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ROG - Q3 2017 Rogers Corp Earnings Call

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PRESENTATION

Operator

Good afternoon. My name is Christine and I will be your conference operator today. At this time, I would like to welcome everyone to the 2017 third quarter conference call. (Operator Instructions)

Jack Monti, Director of Investor Relations, you may begin your conference.

Jack Monti

Thank you, Christina, and thanks so much, everyone, for joining Rogers' Third Quarter 2017 Earnings Call.

To follow along with the presentation, please see the Investors section of our website.

Turning to Slide 2. We have a disclosure on forward-looking statements. During the call, we will be making certain forward-looking statements subject to a number of risks and uncertainties, which may cause actual results to differ materially versus today's outlook.

In addition, some of our financial metrics discussed will be on a non-GAAP basis, which management believes better reflects the underlying core operating performance of the business.

Turning to Slide 3. It's my pleasure to introduce Rogers' management team. Bruce Hoechner, President and CEO, is joined by Janice Stipp, Senior Vice President and CFO; and Bob Daigle, Senior Vice President and CTO.

I will now turn the call over to Bruce.

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

Thanks, Jack. Good afternoon, everyone, and thank you for joining us on today's call.

I am very pleased to report that in Q3 2017, Rogers achieved all-time record net sales and record third quarter earnings. Net sales were $207 million, an increase of 25% over Q3 2016. Revenue growth was evenly split between organic sales and contributions from our recent acquisitions. Notably, our Q3 results marked Rogers' fourth conservative quarter of double-digit organic growth. Net sales, combined with our commitment to operational improvements, led to substantial profit gains during the quarter. Compared to Q3 2016, we achieved gross margins of 40%, up 220 basis points; adjusted EBITDA of $51 million, up 47%; and adjusted EPS of $1.41, up 46%.

Over the past several years, Rogers has greatly expanded, diversified and improved the performance of our business portfolio through new product innovation; thoughtfully identified, well-integrated acquisitions; increased geographic penetration; and enhanced operational execution. Today, our products play a vital role in many exciting advanced mobility and advanced connectivity applications, such as Advanced Driver Assistance Systems or ADAS, electric and hybrid electric vehicles or EV/HEV and the latest generation of high-performance wireless networks. These rapidly emerging markets play well to Rogers' strengths, putting us in a great position to capitalize on the significant growth opportunity.

Please turn to Slide 5. I would like to take a few minutes to review Rogers' growth strategy. Our results confirm that we have implemented a winning approach and we are clearly benefiting from our solid execution. We have confidence that our commitment to the 4 pillars of this road map will help us maintain our record of generating substantial and sustainable results as well as strong shareholder returns.

Our focus on market-driven innovation is helping us advance our position in a number of rapidly growing areas. One example is our PES business, where we are seeing continued adoption of our silicon nitride substrates for wide band gap semiconductors. These products offer high thermal connectivity and reliability, which are essential for EV/HEV applications.

We are proud of our ability to identify and pursue synergistic M&A opportunities and to successfully incorporate them into Rogers. The integrations of DeWAL and Diversified Silicone Products have gone extremely well, with both businesses making significant contributions to Rogers' net sales in 2017.

The EMS integration teams have taken a disciplined approach to ensure that the operations continue to run smoothly.

Looking ahead, we will remain focused on augmenting our organic growth through synergistic M&A with companies that play at the top of the pyramid. These are businesses with market and technology leadership, highly engineered applications, differentiated offerings and an attractive financial profile.

Our commitment to operational excellence is enabling our top line results to flow through to the bottom line. Improvements to our manufacturing operations are enabling us to increase capacity while controlling costs and maintaining quality. We continue to target top-quartile operating profit growth when compared to our peers as we work towards our 2020 vision.

On the revenue side, our goal is to deliver organic growth from our current businesses in the range of 7% to 10% per year. In addition, we expect the continued execution of our M&A strategy to add 5% to 8% in revenue growth per year for overall top line growth of 15% per year. Some of the acquired revenue may not come in smooth increments, but by the end of 2020, we expect Rogers to deliver roughly $1.2 billion in sales with operating profit margin of at least 20%.

