which impacted our year-over-year comparisons by approximately \$1.6 million. First, we have Barkell expenses, which include \$400,000 of normal SG&A cost along with \$200,000 of acquisition-related services. Also impacting the quarter was \$0.5 million of Airedale's fire-related cost not covered by insurance. And last, we are preparing for an SAP launch and incurred \$0.5 million of related expenses.

On another note, we have not recorded any income for insurance proceeds related to the recovery of the lost profit from the fire. We are reviewing our business interruption claim for lost profits with the insurance company, and we are expecting a settlement during the first half of fiscal 2015.

Now, let's turn to fiscal 2015 full year guidance on slide 17. As Tom outlined, we expect mixed market conditions in fiscal 2015. We see improvements in the North America truck market and stable growth in European autos. We remain concerned about the economic climate, though, in China and Brazil. We also anticipate weakness in global ag and mining markets. Therefore, we expect our revenues to be up 3% to 8% from the prior year. This will result in an increase to adjusted operating income with a range of \$65 million to \$73 million, as compared to \$61.3 million this year.

There are several important factors to consider in our anticipated results. First, we are planning to incur roughly \$3 million in cost relating to plant consolidations in Germany and North America. These costs relate to salaries of dedicated teams along with the expenses related to labor inefficiency, scrap material in inventory builds. Historically, we have not considered these as restructuring costs or adjustments to operating income, and therefore, our guidance assumes the absorption of these costs.

Second, as previously mentioned, we are planning to incur some costs associated with aligning the Brazilian business to match lower sales expectations. And third, we are assuming the business interruption claim related to the UK fire will be received in the first half of the fiscal year. We anticipate that SG&A will run in the \$190 million to \$200 million range, driven by a few key items. First, SG&A will increase in the UK by approximately \$5 million due to the acquisition of Barkell, and the resumption of Airedale to the normal level of operations post-fire.

In addition, we estimate that Europe's VAT recovery, the tax recovery, maybe nearly \$3 million lower than in this fiscal year, in fiscal 2014. Last but not least, we will not recover as much from third-parties who are using our testing facilities in the U.S. and Germany. As a partial offset, we are expecting to sell the German wind tunnel, which will result in a gain and positive cash flow.

Earlier, I walked you through the reversal of our tax valuation allowance, which will have a significant impact on our EPS calculation. While this is good news, because there's a significant tax benefit to Modine, we will now have to book U.S. tax expense on the income statement. We see our full year tax expense in the \$22 million to \$25 million range. This is roughly double the tax expense recorded in fiscal 2014 before the reversal of the valuation allowance. Once again, we will not pay cash taxes in the U.S. until we fully utilize our net operating loss carryforwards, which will cover approximately \$130 million of future taxable income.

So just to summarize, we are anticipating a nice increase in operating income, but given the higher tax rate, adjusted EPS will be in the range of \$0.63 to \$0.73. When trying to compare next year's EPS, we estimate that the tax changes in North America have an \$0.18 negative impact on fiscal 2015 earnings per share. So on an apples-to-apples basis, factoring in the tax impacts, the fiscal 15 EPS range will be roughly \$0.81 to \$0.91.

Obviously, there are numerous moving parts and complexities in the tax line, but we are pleased that the underlying income from operations is projected to improve again in fiscal 2015. And as we look further out, we're quite pleased that our order book remains strong and consistent with the prior year.

With that, Tom, I'll turn it back to you to wrap up.

**Thomas Burke, President and Chief Executive Officer**

Thanks, Mick. Turn to page 18, please. I am pleased with the results for the fourth quarter and for the fiscal year as a whole, and I'm extremely pleased that we're able to generate over \$50 million of free cash flow. As Mick mentioned, this number is even higher when adjusted for cash spent on

restructuring. Operationally, we continue to focus on improving the production efficiency of the Origami radiator and executing the final restructuring steps in Germany.

As I mentioned earlier, there will be some additional cost to complete these actions, but we are confident in the end that we will reach our profitability goals. We are seeing improvements in some of our markets namely commercial vehicles in North America, and in effect, in Europe for us, and also in global automotive. Indian markets continue to improve and we expect this trend to continue. This is partially offset by challenges in others, particularly Brazil, and the global ag and mining equipment market.

