Operator: Greetings, and welcome to Sun Hydraulics Corporation's Second Quarter 2017 Financial Results Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Karen Howard, Investor Relations for Sun Hydraulics. Thank you. You may begin.

Karen Howard: Thank you, Adri, and good morning everyone. We certainly appreciate your time today for our Second Quarter 2017 Financial Results Conference Call. On the line with me are Wolfgang Dangel, our President and Chief Executive Officer, and Tricia Fulton, our Chief Financial Officer. Wolfgang and Tricia will be reviewing the results that were published in the press release distributed after yesterday's market close. If you don't have that release, it is available on our website at www.sunhydraulics.com. You will also find slides there that will accompany our discussion today.

If you look to the slide deck on Slide 2, you'll find our Safe Harbor Statement. As you may be aware, we will make some forward-looking statements during this presentation and also during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from where we are today. These risks and uncertainties and other factors are provided in the earnings release as well as other documents filed by the Company with the Securities and Exchange Commission. These documents can be found at our website or at www.sec.gov.

I also want to point out that, during today's call, we will discuss some non-GAAP financial measures, which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables that accompany today's earnings release as well as in the slides.

Wolfgang will get started with some highlights for the quarter, Tricia will go through the detail of the financial results, and then we'll turn it back to Wolfgang for his perspective on our outlook before we open up the line for questions and answers.

So with that, it is now my pleasure to introduce Wolfgang.

Wolfgang H. Dangel: Thank you, Karen, and good morning everyone. Please turn to Slide 3. We are very pleased with our team's performance in the second quarter, following a strong start to the year in the first quarter. Growing global economies continue to provide a solid foundation as our teams coordinate to execute our growth plans as well as establish Enovation Controls as a successful standalone business. We are excited that our rapidly growing sales are driving the acceleration of some of our strategic plans, which I'll tell you more about in a moment. But first, I'll start with summarizing the results for the quarter.

Sales grew 76%, reaching a record $89.3 million. Enovation Controls contributed $27.8 million in the quarter, representing 44% growth over the 2016 second quarter on a pro forma basis. For each quarter throughout this year, we will isolate the Enovation Controls revenue so that you can appreciate how the acquisition is going and also have a basis for the organic comparison.

The Enovation Controls growth has been driven by strong demand in the Vehicle Technologies market, specifically recreational markets, as well as Power Controls benefiting from economic improvement and stable oil prices.

The rest of our business also realized significant organic growth, up by 21% in the quarter over the prior-year second quarter. Sales in all of our markets around the globe grew considerably, as our many initiatives are taking hold. Recall that within our Hydraulic segment, we added sales application specialists in the field. We are engaging with our customers more than ever to solve their hydraulic application problems, helping us to drive market share gains.

Our consolidated sales growth has been particularly strong in Asia, which increased 50% over the prior-year second quarter. The growth trends we realized in both of our segments continued through July.

Turning to the bottom line, earnings per share were $0.27 for the quarter. On a non-GAAP basis, EPS was $0.52, double the 2016 second quarter EPS. The non-GAAP number is calculated in the table at the end of both the slide deck and release. It excludes acquisition-related costs for amortization of intangible assets and the change in fair value of contingent consideration, which Tricia will discuss in more detail.

Similarly, our Adjusted EBITDA nearly doubled to $25 million, representing about 28% of sales for the quarter. This result is a testament to the many people within our global organization working hard every day to proactively service our customers and be as productive as possible.

Finally, given our stronger-than-expected sales growth in both segments, we are increasing our guidance for 2017. We now expect consolidated revenue in the $315 million to $330 million range, and consolidated operating margin before acquisition-related amortization of intangibles of 22% to 24%. That infers that our second half will be softer than our first half, which is typically the case due to buying patterns in our industry and seasonality.

Please turn to Slide 4, and I will touch on investments and capital expenditures that we are accelerating due to our significant sales growth. As I mentioned a moment ago, we realized 50% sales growth in Asia in the second quarter. Adding to the significant growth in the first quarter, we've realized 41% growth in Asia sales for the first half of 2017 compared with the 2016 first half. This rapid growth has prompted us to accelerate our strategy to manufacture products in Asia for the Asia market. We recently identified property in South Korea that we believe is ideally suited for this purpose. We intend to purchase the land and some equipment later this year and then begin development of our production facility, probably starting in the first quarter of 2018.

