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Moog, Inc. (MOG.A)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. We're about to begin. Good morning and welcome to the Moog's Third Quarter Fiscal Year 2024 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Mr. Aaron Astrachan. Please go ahead.

Aaron Astrachan
Director-Investor Relations and Financial Planning & Analysis, Moog, Inc.

Good morning and thank you for joining Moog's third quarter 2024 earnings release conference call. I'm Aaron Astrachan, Director of Investor Relations. With me today is Pat Roche, our Chief Executive Officer; and, Jennifer Walter, our Chief Financial Officer.

Earlier this morning, we released our results and our supplemental slides, both of which are available on our website. Our earnings press release, our supplemental slides and remarks made during our call today contain adjusted non-GAAP results. Reconciliations for these adjusted results to GAAP results are contained within the provided materials.

Lastly, our comments today may include statements related to the expected future results and other forward-looking statements which are not guarantees. Our actual results may differ materially from those described in our forward-looking statements and are subject to a variety of risks and uncertainties that are described in our earnings press release and in our other SEC filings.

Now, I'm happy to turn the call over to Pat.

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Patrick J. Roche

President, Chief Executive Officer & Director, Moog, Inc.

Good morning and welcome to the call. Today, we report another strong quarter, demonstrating very positive progress towards improved financial performance. Sales were strong with double-digit growth in Defense and mid-single-digit growth in Commercial end markets. Industrial, which has been a watch item, held ground despite softening in automation.

Adjusted operating margin was up substantially. This reflects moving beyond our space vehicle charges, a ramp in better-priced commercial business, and greater productivity as future long-range assault aircraft expands. Adjusted diluted earnings per share increased by almost 40% relative to prior year, driven by margin enhancement initiatives and profitable sales growth. Cash flow improved on the prior year. With three strong quarters behind us, we look forward with confidence to closing out fiscal 2024 as another record year in which we deliver improved financial performance. We're increasing our revenue guidance, holding our adjusted operating margin guidance, and increasing our adjusted diluted earnings per share guidance for fiscal 2024.

Now, I'll provide some highlights on our operational performance. Starting with customer focus. We recently had the opportunity to meet with commercial and military customers, suppliers, and partners at the Farnborough International Airshow and the Royal International Air Tattoo. These engagements were incredibly important to enhance communications and strengthen working relationships as we continue to manage the growth in both markets. At Farnborough, we announced new airline support contracts with Lufthansa, Austrian Airlines, Hawaiian Air, Finnair PLC, and Finnair Technical Services, expanding our commercial aftermarket business.

In June, we met with defense customers, suppliers, and partners at Eurosatory in Paris. This is the largest international exposition for land and air defense held every two years. Our customers signaled near-term growth not seen in decades, that is driven by the need to build out defensive strength in Europe. This is creating increased interest in our field-proven products and opening opportunities for platform modernization. Our dedicated subsidiary received its full and final facility security clearance at the end of June, enabling it to receive new classified program contract awards. We're excited to work with our customers on new opportunities that apply our unique systems capabilities to solve our nation's most challenging technical problems.

Moving to People, Community, and Planet. In June, I visited San Jose, Costa Rica, home to the largest of our three medical device facilities. Clarity of purpose to enhance health care and enrich patients' lives continues to be a powerful motivator for our medical employees. This focus has driven a decade of continuous improvement, leading to a reputation as a reliable partner that has secured market share growth, enhanced productivity that has doubled throughput in the facility, and secured a Bronze Shingo award. Costa Rica is a notable example of a purpose-driven organization delivering sustainable business performance through Lean.

While in San Jose, we visited a childcare facility run by a local charity within one of the most challenged communities. We are delighted that our contributions helped provide a hot meal and peace of mind for parents who struggle to make ends meet. Another community project helping the next generation is addressing the availability of clean drinking water in Baguio City, which is a water-stressed region. Other nation and volunteer effort, provided a local school 1,000 liters or just over 260 gallons per hour of clean, safe drinking water that will, on an ongoing basis, sustain around 1,800 people. Baguio City in the Philippines is an important manufacturing location for Moog.