Turning to Slide 6. We view 2 growth drivers as key priorities: advanced mobility and advanced connectivity. These categories are aligned with the investments we are making in our technology portfolio, marketing and innovation initiatives.

In advanced mobility applications, our growth is driven by mission-critical products for the EV/HEV market as well as ADAS. The growth outlook for these markets is significant. From a regulatory perspective, the EV/HEV market has been gaining remarkable momentum, with governments beginning to announce that they intend to ban traditional combustion engines in the coming decades. This includes China, France, the U.K., India and Norway. These regulations, along with consumer demand, are prompting numerous OEMs to accelerate their plans to introduce new EV/HEV models.

In advanced connectivity, we expect future growth to come from the 5G infrastructure buildout where industry sources cite new developments on the horizon. This includes a recent plan announcement by a major Chinese telecom operator to deploy 100,000 5G base stations in China by the end of 2018. Rogers has greater material content in these highly sophisticated systems than in 4G LTE equipment. And we are already seeing 5G applications out in the market today, with several operators implementing fixed wireless, competing with traditional cable offerings to the home. Rogers is highly differentiated in this space and is well positioned to capitalize on the projected growth. With these tailwinds across our key growth drivers, we will accelerate our investments in capacity to meet demand.

Turning to Slide 7. ACS achieved third quarter net sales of $73 million, an 11% increase over Q3 2016. Growth was driven by applications for ADAS, aerospace and defense and 4G LTE infrastructure. During Q3, we saw a rebounded demand for both base station power amps and antennas for wireless 4G LTE applications.

As I mentioned, we are optimistic about the accelerated rollout of 4.5G and 5G, where service providers are reporting that deployments originally scheduled for 2020 time frame are moving to late 2018 and early 2019. This bodes well for Rogers as we have a solid leadership position in this market.

ADAS is another exciting high-growth area for ACS. Demand for Rogers' applications in these markets increased 50% over last year. Our portfolio supports full spectrum of requirements for short-, mid- and long-term sensors for features like blind spot detection and adaptive cruise control. ACS has done an outstanding job in getting specified into these applications over many years, and now we are reaping the benefits as these programs go into production. We will continue to focus on introducing new innovative technologies to meet customer and market demand.

Please turn to Slide 8. In Q3 2017, EMS delivered all-time record quarterly net sales of $82 million, an increase of 51% over Q3 2016. Our recent acquisitions contributed $21 million of sales revenue to EMS. On an organic basis, EMS net sales increased 14% over Q3 2016 due to higher demand across all end market applications. We saw particular strength in portable electronics and general industrial applications. We continue to broaden our portfolio of solutions with new design wins and applications, such as the flexible flat cable harness for clean room manufacturing equipment.

In addition, revenue from portable electronics has improved significantly after several years of headwinds. This return to growth has been driven by a focus on new designs at many global and regional OEMs where our PORON polyurethane has won new design wins in a wide variety of sealing applications.

We are also accelerating growth in EMS by aggressively pursuing general industrial opportunities with increased focus on Europe and Asia.

Looking ahead in EMS, we expect ongoing benefits from our newly added businesses, our geographic penetration and innovation capabilities. We will continue to actively seek acquisitions that operate at the top of the pyramid, extend our market reach and expand our technical capabilities to provide a broader set of solutions to our customers.

Please turn to Slide 9. PES achieved third quarter net sales of $46 million, an increase of 17% over Q3 2016. These results were driven by double-digit growth in applications for renewable energy, e-mobility and laser diode coolers.

As we look ahead in PES, we will maintain focus -- our focus on e-mobility applications, ranging from electric power steering and regenerative braking to EV/HEV. As previously mentioned, we are looking at significant growth in demand for these applications, and our leading PES technologies have us well positioned to capitalize in the opportunities that lie ahead.

The PES team is also focused on improving profitability through operational excellence initiatives, including broader use of continuous improvement methodologies like Six Sigma and Lean. In addition, the team is working to optimize its global footprint and improve manufacturing operations, productivity and yields through automation.