At this point, we expect to complete the project and commence full-scale manufacturing in South Korea by the end of next year. This initiative complements our plans in China, where we are expanding our leased office and warehousing space. I'll provide more details on that next quarter as we implement our plans.

Here in the U.S., we have accelerated our plans to purchase the facility in Tulsa that houses our Enovation Controls operation. This provides us flexibility as we continue to grow that business, as well as pursue strategic complementary acquisitions. We envision that location serving as the competence hub for our growing North American electronics business. These actions are causing us to increase our cap ex guidance for 2017, which I will summarize later.

With that overview of the quarter and new capital projects, I will now turn the call over to Tricia to review the financial results for the quarter and the first half year in a bit more detail.

Tricia L. Fulton: Thank you, Wolfgang, and good morning everyone. I'm starting on Slide 6 with the review of our second quarter consolidated results.

Second quarter sales were $89.3 million, up 76% compared to last year's quarter. This includes $27.8 million for the Enovation Controls business, indicating that the organic business grew approximately $10.7 million, or 21%. We did not have any price increases in 2016, so pricing did not affect the comparability. Foreign currency translation had an unfavorable $900,000 impact for the quarter, compared with last year's quarter.

I will now touch on sales by region, which are designated here in the sales bar charts. We inserted a chart in the back of the press release and the supplemental slides, summarizing this information. As we noted on last quarter's call, we started experiencing progressive improvement in all of our geographic markets last September and that has continued to the present time. We realized year-over-year second quarter growth in each region.

In the Americas, sales more than doubled to $52.7 million, driven by the Enovation Controls business as well as organic growth. The Enovation Controls business is heavily weighted to the U.S., driving our sales to the Americas market up to 59% of the consolidated total. EMEA realized 22% growth to $19.2 million, and the Asia-Pacific region was up 50% to $17.4 million.

Our organic business grew 24%, 5% and 38% in the Americas, EMEA and APAC, respectively. We have made investments in sales and marketing, including the addition of sales application specialists in the field, which we believe are generating sales to complement the market expansion.

Regarding profitability, our consolidated Adjusted EBITDA nearly doubled to $24.8 million, representing 27.8% of sales in this year's second quarter. That was up from 25% in last year's second quarter. The improvement was driven by the increase in sales and the leverage realized on our fixed cost base in both cost of goods sold and SEA, as well as the results of cost-saving activities.

Turning to the bottom line, Adjusted Earnings Per Share were $0.52, double last year's second quarter of $0.26.

I want to point out that there are some acquisition-related costs that impacted GAAP net income that aren't shown here, but are highlighted within our earnings release and some are itemized on the non-GAAP reconciliations in the back of our earnings release in slide deck. These costs are reported in our Corporate and Other segment, so they don't impact our operating segments. They are as follows:

- First, $2 million pretax for amortization of intangibles which, net of tax, amounts to approximately $0.05 per share.
- Next, we recorded $8.2 million pretax of contingent consideration which, net of tax, amounts to approximately $0.19 per share. This represents additional purchase price for the Enovation Controls business in accordance with the earnout in the purchase agreement. It is based on defined revenue and EBITDA targets through early 2019. This is a win-win for both parties, resulting from the stronger-than-expected operating and financial performance of the business as well as the outlook.

- Finally, we realized $1.4 million of incremental net interest expense, primarily due to the cash and debt used upon the acquisition. This amounts are approximately $0.03 per share.

Please turn to Slide 7 for review of our Hydraulic segment's second quarter operating results. Sales grew 22% to $60.8 million, with particular strength in the APAC and Americas regions. Recall last quarter, we mentioned that growth in the Americas market was lagging the rest of the world. This seemed to turn, as we saw sequential growth, resulting in 25% year-over-year growth for the quarter in the Americas region.