Continuing this theme, water stress is a growing humanitarian concern. We recognize that water is already a limited and precious resource in many parts of the world, and that access to clean water will be even more

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challenging in future years. Consequently, we have baselined our consumption of water at all manufacturing locations globally. We're committed to reductions, and we will publish our goal later in this year.

In the meantime, we've already started multiple projects to reduce water consumption. These include improved water stewardship through metering, awareness campaigns on water usage, and rainwater harvesting at several facilities. Our Bengaluru manufacturing facility has already seen a 40% reduction in water consumption.

And finally, let me move to financial strength. We continue to drive margin enhancements through pricing and simplification. We see impact and growing momentum. We continue to ensure that our pricing reflects the value we create for our customers. We've already made great progress in delivering on our Investor Day plans. The work continues with bottom-up, site-level data analysis and action, complementing top-down large account management. We persist in simplifying our business, further building our 80/20 capability. We've now deployed to almost half of our manufacturing locations with the addition of a further six sites this quarter. We have trained over 750 leaders with 200 trained within the quarter. Training is extended to functional leadership such as finance, who can better support data analytics which enable better informed decision-making across the organization. With the launch of our 80/20 playbook and standardized training programs, we anticipate accelerated deployment to the remaining sites.

We now have a talented team of well-trained, dedicated 80/20 champions within the business who are acting as catalysts for this transformation. We're actively developing 80/20 tools and templates to embed the 80/20 mindset into our organizational DNA. This commitment ensures that our approach to 80/20 becomes a fundamental part of how we work and drive sustained success.

On footprint and portfolio-shaping activities, we took changes in the charges in the quarter arising from ongoing consolidation of our Radford, Virginia facility into our Murphy, North Carolina facility. Murphy is a focused factory for industrial motors, having transferred avionics products out of that site over the last year. The sales of two small European businesses is near completion, and we expect both to close in the coming quarter.

Now, turning to macroeconomic and end market conditions. We're still in the midst of ongoing conflicts in Europe and the Middle East. The war in Ukraine has become a war of attrition. This reality drives the pressing need to replenish depleted arsenals. The shifting geopolitical reality is leading to growing security concerns in Europe, where nations are increasing their defense spending. And in Asia Pacific, where a conflict would require a different balance of capabilities. As a result, we're seeing strong, broad-based demand in defense and notable strengthening in Europe.

In the United States, a limited increase in Department of Defense budget is anticipated in calendar year 2025. Given inflationary pressure, this means difficult prioritization decisions in the near term. This could result in replenishment and sustainment being favored over some long-term strategic programs for a limited time. Despite this budgetary context, we have strong platform positions. We continue to ramp-up our engineering efforts on FLRAA, and as Bell has indicated, that the next program milestone is imminent making FLRAA program of record. Lockheed has resumed deliveries of F-35s to the United States government and is bullish about foreign military sales, and we've continued to deliver on our remote integrated weapons platform.

That said, in the longer term, we're seeing a once-in-a-generation type opportunities that could become important future platforms for Moog. Within these applications, we can leverage our component and system of systems engineering capabilities. There are multiple examples, starting with sixth-generation fighters and unmanned collaborative aircraft programs in play. In the United States, opportunities include the Navy's F/A-XX, and the Air Force's Next Generation Air Dominance aircraft. At Farnborough, the tri nations Global Combat Air Programme

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concept model aircraft was revealed. Whilst there may be uncertainty on budget and timeline, there is clear need for these next-generation aircraft.

In addition to aerial platforms, there are also next-generation armored vehicle platforms, including the mechanized inventory combat vehicle known as XM30, and vehicle modernization programs such as the United Kingdom's ground-based air defense. Finally, we see ample opportunities for missile hypersonic and strategic weapons programs. We look forward to playing our part on these platforms of the future.

Turning to Commercial Aircraft, the number of people flying continues to increase. Data shows that more people traveled over the last couple of months than pre-pandemic. This is driving aircraft flight hours, and consequently, aftermarket demand is increasing. Whilst Farnborough was light on aircraft orders, and in general, we did note that 50 787s and 25 A350s were added to backlog. The focus of industry debate was the ability of Boeing and Airbus to hit targeted build rate, especially for narrow-body aircraft. For our part, we are well prepared to meet our customers' planned build rates.