China volumes have held steady, but we clearly see that our diversification efforts, particularly, our new booked business in the automotive market will be imperative to fuel future growth. And as Mick mentioned, we expect total company revenues to improve 3% to 8% next year.

Strategically speaking, we continue to be guided by our enduring goals, leading us to focus on higher revenue growth, return on capital enhancement, diversification and continuous improvement. This year, we've taken several significant steps towards reaching these goals, recognizing that we are on a journey. Be assured we will address any and all challenges we face while never letting up on our maintaining our position as an innovative leader.

Our innovative capabilities will ensure that we continue to provide our customers with the products and value they expect and generate returns for our shareholders in this increasingly competitive marketplace. And with that, we'd like to take your questions.

**QUESTION AND ANSWER SECTION**

Operator: Thank you. [Operator Instructions] Our first question comes from Robert Kosowsky of Sidoti. Your line is now open.

**<Q – Robert Kosowsky – Sidoti & Co. LLC>:** Just had a question, I guess, first on Europe. Just curious about the cadence of the commercial vehicle sales, because it seems like it was a lot stronger in the March quarter than I thought it was. And I'm wondering if you're seeing a slowdown here in the June quarter as the pre-buys started to impact results.

**<A – Tom Burke – Modine Manufacturing Co.>:** Yeah. Well, it's a real mix of switch that's going on. We have much more content on Euro VI than we had on Euro V. So the pre-buy effect of Euro V gave us the boost coming through last year, but now we have a richer mix, so we're seeing an overall increase in commercial vehicle sales year-over-year. But the Euro V components are definitely lowering, but it's the mix of trucks that's given us the boost on an overall improvement that we see in Europe commercial trucks.

**<Q – Robert Kosowsky – Sidoti & Co. LLC>:** Okay. That's helpful. And then also switching to North America, that warranty expense, you included that in your [ph] SEDAR and exed (30:07) that out in the adjusted EBITDA.

**<A – Mick Lucareli – Modine Manufacturing Co.>:** Yeah. The \$2 million in Europe and \$1.7 million in U.S. are in the numbers. There was no adjustment to back those out. We just wanted to point out that the conversion in the margin would have been higher in the quarter, if we had those higher warranty costs.

**<Q – Robert Kosowsky – Sidoti & Co. LLC>:** Okay. And then one last question. It looks like SG&A in your forecast for this year is going to be up at a higher rate of sales. And it seems to be going higher from higher growth spending and some higher SAP. And I'm wondering how long is it going to last and when do you think you can get to a return of leveraging SG&A?

**<A – Mick Lucareli – Modine Manufacturing Co.>:** It's Mick. I'll take that question and then look to my boss here. No, we've had for probably a couple of years discussions with investors and analysts. We are still well below at the pre-recession level. The company was running at a \$240 million kind of annualized run rate. But at some point, we've tightened down as tight as we can go. And we've said now for a couple of quarters we see a little bit of the SG&A growth coming back from normal investments we need to do in people and for growth.

Really, what as a percent of sales we really need to have happened here is we need the top-line to continue to move in the right direction. We've had a few years of a little bit lower sales growth. So in dollars, SG&A will increase, but we drive it as a percentage of sales back down, we nearly need to move above this kind of \$1.5 billion range.

**<A – Tom Burke – Modine Manufacturing Co.>:** I think Mick answered that perfect. Clearly, our order book is strong, remained strong and you've got to support that with added SG&A to deliver on that and the growth resources they're putting into place. But we watch this very carefully and we expect that, as a percent of sales, it will stay under control.

**<Q – Robert Kosowsky – Sidoti & Co. LLC>:** Okay. That's helpful. And then finally, how much of a headwind do you see from the inefficiencies this year between McHenry and Europe?

**<A – Mick Lucareli – Modine Manufacturing Co.>:** Yeah. And just, again, these will be numbers we'll absorb and we'll discuss in our public filings. But we estimate about \$3 million in the earnings guidance we've provided. And that again relates to – we have dedicated the complexity of these two are pretty big. So you have the dedicated teams of people managing them. And then when you

have, obviously, the wind down of a plant and the wind up of a catching plant, the receiving plant, we have labor inefficiencies, scrap inefficiencies. Things like that that are very hard to quantify, but they are planned for in our budgets and our forecast. Hope that helps you out.