Gross profit increased by 38% to $25.6 million on the higher sales, driving gross margin up to 42.1%. This compares favorably to last year which realized 37.4% gross margin. The improvement resulted from leverage on the higher sales volume as well as the benefit of our cost-reduction initiatives.

SEA expenses increased by $1.1 million to $9.2 million to support our growth initiatives, including the addition of new talent.

Operating income increased 55% to $16.4 million, or 26.9% operating margin, compared with 21.3% operating margin in last year's second quarter. Similar to the improved gross margin on our higher sales volume, we realized further leverage on our SEA expenses. This, along with the results of cost reduction initiatives, drove the operating margin improvement.

Please turn to Slide 8 for a review of our Electronics segment's second quarter operating results. As a reminder, the 2016 Electronic segment numbers include only our very small HCT business, and the 2017 numbers include both our Enovation Controls business as well as HCT.

Enovation Controls contributed $27.8 million of the segment's $28.5 million second quarter 2017 sales. On a pro forma basis, Enovation Controls realized 44% growth over the pre-acquisition 2016 second quarter. Similar to the strong pro forma growth realized in the first quarter, we attribute this to our proactive sales initiatives as well as new products and overall increasing market demand in the Power Controls and recreation vehicle end markets. The segment generated 45.6% gross margin and 22.5% operating margin in the quarter.

Please turn to Slide 9 for review of our year-to-date consolidated results. Sales of $170.7 million were up 68% over last year's first half. This includes $54.3 million for the Enovation Controls business, indicating that the organic business grew approximately $14.6 million, or 14%. Foreign currency translation had an unfavorable $1.9 million impact for the first half, compared with last year.

Regarding profitability, our consolidated Adjusted EBITDA grew 75% to $47.5 million, representing 27.8% of sales in this year's first half. That was up from 26.6% last year.

Turning to the bottom line, Adjusted Earnings Per Share were $1.00, up from $0.57 last year.

As I noted for the quarter, I will summarize the acquisition-related costs that impacted operating income and GAAP net income for the year-to-date period, as reported in our Corporate and Other segment. They are as follows:

- First, $1.8 million pretax for amortization of inventory step-up, which was fully recognized in the first quarter. It is included in the cost of sales and amounted to $0.04 per share.

- Next, $4.3 million pretax for amortization of intangibles which, net of tax, amounts to approximately $0.11 per share.
- Third, as noted previously, for second quarter $8.2 million pretax for contingent consideration, which, net of tax, amounts to approximately $0.19 per share.
- Finally, we realized $2.3 million of incremental net interest expense, primarily due to the cash and debt used to fund the acquisition. This amounts to approximately $0.06 per share.

Please turn to Slide 10 for a year-to-date review of the Hydraulics segment. Sales grew 15% to $114.9 million with particular strength in the APAC and Americas regions, which grew 28% and 14%, respectively. As Wolfgang mentioned, we are experiencing increased demand and expansion in all of our markets, driven by the results of our sales and marketing initiatives as well as global economic growth.

Gross profit increased by 26% to $47.6 million on the higher sales, driving gross margin up to 41.4%. This compares favorably to last year, which realized 37.9% gross margin.

Operating income increased 33% to $30.1 million, or 26.2% operating margin, compared with 22.5% operating margin last year's first half. Like the quarter, our improved profitability is benefiting from the leverage realized on our fixed costs with higher sales volume, as well as the results of our cost reduction activities.

Now please turn to Slide 11 for first half year review of our Electronics segment. Enovation Controls contributed $54.3 million of the segment's $55.7 million first half 2017 sales. On a pro forma basis, Enovation Controls realized 40% growth over the pre-acquisition 2016 first half.

The segment generated 45.8% gross margin and 22.7% operating margin in the first half of 2017.

As Wolfgang indicated, this sales growth and profitability is exceeding our initial expectations. We are very pleased with the team's attention and focus to attaining or exceeding their goals.

Please turn to Slide 12 for review of our cash flows and capital structure. During the first half of 2017, we generated $21.7 million of cash from operating activities, comparable with $21.9 million in the first half of 2016. Our significant growth required some working capital usage, particularly accounts receivables and inventories, offsetting an increase in cash flows from our earnings.