Finally, turning to Industrial markets, manufacturing activity in the heart of Europe continues to be weak, affecting our industrial automation business. However, this impact has been partially compensated for by other sub-segments such as simulation and energy. On a positive note, orders in the quarter were higher than the average trailing four quarters.

Now, let me turn the call over to Jennifer for a detailed review of the financials.

Jennifer Walter

Chief Financial Officer & Vice President, Moog, Inc.

Thanks, Pat. I'll begin with our third-quarter financial performance. I'll then provide an update on our guidance for FY 2024. We had another great quarter from a sales and earnings perspective. Sales of $905 million were very strong. Adjusted operating margin of 12.3% was robust, and adjusted earnings per share of $1.91 exceeded the high end of our guidance range. Sales in the third quarter were 6% higher than last year's third quarter. Aerospace and Defense sales were up nicely, while Industrial sales were fairly flat.

The largest increase in segment sales was in Military Aircraft. Sales of $207 million were up 18% over the third quarter last year. Activity on the FLRAA tiltrotor aircraft program began to ramp in the third quarter last year and has steadily increased since that time, accounting for half of the increase in Military Aircraft sales this quarter. In addition, over the past couple of years, certain other development work has shifted into production, and we're now beginning to see the ramp-up in production that will continue for the next two years.

Space and Defense sales of $258 million increased 7% over the third quarter last year. There continues to be strong defense demand across our portfolio associated with US defense priorities and European defense needs. In addition, launch vehicle activity increased in our space business. Commercial Aircraft sales of $189 million increased 6% over the same quarter a year ago. This reflects increased production in our widebody business.

Industrial sales were $250 million in the third quarter. That's down 1% from the same quarter a year ago or flat when considering the changes in foreign currency rates. Industrial automation sales were down from the very strong quarter a year ago, reflecting the slowdown in orders we've seen in recent quarters. The other sub-segments, energy, simulation test, and medical were all up from third quarter last year. Demand for flight simulation systems continues to be strong, in this quarter auto test demand drove the increase in this sub-segment. We also benefited within medical devices from a competitor's challenges this quarter.

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We'll now shift to operating margins. Adjusted operating margin of 12.3% in the third quarter increased 210 basis points from the third quarter last year. Adjustments to operating profit this quarter and the same quarter a year ago were $6 million and $2 million respectively. These adjustments reflect restructuring and asset impairment charges, largely in our Industrial segment, as we continue to drive simplification. Adjusted operating margins increased over the third quarter last year in each of our segments. In Space and Defense, operating margin increased 490 basis points to 12.7%. This increase is associated with improved performance on space vehicle program, offset partially by investments to fund once-in-a-generation pursuits.

The operating margin for Military Aircraft was 11.9%, up 140 basis points, reflecting cost absorption on the FLRAA program this quarter. Commercial Aircraft operating margin was 13.1%, up 190 basis points over the third quarter last year, as we saw benefits from both pricing and volume, as well as mix. Industrial operating margin was 11.7% in the third quarter, up 20 basis points. This increase was attributable to benefits from pricing initiatives, offset by pressures associated with lower industrial automation sales and planned product transfers.

Our adjusted effective tax rate in the third quarter was 19.3% compared to 16.0% in the third quarter last year. We're benefiting from high levels of R&D tax credits and have captured these benefits in our return to provision third quarter adjustments in both years. Putting it all together, adjusted earnings per share of $1.91 were up 39% over the same quarter a year ago. Operating margin expansion, along with increased operating profit associated with higher sales, drove the increase in earnings per share. Compared to our previous guidance, adjusted earnings per share for the third quarter came in well above the high end of our range. Higher operating profit associated with strong sales and margin expansion, along with a lower-than-forecasted effective tax rate, drove the increase in earnings per share. This was partially offset by higher non-operating expenses.