**<Q – Robert Kosowsky – Sidoti & Co. LLC>**: Okay. So whatever easy comparison we had on the warranties not recurring [ph] you're (33:08) giving it away this year, I guess, the inefficiencies from the plants, right?

**<A – Mick Lucareli – Modine Manufacturing Co.>**: Yeah. And our hope is, obviously, we work with the teams. We hope to push that \$3 million as low as we can, but we think it's better to head in knowing we've done enough of this that we know there will be some level of it. And then we'll follow up with you to let you know how that is shaking up.

**<Q – Robert Kosowsky – Sidoti & Co. LLC>**: Okay. And if you look at the scope or the size of these projects, would you expect that 2015 to be the bulk of those inefficiencies that you're going to absorb and then in 2016 you'll see that comparison turn more favorable?

**<A – Mick Lucareli – Modine Manufacturing Co.>**: [ph] Exactly, it's (33:41) the timing.

**<A – Tom Burke – Modine Manufacturing Co.>**: Yeah. It's also a timing and we'll calendarize where most of that cost will be absorbed in fiscal 2015. I mean some will trail out, but we expect – again, we have good experience doing this, teams dedicated and it should hit fiscal 2016 with the majority of that behind us.

**<Q – Robert Kosowsky – Sidoti & Co. LLC>**: All right. Thank you very much and good luck.

**<A – Mick Lucareli – Modine Manufacturing Co.>**: Thanks.

Operator: Thank you. Our next question comes from David Leiker of Baird. Your line is now open.

**<Q – Joe Vruwink – Robert W. Baird & Co., Inc. (Broker)>**: Hey. Good morning. This is Joe on the line for David.

**<A – Tom Burke – Modine Manufacturing Co.>**: Hey, Joe.

**<A – Mick Lucareli – Modine Manufacturing Co.>**: Hey, Joe.

**<Q – Joe Vruwink – Robert W. Baird & Co., Inc. (Broker)>**: I wanted to revisit Europe and just thinking about your revenues, CV revenues up 25% in the market. It looks like production was down a few points. Is that the type of out-growth we should be expecting all of fiscal 2015 or is there any sort of inventory stocking on Euro VI engines that kind of abates going forward?

**<A – Mick Lucareli – Modine Manufacturing Co.>**: This is Mick, Joe. I'll give you the kind of numerical look and let Tom add more color to what he's hearing. But no – a short answer is no. We're not anticipating that level of growth. Big picture as we look at the new fiscal year, we do have a sizeable amount of truck business that is growing. And that's just from the gain or market share gain of Euro VI vehicles.

On the opposite side, we've got, call it, \$10 million to \$15 million of the automotive BMW going down and another \$15 million of tooling. So you've got a \$25 million to \$30 million headwind on BMW and tooling revenue. On the positive, you've got a sort of pickup on the truck business. And then that excludes anything of what's going on with the general – obviously, with the markets. But we're not going to see that level of growth for Modine Europe next year from the top-line.

**<Q – Joe Vruwink – Robert W. Baird & Co., Inc. (Broker)>:** Okay. Just from kind of a market health standpoint, so we've heard that, obviously, a lot of Euro V deliveries still taking place, less so it seems like in Q2 and then by the second half, the entire market should be Euro VI. So if you had to pick up points on that guidance range for the market today, would you be skewing more towards the high end or the low end?

**<A – Mick Lucareli – Modine Manufacturing Co.>:** I'd say we're right in the middle.

**<Q – Joe Vruwink – Robert W. Baird & Co., Inc. (Broker)>:** Okay. Safe answer.

**<A – Tom Burke – Modine Manufacturing Co.>:** Yeah.

**<A – Mick Lucareli – Modine Manufacturing Co.>:** Yeah.

**<A – Tom Burke – Modine Manufacturing Co.>:** Good question, Joe.

**<Q – Joe Vruwink – Robert W. Baird & Co., Inc. (Broker)>:** Switching gears, North America, so on the flip side, 4% revenue growth this quarter versus commercial vehicle volumes that were up quite handily Class 8 production, the 20% increase. And it seems like just based on what some of the off-highway customers have been saying, there might have been some dealer restocking during the quarter. So any color on just the pace of revenue growth in that business?