Recall that in the first quarter, we used $16 million and started repaying the debt we incurred for the Enovation Controls acquisition. We didn't repay any more in the second quarter, as we intend to use some of our cash for the first earnout payment in accordance with the Enovation Controls acquisition agreement. During the fourth quarter, we will be paying $16.7 million of contingent consideration, plus interest, based on the exceptional performance and favorable outlook of the business through August 2017. This payment represents approximately one-third of the currently estimated liability, with the next installment due in July of 2018, and the final installment due in April of 2019. Other than that and our dividend, our primary use for cash is for capital expenditures and acquisitions to support our strategic growth plans.

We finished the quarter with $82.5 million of cash and short-term investments and $124 million of debt, or $41.5 million of net debt. Our net debt to net capitalization was down to 14%.

At the end of 2016, we had $81 million in cash and short-term investments and $140 million of debt, or $59 million of net debt. That had our net debt to net capitalization at 20%.

Wolfgang, I'd like to turn it back to you for your perspective on outlook before we open the line for Q&A.

Wolfgang H. Dangel: Thanks, Tricia. Please turn to Slide 14. We've seen improvement in all of our global regions for almost a year now. As noted here, leading indicators are signaling ongoing growth. As a matter of fact, U.S. Industrial Production recently transitioned to the accelerating growth phase of the business cycle. Within the U.S. economy, it has been reported that consumer spending is accelerating, driven by higher wages and strong employment levels. As a result, business-to-business commerce is increasing.

Most economies in the rest of the world are increasing, especially in Asia. In that region, we are experiencing particular strength in China, South Korea, Japan and India. Considering the industry sectors that are most relevant to Sun, the construction industry is generally expected to continue to expand in 2017. Further, the manufacturing sector is also growing, driving industrial growth.

Indicators for the North American electronic sectors, as published by the Institute of Printed Circuits Association, also suggest growth but with some anticipated volatility.

All of those factors bode well for Sun for the remainder of 2017.

Please turn to Slide 15 for additional thoughts regarding our outlook. As I've noted previously, the growth trends cited on the prior slide do not consider changes in economic policy that might be implemented by the U.S. administration, which continue to remain uncertain. Considering geopolitical risks, Germany has a major election in September, which we will be watching closely. Additionally, we are cautious about other geopolitical risks that can potentially impact global trade such as those in Turkey, Syria, Ukraine, Russia and North Korea.

Please proceed to Slide 16, where we summarized our guidance for 2017. As I mentioned earlier, our trends thus far this year have led us to increase our revenue and operating margin guidance, as well as our cap ex guidance. You can see here that we increased our consolidated revenue guidance by $20 million at both the top and bottom ends of our range. This represents about a 7% increase. We also increased our operating margin guidance by 2 percentage points, also at both the top and bottom ends of our range.

As we have previously indicated, it is normal for our first half year to outpace our second half as a result of purchasing patterns in our industry and seasonality. Accordingly, we believe that our guidance numbers reflect our current outlook for the remainder of the year. As shown here, we increased our cap ex guidance quite considerably to incorporate the two facility purchases I spoke of earlier, in South Korea and Tulsa.

Before we open the lines for Q&A, I want to mention that we are planning an Investor Day at the London NYC Hotel in New York City on Tuesday, September 12. We will have several members of our leadership team explaining our plans to achieve our Vision 2025 goals. For further details or to register, please visit the Events page in the Investor Relations section of our website. We hope you can join us.

So with that, let's open up the line for questions and answers.

Operator: Ladies and gentlemen, at this time we will be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys, and for those participants over the webcast you may submit your questions electronically. One moment, please, while we poll for questions.

Your first question comes from the line of Mig Dobre with Baird. Please state your question.

Mircea Dobre: Good morning everyone. I don't normally do this, but I will say that this was a very impressive quarter. As far as I can tell, looking at my model, this is probably the best quarter you've had in six or seven years. So, congratulations on that.

Tricia L. Fulton: Thank you.