Let's now shift over to cash flow. Free cash flow for the third quarter was a $2 million of use of cash. Our cash performance was driven by growth in net working capital. Customer advances were a use of cash this quarter, reflecting the achievement of significant progress across several major defense programs. We also had strong billings resulting in higher receivables that were a use of cash, which should be collected over the next quarter or two. Physical inventories, which have been a consumer of cash over recent quarters, were relatively flat in the third quarter. Capital expenditures were $32 million in the third quarter, down from the levels of the past few quarters. We expect our capital expenditures to return to a more typical levels next quarter.

Our leverage ratio, calculated on a net debt basis at the end of the third quarter, was 2.2 times, near the low end of our target range. Our capital deployment priorities, both long-term and near term are unchanged. Our current priority continues to be investing for organic growth.

We'll now shift over to our updated guidance for this year. We're raising our sales guidance, affirming our adjusted operating margin, and increasing our adjusted earnings per share guidance for FY 2024. Fiscal year 2024 is measuring up to be a great step towards achieving our long-term financial targets. This year, our sales will grow by 8%. Adjusted operating margin will expand by 150 basis points, and adjusted earnings per share will increase by 20%. We're projecting sales of $3.58 billion in FY 2024, with sales growth in each of our segments. Commercial Aircraft sales will grow related to the production ramps on widebody and other programs. Military Aircraft sales will increase due to having a full year's worth of FLRAA sales. Space and Defense sales will increase due to strong defense demand. Sales in Industrial will increase slightly, with softening in industrial automation being compensated for by growth in other submarkets.

We're increasing our guidance for FY 2024 sales by $25 million from 90 days ago. For Industrial, we're increasing our sales guidance by $40 million to reflect the strong level of sales in the third quarter and an improved outlook for the fourth quarter. We're increasing our sales guidance for Military Aircraft by $15 million based on our

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performance this past quarter. For Space and Defense, we're increasing our sales guidance by $10 million to reflect strong defense demand. We're reducing our sales guidance for Commercial Aircraft by $40 million, primarily due to a change in the timing of orders, which is causing a short-term delay in sales and a temporary increase in inventory.

Let's shift over to operating margin. We're projecting adjusted operating margin in FY 2024 to be 12.4%, the same as we guided to a quarter ago, though with a different mix between segments. We're increasing guidance in Commercial Aircraft to reflect a strong third-quarter performance, and we're bringing down Space and Defense for planned costs to fund business pursuits. Our other two segments will be down just marginally. This results in operating margins of 13.0% in Space and Defense, 11.9% in Military Aircraft, 12.0% in Commercial Aircraft, and 12.5% in Industrial. For FY 2024, we're projecting adjusted earnings per share of $7.40, plus or minus $0.10. We've increased our guidance from 90 days ago by $0.15, which reflects the benefit associated with a lower effective tax rate in the third quarter and higher operating profit largely realized in the third quarter, offset partially by higher non-operating costs.

Compared to our FY 2023, earnings per share will be up 20%. This reflects strong operational performance and growth in the business, partially offset higher non-operating expenses and higher effective tax rate.

Finally, turning to free cash flow, our cash situation is somewhat more pressured than previously guided. We've consumed $77 million of cash year-to-date, and we expect that we will generate roughly that amount in the fourth quarter. Working capital improvements will drive our cash generation with physical inventories coming down due to strong shipments. In addition, we expect receivables to generate cash on strong collections. Customer advances will remain a use of cash as we continue to work them down. For the year, we're projecting capital expenditures of $150 million, down from our previous guidance, reflecting the lighter spend in the third quarter. Overall, our third quarter financial performance is solid, and we're confident in a strong finish to the year.

And now, I'll turn it over to Pat.

Patrick J. Roche

President, Chief Executive Officer & Director, Moog, Inc.

Thanks, Jennifer. I'm pleased that another impressive performance this quarter, and I look forward to continued strength as we close out the year. We continue to deliver improved financial performance.

Now, let us turn it over to questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we'll go first to Michael Ciarmoli with Truist Securities.