Turning to Slide 10. Looking at the macroeconomic conditions, we are very encouraged by the positive growth outlook in many of our key markets. Based on recent reports, business confidence is gaining globally, and we will continue to monitor conditions to respond with agility should market shifts occur. Our results in Q3 reinforce that we are in the right global markets where growth is significantly outpacing GDP. As mentioned earlier, the robust demand that we are seeing across many of these key markets is accelerating strategic investments to increase capacity and expand our capabilities.

In summary, we are extremely pleased with our performance in Q3. We believe that our increased market and customer diversification positions us well to deliver consistently strong performance. With powerful tailwinds in many of our key markets, we are confident in our ability to continue to deliver impressive shareholder returns.

I will now turn the call over to Janice, who will report on our Q3 results in greater detail as well as additional financial highlights. Janice?

Janice E. Stipp - *Rogers Corporation - CFO, Principal Accounting Officer, Senior VP of Finance and Treasurer*

Thank you, Bruce, and good afternoon, everyone. Our Q3 results reflect the continuing momentum of the positive trends we have experienced throughout 2017, including double-digit growth in all our business units, driven by our leading technologies, acquisition strategy, solid margin expansion, all while continuing to invest in strategic growth initiatives. As you'll see in the presentation today, the momentum we experienced in the first half continues into the third quarter of 2017.

Now if you turn to Slide 12, I'll review our third quarter results in more detail, followed by our fourth quarter guidance forecast. Q3 2017 revenue, as previously noted, was $207 million, which exceeded both our guidance and Q3 2016. Our growth was primarily the result of strong volumes across all our business units and the recent acquisition.

Adjusted operating margin was up 400 basis points from 15.5% in Q3 2016 to 19.5% in Q3 2017, a significant increase primarily due to higher volume, performance and acquisitions, partially offset by SG&A primarily due to incentive compensation, acquired SG&A, higher sales and marketing expense related to our higher sales and timing of professional services.

Adjusted operating income was $40.3 million in Q3 2017, improving $14.8 million versus $25.5 million last year.

Adjusted EBITDA of $50.7 million improved $16.2 million or approximately 47% compared to the third quarter of 2016. Net income of $25.5 million in the third quarter of 2017 was up $9.4 million versus the prior year or 260 basis points as a percent of revenue.

Third quarter 2017 adjusted earnings per share of $1.41 was above our guidance, exceeded Q3 2016 by 40% or 45.4%.

Please turn now to Slide 13 for a review of our quarterly revenue. Our revenue was up 25.1% on a year-over-year basis. Third quarter effects of currency exchange rates favorably impacted revenue by $0.9 million, primarily due to the euro offset by the renminbi. Adjusted for FX, our organic revenue was up $19.9 million or 12.1%. The acquisition revenues were $20.7 million or 12.5%.

Looking at our Q3 2017 adjusted operating income on Slide 14. Third quarter adjusted operating income of $40.3 million reflects an adjusted operating margin of 19.5%, an increase of 400 basis points or $14.8 million compared to the third quarter of 2016. The increase is primarily due to favorable volume mix and performance driven by increased capacity utilization, operational process enhancements and automation, conversion of fixed costs to variable where possible and the recent acquisition. This income was partially offset by a $5.4 million increase in SG&A primarily due to SG&A from our recent acquisitions, higher incentive compensation, sales and marketing related to higher sales and the timing of professional services.

Now let's look at adjusted EBITDA on Slide 15. Adjusted EBITDA of $50.7 million increased by $16.2 million in Q3 2017 as compared to Q3 2016 and improved as a percent of revenue to 24.5%. This increase was driven primarily by many of the same reasons just noted during the discussion of adjusted operating income, such as favorable volume and performance. Partially offsetting this is the $5 million increase in SG&A.