Mircea Dobre: I actually have quite a few questions, and I guess maybe we can start with your Hydraulics business. Growth here is very solid, and I'm wondering, given that you have access to the FDPA numbers and other industry data, can you help frame for us what are you doing versus the industry? It feels to me, clearly, that there is some outgrowth. May be you can comment by geography as to where you think you're outgrowing the industry, and maybe your thoughts as to what some of the drivers are of any outgrowth?

Wolfgang H. Dangel: Yes, Mig. Good morning. Well, first of all, I think there is still a lot of tailwind in the economy. If you look at the end markets, we are operating and everything is boding well for Sun. You asked specifically about some of the differentiating factors. I think we are seeing now the benefit of some of the initiative we have been taking in previous quarters. You might recall that we put regional application specialists into the field, started doing that about 18 months ago, so we are seeing first successes and first results there. I think the second key factor is definitely the activities in Asia that we have accelerated considerably and obviously we're trying to add to that with some of the investments that we introduced this morning, in order to take advantage of the situation over there. So I think it's, in a nutshell, probably the more intense collaboration with general partners and customers, more presence in the field and maybe a little bit more global alignment and better coordination between the U.S. and our regional subsidiaries.

Mircea Dobre: Okay. Wolfgang, are you seeing increased penetration at OEM level? Is it that you are seeing more growth in the distribution channel? How do we think about that?

Wolfgang H. Dangel: I think right now, we are seeing growth across the board, so it's with the general partners, whether it's distributors or integrators, but also with the OEMs where we have direct collaboration. So it's across the board and it's actually across all geographies. I couldn't single out one single geography where we are not performing with either of the sales channels we are using.

Mircea Dobre: Well, I don't mean to get stuck on this, but can you help me understand how your performance year-to-date or for this quarter, however you want to frame it, has stacked against the industry numbers that you are tracking? Are you outgrowing the industry?

Wolfgang H. Dangel: I think if we look at some of the statistical data that is available, and obviously not all the information is fully transparent, we are probably outgrowing the industry right now. I would say particularly in Asia, but probably also in this part of the world here in North America.

Mircea Dobre: Okay. Then you talked about investments in sales specialists, and I do remember you talking about it for a year and a half. Can you give us some framework in terms of the headcount that you've added? What are you looking to do going forward on this basis, as maybe you're looking into 2018, given your expansion plans in Asia?

Wolfgang H. Dangel: Yes, sure. So I think we are looking probably at the global headcount that we added over the last 18 months, I would say probably 12 to 15 people, with the majority of them here in North America. As you know, Mig, traditionally we have gone to market here only through distribution, so that has been changed. In North America, we added 7 people, we added somebody in Latin America, and then the balance of the people we brought on are in Europe and in Asia.

As far as 2018 is concerned, first of all, all these people still need to get up to speed. It takes some time to get accustomed with the Company, with the way we are doing business and so forth. We are, obviously, very happy with what we are seeing from those folks, but I would expect further acceleration from this very team, and then in 2018 and 2019, we will add resources as we deem necessary. There are still a couple of white spots, you've heard me say that in the past, that probably need some further attention, and I would think that we are turning our attention to some of those geographies in 2018 and 2019, just for the sake of getting optimum market coverage.

Mircea Dobre: For perspective, 12 to 15 people that you've added on a base of what to begin with? What was the initial number that you started with?

Wolfgang H. Dangel: In the U.S., it was zero because we went to market through distribution and integrators. In Latin America, it was zero because we had nobody there in the field as well. In Europe and Asia, I think, combined we were looking at probably 15 people. So we added those people to a base of 15 people that were directly or indirectly engaged in field activity.

Mircea Dobre: Got it. Okay, that's helpful. Then maybe we can talk a little bit about your investment in South Korea. As I understand it, this would be a facility that would be predominantly, if not exclusively, producing hydraulics-type product. Am I correct?