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Hey. Good morning, guys. Thanks for taking the questions. Pat or Jennifer. I guess, the change in the Commercial Aircraft revenue, maybe pretty significant this late in the year. I guess, that's widebody driven. Jennifer, I think you said, timing of orders there. Can you maybe give a little bit more color, I guess, against the backdrop of what we've seen from Airbus with their downward revision and Boeing sort of ongoing challenges?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

Yeah. Michael, I wouldn't read too much into it as a reflection of a trend. It's a timing issue within the course of Q3 and Q4, the placement of orders from one of our significant customers, and that's affecting the sales level we're reporting within the quarter. It doesn't reflect the change in production rates we are running on any of the widebody programs.

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Okay. Are you – where are you right now on the widebody rates? I guess more specifically, 787, I think you had been delivering ahead. Is that still kind of the plan, and do we have to worry about an inventory destock situation at any point?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

So, we're delivering to Boeing at a rate of about 5 chipsets per month, and we have an in-house production rate that's in line with their plans. So, we're in a lot of communication with Boeing about the master production schedule. We don't see impact here at the moment. We're continuing to monitor the situation closely with them. So, Jennifer, do you have anything additional?

Jennifer Walter
Chief Financial Officer & Vice President, Moog, Inc.

A

Yeah. I think, what you described, Pat, is fair. It's the constant communications that we're having with our customer right now, so that we can find a solution that meets our needs and their needs. We're all looking for a healthy supply chain as we ramp up, and so that's something that's certainly important to us, and we're also mindful that we come to regulations on these things that make sense from a financial perspective for us as well.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

Yeah. I mean, the stability of the supply chain is crucially important to both us, as we manage to add a whole tier of sub-suppliers, but also to Boeing as they acknowledged in their earnings call yesterday as well. [indiscernible] (00:26:06)...

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Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Yeah. Understood. Got it. What – within commercial, I guess, can you give any color as to what was happening in the quarter and expectation for the aftermarket side?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

So, as I said in the end market comments, in general, Michael, aftermarket is strong for us as a business. We expect that that will continue within the – within our numbers. We signed up additional contracts with more airlines, bringing them under our support contracts, so we feel positive about the aftermarket business.

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Right. Does that...

Jennifer Walter
Chief Financial Officer & Vice President, Moog, Inc.

A

Yeah. The aftermarket...

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Yeah. Go ahead, Jennifer.

Jennifer Walter
Chief Financial Officer & Vice President, Moog, Inc.

A

There's just some shifts also that we're seeing in aftermarket right now between OE and aftermarket that's making our OE a little bit stronger this quarter versus our aftermarket. That tends to normalize and depends on just the prioritization of work that we're putting through the factory. So you'll see a little bit of shift of that, but that's, again, similarly not a trend that we expect to continue.

Michael Ciarmoli
Analyst, Truist Securities, Inc.

Q

Got it. And maybe I'll try and sneak one more in, Pat. You guys are going to be maybe in the unenviable position of reporting fourth quarter with an election, everything that's going on in this market. Any sort of early read you'd be willing to give us on fiscal 2025?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

No. We'll give better guidance for 2025 in the November call, Michael. But in general, we, as an organization, as I said, are making good progress with the initiatives we're driving on margin enhancement. We expect that to continue. Our sales have been strong and are growing. We expect that to continue as well. So, I think, we're looking into 2025 with a degree of optimism that we will deliver on all of the plans that we've laid out previously. So, whatever happens in the election, I don't think it knocks out of capital.

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Michael Ciarmoli
Analyst, Truist Securities, Inc.

Got it. Perfect. I'll jump back in the queue, guys. Thanks.

Operator: We'll go next to Kristine Liwag with Morgan Stanley.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Hey, guys. Great to see you at Farnborough. Pat, Jennifer, you're now guiding to minimal free cash flow this year. So, what's the path of some of the working capital unwind in 4Q to get to the positive territory? And then, I think, Jennifer, you highlighted that there's some pressure on receivables. Is there a change in what you guys are charging your customers to get these days on the receivables, at a shorter and have cash conversion at a faster cycle?

Jennifer Walter
Chief Financial Officer & Vice President, Moog, Inc.