**<A – Mick Lucareli – Modine Manufacturing Co.>:** Yeah. Again, it's Mick. I'll jump in on the top side and Tom can add color. We really think – I mean you know it well, but we've got about 18% to 20% of that business segment is Class 8 and we are seeing some benefit, clearly, the benefit from the market data everybody is watching.

And then we have our medium segment, but the rest of the business pretty high reliance on service, ag and construction. And really, from our side, we're not seeing the pickup in order rates in the off-highway space specifically in the ag markets. And then we do have a pretty heavy emphasis at Modine on the really big construction equipment including mining, and we haven't been seeing a pickup on the heavy equipment. Tom, anything that...

**<A – Tom Burke – Modine Manufacturing Co.>:** No. You've said it. Well, I think we do. On the off-highway seg, we expect maybe construction or lighter construction equipment to pick up some this year which is in there, but right now that gain in commercial truck has been offset by a pretty steep decline in our segments of the off-highway [indiscernible] (38:18).

**<Q – Joe Vruwink – Robert W. Baird & Co., Inc. (Broker)>:** Okay. Bigger picture normally around the fiscal year-end, you've provided two-year or three-year backlog updates. Just talking to OEMs visiting you guys at things like CONEXPO and Mid-America, there definitely seems to be a greater emphasis on thermal technology now that we're done with the emissions side of the equation, so emphasizing the performance of these engines, you can bring in the thermal suppliers as a big piece of that. With that, in the background, what does the backlog look like as we get out of fiscal 2015, and you start to look towards 2016 and 2017 horizons?

**<A – Tom Burke – Modine Manufacturing Co.>:** We are very bullish on our outlook on the backlog. We gave guidance a year or two ago and that guidance still kind of holds forward and consistent. So the activity on development opportunities and supporting new projects is very high, one of those things that's challenging our SG&A, as we mentioned earlier in the previous caller or previous question. So we remain very bullish on the outlook with the – just what you said, as the emissions changes got contained, there's now a big focus on fuel efficiency, and that brings in more precise engine management things, challenges that require new innovations that we're really well-positioned to deliver on. So we look very positive at the outlook.

<A – Mick Lucareli – Modine Manufacturing Co.>: In the past, Joe, as you know, and others know, we've tried to calculate backlogs and net order books. To add to what Tom's saying, there's some complexity we know is in there. When you have a market downturn or a shift out, a delay of, let's say, Euro VI production, then all of a sudden those numbers move and we have to try to reconcile for all of you, if we win or lose a program, and the answers are normally no with the timing.

But to also add color to your question, the nice thing about Modine is we have a nice view out the next few years because of the launch cycle. And that order book still stays north of \$200 million, which is to Tom's point, consistent with what we've seen in prior years.

<Q – Joe Vruwink – Robert W. Baird & Co., Inc. (Broker)>: Okay. Great. And then my last question. Just on the SG&A item, it looks like basically the guide is taking the Q4 spending levels and annualizing that. And obviously within that, it would seem to imply that incentive comp levels stayed flat with the Q4 levels. I'm just wondering how much was the move in the stock price during the quarter impacting that overall \$2.4 million amount you touched on.

<A – Mick Lucareli – Modine Manufacturing Co.>: Yeah. So I mean good questions. One on incentive comp year-over-year, this year is up. So it's going to be up in fiscal 2014 significantly, as you pointed out. Fiscal 2013, there was zero incentive comp payments. The targets in fiscal 2014 were set on return on capital employed and free cash flow. As Tom walked through the numbers at the closing, it's been a very good year. So based on the targets set by our committee and the board of directors, fiscal 2014 will have a higher incentive payment. And then next fiscal year – we always said into the year planning for a payment, but obviously, we don't know until the year shakes out.

Beyond that, really, the big drivers, if you kind of take the midpoint to the range, there's just a lot of moving pieces in there. You're looking at, maybe, at the midpoint, like a \$13 million increase in SG&A. This year, we've had abnormally low SG&A due to the fire in the UK. Those costs, just for the non-accounting types, we obviously incur those costs, but the way the insurance works is they're offset portions to those fire receivable, insurance receivable, which really what you see is the lower cost on the Airedale side.