Wolfgang H. Dangel: Well, it's mainly used for hydraulics manufacturing, but when we look at Asia, Mig, I would segregate Asia in three parts. I would look at Greater China as one market by itself, and then I would look at the rest of East Asia, which is Southeast Asia and Japan, and then we are looking at Southeast Asia and Pacific. So the intention with the facility in Korea is, first and foremost, the East Asian marketplace. So that means Korea, but we also have hope that as we get access and deeper penetration in Japan, and in order to fill the capacity as fast as possible, we'll probably tap into certain Southeast Asian markets as well and try to serve them out of the South Korean manufacturing.

Mircea Dobre: Right. But again, it sounds like you're talking about Hydraulics, and here is my question. I remember some years back, Al talking about capacity and framing Sun's existing capacity in Hydraulics as being able to support $300 million worth of revenue. That was back when the second facility in Sarasota was added. Now you're talking about adding a new facility in

Korea, again, primarily for Hydraulics. Where will your capacity be? What sort of revenue base can you support on this expanded footprint?

Wolfgang H. Dangel: Well, first of all, when you are referring to the statement that Al made in the past, if I recall correctly—I was not here at that time—but if I recall correctly, at that point in time, Sarasota was sitting on quite a bit of idle capacity and could easily serve the global markets from here. Secondly, let's not forget, at those times the exchange rate between the U.S. dollar and major currencies around the world was much, much more favorable than it is today.

I am personally a very strong believer that you need to serve the region from within the region, but it's not just the manufacturing aspect itself. As soon as you set up manufacturing, the interaction and the collaboration with your customers intensifies. You automatically pull through much, much more engineering activities as well and you raise your competence level in the region. From a capacity standpoint, I think this factory probably will suit us well for the next five to seven years to get to an acceptable market share level in East Asia.

Mircea Dobre: Well, you are answering my question, but not really answering my question. I guess I'm wondering, as you are looking at your 2025 Vision, you are adding capacity, this year and next year. What I'm trying to figure out is how much incremental capacity will need to be added in order to fulfill that Vision? Do you feel that, after the South Korean facility is fully operational, that from a footprint standpoint you are where you need to be?

Wolfgang H. Dangel: No, definitely not. As I said, and this is why I started off by looking at the Asian market three-folded. I think down the road we will have to embark on much more value-add activities also in China, with China being the single largest market. So the answer is, clearly, just with the Korean factory, you will not be able to cover the Asia market. We are doing this because we look beyond 2025. So I mean, there is life beyond 2025, I hope, and we want to serve those customers locally in those subregions of Asia. So down the road, you probably can expect that we also have manufacturing at least in China, maybe on a long-term basis even in Southeast Asia itself then.

Mircea Dobre: Is there some sense as to how this facility will start impacting the P&L? Tricia, going back once again to what you've done with the second facility that you added in Sarasota, you provided some guidepost in terms of how the incremental cost will flow through. Do you have a sense or a view at this point, or is it too early?

Tricia L. Fulton: It's a little too early. I think, by mid-2018, when we have the building more complete and any equipment purchase that we need in addition to what we have now, we'll have a better idea of that. We're still in the initial planning phases of the layout of the building and also trying to develop the full building cost with the architects.

Mircea Dobre: Understood. Then lastly on Hydraulics, you mentioned in the slides cost-reduction efforts. Can you help me understand what those are? Why now? What's going on going forward in this regard?

Wolfgang H. Dangel: Yes. Sure, Mig. Despite the tailwind we are seeing, I think this is an excellent opportunity to still work on the cost base, because if we don't pay attention to that during booming times, costs tend to get out of control relatively quickly. So we have launched a number of initiatives here internally to watch costs and to look at the breakeven point, just in order to make sure that we are not losing sight during all the good times and that we are well prepared. We are living in a very volatile business, as you know, and there will definitely be times again where the order situation is not where it is right now. So we're working on both. We are working on progressing on the front end of our business, penetrating markets, trying to increase market share, but at the same time this has to be an 'as well as' strategy. At the same time, we are watching very carefully what we are doing on the cost side and trying to keep costs under control.

Mircea Dobre: Sure, I appreciate that. I'm just trying to understand if you are talking about just manufacturing costs and LEAN? Is this something that you're doing on administrative costs? Is this engineering? What sort of costs are we managing here?