Turning to Slide 16. We exceeded Q3 2017 guidance range for adjusted earnings per share as well as exceeded our Q3 2016 adjusted earnings per share by 45.4% or $0.44, resulting in $1.41 in adjusted earnings per share for Q3 2017. As the slide depicts, the 44% increase was primarily due to $0.66 of favorable volume and other; $0.05 favorable performance, offset by $0.17 unfavorable SG&A, primarily bonus incentives, acquired SG&A and timing of professional services; $0.01 unfavorable miscellaneous income and expense; and $0.09 unfavorable due to changes in the effective tax rate, primarily due to the change in a deferred tax asset valuation allowance related to an investment in R&D; and income mix, partially offset by tax deductions on stock-based compensation.

If you turn to Slide 17, you'll see our Q3 2017 segment revenue. ACS, EMS and PES segment revenues increased by 11%, 51.2% and 16.7% or by $7.2 million, $27.8 million and $6.6 million, respectively. More specifically, in Q3 2017, our ACS segment revenue increased primarily due to ADAS, aerospace/defense and stronger demand in 4G LTE wireless infrastructure. The EMS segment revenue increased 51.2% in Q3 2017. Organic sales increased $7.1 million or 13.1% due to higher demand for portable electronics, general industrial, mass transit and EV/HEV applications. In addition, the recent acquisition revenues contributed $20.7 million. Finally, our PES segment was the fastest organically growing segment with 16.7% growth in revenues, principally due to renewable energy, laser diode coolers, mass transit, EV/HEVs and variable frequency motor drives.

Looking at Slide 18, you'll see our segment adjusted operating income. First, ACS adjusted operating income was $13.7 million, up $5.6 million from Q3 2016 or 650 basis points as a percent of revenue. This was primarily due to favorable impact of volume mix, performance due to productivity improvements focused on cost containment efforts, operational process announcements and automation. These favorable impacts are being partially offset due to commodity prices; slightly higher freight due to increased volume; raw material supply and capacity constraints; SG&A, primarily incentive compensation; and R&D investments.

Next, EMS adjusted operating income was $19.3 million, up $7.4 million in Q3 2016. This increase was primarily due to favorable impact of the acquisitions and volume increases in the portable electronics, general industrial, mass transit and EV/HEV applications; favorable performance as a result of operational excellence initiatives; converting fixed cost structure to variable; and favorable capacity utilization. Partially offsetting these positives are higher corporate allocation due to the acquisition and increased SG&A, primarily incentive compensation.

Lastly, PES adjusted operating income was $5.5 million, up $1.9 million from Q3 2016. This increase was mainly due to favorable volumes across its markets, improved productivity as a result of our operational excellence initiatives as well as leveraging our Eastern European footprint. And partially offsetting these favorable items are higher commodity costs due to copper and SG&A incentive compensation.

Turning to Slide 18. You can see we ended the third quarter with a cash position of $151 million. Rogers continues to generate solid operating cash flow of $99.9 million through the first 3 quarters, which represents a $5.6 million increase versus the same period last year. The increase in cash flow is largely driven by the higher 2017 net income, partially offset by the use of working capital, with higher accounts receivable and inventories driven by our sales growth, although our working capital metrics have improved.

We had strong adjusted EBITDA of $151.6 million year-to-date, which helped fund our strategic priorities, including the acquisition of DSP as well as a debt paydown in the year.

Year-to-date cash conversion is approximately 66% due to working capital requirements to fund growth. And our third quarter cash conversion is approximately 70%. Year-to-date cash taxes paid are $24 million.

Lastly, we have invested $17.7 million in capital expenditures during the first 9 months of the year or 2.9% of revenue.

Taking a look at our Q4 2017 guidance on Slide 20. Revenues are estimated to be in the range of $200 million to $210 million, with earnings in the range of $1 to $1.28 (sic) [$1.18 to $1.28] per diluted share. The fourth quarter revenue guidance translates in an expected full year revenue range of $812 million to $822 million or a 24% to 25% increase versus last year. On an adjusted basis, we guide Q4 earnings in the range of $1.35 to $1.45 per diluted share. The full year adjusted earnings per share translates into a range of $5.77 to $5.87 per share.