Then we have Barkell. We've had this situation for the last couple of years. If you recall, we had a problem a few years ago with VAT in Europe, and we had a large accrual set up as a potential liability to settle those. The good news is the last few years, we've been going and cleaning up all of those and settling them, and they've actually been working in our favor. So we've been able to reduce that accrual on that stuff to a \$3 million impact.

And then the last big one is the wind tunnel in Europe. The good news this year is there's been pretty heavy demand. It's been fairly well utilized while we've been marketing it for sale. Our plan is to sell it in the new fiscal year, so we won't have that testing income. But again, we know the trend in the region there, and it's the right time to diversify a non-strategic asset and generate the cash and reduce that cost going forward.

So long answer to your question, but I wanted to touch on a few of those items that are really just things we need to kind of get level set here as we're completing our restructuring.

<Q – Joe Vruwink – Robert W. Baird & Co., Inc. (Broker)>: Okay. Now, that's all great color. I'll leave it there. Thanks very much.

<A – Mick Lucareli – Modine Manufacturing Co.>: Yeah.

<A – Tom Burke – Modine Manufacturing Co.>: Thanks, Joe.

Operator: Thank you. [Operator Instructions] Our next question comes from Shivangi Tipnis of Global Hunter Securities. Your line is now open.

**<Q – Shivangi Tipnis – Global Hunter Securities LLC>:** Thank you, guys, for taking my questions. I wanted to ask about the China excavation market and your concerns there. And what kind of trends are you actually seeing specific to China?

**<A – Tom Burke – Modine Manufacturing Co.>:** As you know, we have a heavy concentration in the China excavator market, and we, obviously, are looking to diversify that. But specifically, on excavators, we anticipated sales growth this year and came out of the chute strong in the calendar year or year-over-year basis. But in April, there were some comments by the government on not putting forth the stimulus package for increased infrastructure and that seems to stymie the growth, so it's kind of flattish right now.

And our outlook for the rest of the year is kind of – the market will remain kind of on a flat sales level. So the boost we thought we might get with the added infrastructure investment from the stimulus is – that's not going to happen. That's how we're planning that going forward.

**<Q – Shivangi Tipnis – Global Hunter Securities LLC>:** Okay. Thank you for the color. My other question is actually on the insurance claim. Can you just talk about exactly how much you actually expect in insurance proceeds in 2015, and is it like a part of your 2015 forecast as well?

**<A – Mick Lucareli – Modine Manufacturing Co.>:** Yeah. So in our outlook and in our guidance, we are assuming that we'll receive an insurance settlement into a payment for lost profit. Flowing through the balance sheet in most of fiscal 2014 is a sizeable amount of receivables and payables. We estimate that the total cost of this when we finally have the new facility up and running will be in the \$50 million range.

But the big piece that we want to make sure that all of you understand is we also get reimbursed. So those would be traditional cost of operations, wherein a leased facility, a new facility, we have to build a new one. In addition, we get reimbursed for the lost profit while we were shutdown. And right now, we estimate that that's going to be in the \$3 million range. So I will follow up with you once we finalize that discussion with the insurance company and we receive the payment. Then that would be booked through SG&A and show up in income.

**<Q – Shivangi Tipnis – Global Hunter Securities LLC>:** Okay. And so, the \$0.5 million of insurance that is not actually covered by the insurance, that one is not included, right?

**<A – Mick Lucareli – Modine Manufacturing Co.>:** No. And that was just we had an asset on the balance sheet for construction in progress that was linked to the facility before it burned down. So we needed to write that asset down. We're actually looking at expanding before the fire happened. That's what the \$500,000 relates to.

**<Q – Shivangi Tipnis – Global Hunter Securities LLC>:** Okay. Thank you for the color, guys.

**<A – Mick Lucareli – Modine Manufacturing Co.>:** All right. Thank you.

Operator: Thank you. I'm showing no further questions at this time. I'd like to turn the conference back to Kathy Powers.

**Kathleen T. Powers, Vice President, Treasurer & Investor Relations**

Thank you. This concludes today's call. Thank you for joining us this morning, and thank you for your interest in Modine. Goodbye.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a wonderful day.

**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

*The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2014. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.*