Wolfgang H. Dangel: Yes, it's across the board. We look at it from an enterprise perspective, not just in the manufacturing arena, but obviously manufacturing is a significant part of it. The key enabler for that is LEAN. You mentioned the right vehicle because that allows us to bring transparency to these types of exercises.

Mircea Dobre: Can you quantify what these initiatives are yielding, and your own framework as to what they should be yielding going forward? Is this something you can either talk about today or at the Analyst Day, perhaps?

Wolfgang H. Dangel: Well, I think we can talk more about it at the Analyst Day. I'm not giving a specific target. I'm trying to embed this in a mindset of continuous improvement, so that we identify areas where we believe we have waste and can attack those in order to get costs under control as well. It's not a top-down target that we are pursuing. Come back to your question, it covers all functional areas across the Company. It's a holistic enterprise approach.

Mircea Dobre: Okay, but backwards looking, you are not able to disentangle these savings, specifically, for us to understand the magnitude?

Wolfgang H. Dangel: I could show you individual projects that are driven by certain goals but, to tell you the truth, I didn't add up all these projects. As I said, it's a continuous improvement mindset. We are launching and initiating this project as we go through the enterprise in all different functional areas.

Mircea Dobre: Sure. I understand that, Wolfgang. I'm just basically trying to understand all the moving pieces here because there's a lot going on with your business and from an outsider's perspective, we're trying to understand how to build up operating income going forward.

Maybe one last question from me, and I'll go back in the queue. On Enovation Controls, we're looking at 44% growth and it's almost hard to really put that in a proper framework in terms of what this business is doing, given that we're not as familiar with it as we are with your Hydraulics business. Maybe help me out a little bit. I'm trying to understand how much of this is driven by new product that Enovation Controls would have introduced in the past, call it, 12, 18 months, and where we are in terms of the product rollouts, the new product rollouts? Then, how much of it, in your opinion, is driven by just pure end market growth?

Wolfgang H. Dangel: Yes, that's a very good question. I would say the majority—probably if you push me to put percentages on it—I would say 70% is driven by new products, and just the degree of innovation that Enovation Controls as an organization has. And then I think 30% is driven by end markets. I can give you an example there. If you look at Vehicle Technologies, which has seen exceptional growth much higher than forecasted, we see a trend that basically projects what we've previously committed to and now going into production at a much higher pace and at much higher volumes than we anticipated. That's one element of it.

The second element of it is in Vehicle Technologies, we might start off in talking to the customer about one specific panel on a piece of equipment, and because of the strong application and engineering approach that our colleagues in Oklahoma and Texas possess, I think they are able to pull through much higher value-add per vehicle. So they end up not with just one panel, they end up with much more software work and maybe with two or three panels on the vehicle where they went into an RFQ based on one panel. So it's a combination of both.

I think their strategy of swarming the customer and basically deeply understanding the application of the vehicle itself is definitely paying tribute here and is the main reason for the high growth numbers that you're seeing. Having said that, I think we should not get used to growth of 44% for the quarter or half of the year. Obviously, we are very convinced—and I mentioned it to you on numerous occasions—we are very convinced—or we were convinced already after doing the due diligence that this company has the horsepower and the capability to continuously grow significantly above market growth. So, we are not completely surprised. We are surprised at the high numbers as well, but that can be explained based on the content per vehicle and based on their power in terms of innovation, I think, at the end of the day.

Mircea Dobre: Great. I appreciate it. Thank you.

Wolfgang H. Dangel: Thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder if you would like to ask a question please press star, one on your telephone keypad. For those participants over the webcast, you may submit your questions electronically. One moment, please, while we re-poll for any additional questions.

There are no further questions. At this time, I will turn it back to our management team for closing comments.

Wolfgang H. Dangel: Thank you, again, for participation this morning. Thank you to all of the hard-working Sun employees who are driving these results at the end of the day. We hope to see you at our Investor Day in New York City on September 12. We look forward to updating you then, and again on our third quarter progress in early November. Thank you very much and have a great day.

Operator: This concludes today's conference. Thank you for your participation. You may disconnect your lines at this time.