At the midpoint, our Q4 2017 revenue guidance represents a year-over-year revenue increase of 18.5% compared to Q4 2016. This revenue guidance includes anticipated favorable currency fluctuation of 2% or $3.4 million. Guidance for earnings per share has a midpoint of $1.23 per diluted share and in total reflects an increase of $0.58 per diluted share compared to earnings of $0.65 in Q4 2016. On an adjusted earnings per share basis, guidance has the midpoint of $1.40 per diluted share, which is a $0.46 or 48.9% increase from $0.94 in Q4 2016. This year-over-year increase is primarily due to higher volume, the acquisition, improved operational performance, partially offset by higher commodity prices and SG&A.

For the full year 2017, Rogers expects capital expenditures to be in the range of $25 million to $30 million, which is lower than previously anticipated due to the timing of the capital expenditures. In addition, from the recent headlines discussing e-mobility and e-connectivity, Rogers is well positioned with our technologies and market focus to benefit from the accelerated growth in these market trends. Although to meet these accelerated growth trends, we look to increase spending the carryover capital and accelerate growth next year.

The effective tax rate is guided to be approximately 33% for the full year.

In summary, Rogers has a competitive product portfolio, diversified customer base and customers seeking Rogers' expertise to solve our -- their challenges, a leaner cost structure and a business model that drives revenue, earnings and cash flow growth.

I'll now turn the call over to Bruce.

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

Thank you, Janice. We'll -- this now concludes our prepared remarks. We'll now open the line for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Craig Ellis from FBR.

Craig Andrew Ellis - *B. Riley & Co., LLC, Research Division - Senior MD & Director of Research*

It's B. Riley FBR. Bruce, I wanted to follow up on what I think were 2 references in your prepared comments to capacity and investment. Clearly, you're seeing a very strong demand environment, good execution. I think year-to-date capital expenditures are about $17.7 million, but where do you feel like there needs to be further capacity investments? And where do you have room to grow into the plant and equipment that you do have?

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

So the -- thanks, Craig, for the question. There are a couple of product lines that are tight on capacity, getting up to our -- to a point where we're a bit uncomfortable. So we've already moved ahead on approving investments there for capital expansion. We are now evaluating more broadly, given the tailwinds that we've seen pretty much across all the product lines, for additional strategic investments to ensure that we have appropriate capacity. And we're in the midst of doing that now. So in our Q4 call, we'll be able to give much clearer guidance on the full year outlook for -- in 2018 for CapEx.

Craig Andrew Ellis - *B. Riley & Co., LLC, Research Division - Senior MD & Director of Research*

Super. And then I wanted to follow up on one of the segments you mentioned in talking about communication infrastructure, the announcement that was out on the investment in China, 100,000 base stations for 5G. As we look ahead -- and it seems like no matter where you look, there are signs of 5G pull-in. But as we look at what's happening in the segment, a good performance in the quarter, are we at a point where, with the activity that you're seeing in 5G, we're ready to hand off to more sustained growth in that business? Or could it still be a bit lumpy in the near term before you move into the sweet spot of that infrastructure investment?

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

So -- great question. The -- what we're seeing is the 4.5G rollout, essentially completion of 4G across places like China, plus NB-IoT, Narrowband Internet of Things also, specifically in China, growing and basically bridging the time frame between when 5G really starts rolling out. As I -- as you referenced, the 100,000 base stations towards the end of 2018 going into 2019 is the beginning of that. And then we'll see more certainly as 2019 rolls through. So this is a bit of a bridging time frame that we're seeing, but we were encouraged in Q3 by the strength overall in the telecom space. We did see growth, and we're anticipating a similar sort of outlook in this quarter. So it's, as I mentioned, a bit of a bridging at this point with really 5G towards the end of next year, 2018, and moving into 2019.

Craig Andrew Ellis - *B. Riley & Co., LLC, Research Division - Senior MD & Director of Research*

And that's helpful. And then the last one for me before I jump back in the queue. Nice balance with organic and inorganic growth in the quarter. The company mentioned that yet again, there was good revenue execution from DeWAL and DSP. Where are we with those 2 business in terms of taking their U.S.-based revenue from acquisition and porting that internationally and driving international growth with those 2 franchises?