Yeah. Thanks, Kristine. It was nice seeing you there as well. For the fourth quarter in our cash flow, we've got – we're expecting positive cash flow essentially to make up for the use of cash that we had in the third quarter. We're going to see it in a few places. First of all, receivables. So, our receivables grew putting pressure on cash in the third quarter. We're – because we got the strong receivables, we'll be able to collect much of that. Different parts of the business have different collection terms, and so, I made a reference, too, in the next quarter or two that a large portion we will be able to collect off of the strong receivables that we had in third quarter. So, pressure in the third quarter becomes a benefit in the fourth quarter on the receivables.

From a physical inventory, this is actually kind of a nice story for us. It's a flow story. But in the end this quarter, we had flat levels of physical inventories from a cash perspective, and we're going to actually see that, be a slight benefit as we look into next quarter. We're going to work down some of those physical inventories. So, it's really starting to turn after we've had some growth over the past couple of years in the physical inventory. So this quarter is nice that we got to that level space, and we'll have a small benefit next quarter as we're doing it.

As we look to what happens, if I look longer term, there's structural opportunities that we have that'll be beyond, 2024 and 2025 because it takes time to make those structural changes. Those are involve things like condensing the flow as we build inventory in our processes. However, some of the things that we are working on and seeing the beginning of benefits associated with that are going to be our inventory management that we can impact and have a greater, more near-term impact like vendor inventory management systems, planning and procurement, and we're doing this while we're supporting a growing business. So, we've got that natural pressure of the growing business, but we are making a dent in some of these other things, so that, we are working that down.

In the fourth quarter, the other thing that we're having is pressure on customer advances, so that's a timing thing. We're going to continue to work it down. We did have really nice customer advances in the back half of FY 2023 and even into the first quarter of this year, but we don't have any new advances that are coming in of significance in the fourth quarter. So we are having that pressure as we continue to work that down. So, that's largely where we're going to get the free cash flow benefit in Q4.

And as you know, with the timing thing, last year's fourth quarter, we had a strong cash quarter after a softer quarter, so, it's – a lot of this is about timing. And as you can see, customer advances is a big portion of that for

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the third quarter type of results, and that pressure does continue on. But we are making some nice progress in the physical inventories, and then, we're positioned nicely on the receivables as well.

With respect to – you're also asking about the, what are we charging customers and how are we working? We work – looking at our customers, we're looking at, comprehensive negotiations with our customers that involve pricing and terms, whether we're opening something up that isn't normally open or we're renegotiating something like that. So, we look at that at as a balanced perspective, sometimes depending on – it's on the customer side, but it's also on the vendor side as well, we need to make sure that we're coming up with what makes best sense for us as well as the person, the parties that we're negotiating with so that we can come out with the best outcome. Sometimes there is a benefit of pricing at the cost of a term, and sometimes it could be different. So, it's looking at everything in a holistic type of way to get the best economic answer for us that works in that circumstance. So, we are mindful of both our terms and pricing because it's obviously not just the sales, the margin, it's the cash aspect of it as well.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you for the detailed answer, Jennifer. I really, really appreciate it. And if I could follow up, I mean, your previous guidance for 2025 free cash flow was 75% to 100% conversion. With all the timing issues that are happening and these changes, I just wanted to check to see if this is still intact or if any of these concerns in fiscal year 2024 kind of spill over to 2025.

Jennifer Walter
Chief Financial Officer & Vice President, Moog, Inc.

A

Yeah. We'll comment more specifically in our November call, but we are still working towards our Investor Day commitment that we've put out there, and we're looking forward to being able to report and demonstrate our continued success in our financial metrics.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Q

Well, great. Thank you very much.

Jennifer Walter
Chief Financial Officer & Vice President, Moog, Inc.

A

Thanks, Kristine.

Operator: [Operator Instructions] And at this time, there are no further questions.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

Okay. So, I would like to thank everyone for joining the call. I appreciate your attendance and your questions. It's been a another strong quarter for us on the path to a really good fiscal 2024. I look forward to talking to you again in November as we report out on that. Thank you very much.

Operator: This does concludes today's conference. We thank you for your participation.

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