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

That's -- as we had mentioned earlier, that was part of the strategy for that acquisition. And just to mention, we've seen, through the year, through the first 3 quarters of this year, approximately just over 20% growth in our sales for DeWAL in Asia. And I think that reflects our focus on expanding that business strategically into Asia, and we anticipate continued success as we move through.

Operator

(Operator Instructions) Your next question comes from Daniel Moore from Rogers.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

We'll go with CJS. So Bruce, you talked about the 4.5G obviously. It sounded like 4G -- kind of traditional 4G LTE had a little bit of a resurgence. Am I reading that correctly? Is that also embedded in the Q4 guide? And then we'll switch gears to some of the other end markets.

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

Yes. We're seeing -- I would say that 4G -- and when we look -- 4G is really driven primarily right now in China. When we look at China, it's probably close to 90% 4G buildout, and we anticipate that over the next year, so the buildout will get up closer to 98%, 99%. And so that's what's driving a bit of the investment that you're seeing and the growth that we're seeing in 4G.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Got it. And then switching over to PES. And you talked about -- I mean, it sounds like all your end markets are going gangbusters. But laser diodes, where are we now in terms of percentage of revenue? I'm just trying to get a sense of how meaningful that will be going forward. And maybe an update on renewable energy. What are you seeing and what are your expectations for continued growth into '18 there?

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

So laser diodes in the quarter, laser diode coolers grew at a very high rate, 25%. And it's a relatively low base. It accounts for the total of the corporation, only about 2% of the corporation. But again, we see the outlook for this to have continued high growth as far as we can see. This is all part of the automation that's moving forward in the industrial side, medical side as well. So we're very bullish on that. In terms of renewable energy, which was a growth area, that was primarily solar renewable energy in China that propelled that growth forward. And we've seen that ebb and flow over the course of the last couple of years, and I think it's very project related. But I think the big news in curamik is pretty much -- or I should say in PES, across the board, we saw very strong growth. And I'll draw particular attention to EV/HEV -- or to e-mobility, overall, advanced mobility, both EV/HEV as well as x-by-wire as we call it, the electrification of traditional internal combustion engines. So a lot of focus there, a lot of growth. And our curamik materials are very well suited, as I mentioned in my prepared remarks, as the technology moves in that direction.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Got it. And then let me just throw in one more. Portable electronics, it has gone from a -- what was a headwind for a period of time to a nice tailwind. Talk about your expectations for continued content growth in 2018.

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

Well, again, we don't project really much past the fourth quarter. But as our more strategic outlook in that business, we've done a very good job and the team has done an outstanding job in really understanding the customer needs, next-generation needs. And we're getting the wins that we think we deserve. Some challenges out there. OLED is -- it continues to be a challenge for us. That's a very tough application, the back pad on OLED, because it's so thin. But we continue to look at next-generation OLED as well, the flexible and bendable screens. And those are coming in the next 2 years or so, and our technology is very well suited in those areas.

Operator

(Operator Instructions) Your next question comes from Craig Ellis from B. Riley FBR.

Craig Andrew Ellis - *B. Riley & Co., LLC, Research Division - Senior MD & Director of Research*

Janice, I wanted to ask you a few. With regards to operating expense, and admittedly, the variances are typically done year-on-year, but when I look at the trends in the business in the third quarter, revenues was up nicely sequentially, operating expense actually declined a little bit. I was surprised with that. Was there anything special that happened quarter-on-quarter? Is that just classic Rogers' efficiency initiatives coming into play?

Janice E. Stipp - *Rogers Corporation - CFO, Principal Accounting Officer, Senior VP of Finance and Treasurer*

Yes. There is efficiencies coming into play that really slowed a bit capacity utilization. But also, the other thing that was offsetting was the copper. Copper is growing. We do have derivatives in place to offset it. And we have indexing. So that was a little bit because of the mismatch in the quarter. The one thing we did have on operational for this quarter is premium freight that we're getting a handle on. That's related to the raw material supply. We had some constraints with the supplier, and we are working on a second source. In addition, that supplier has given us more production allocation. So we won't have any issues in the next quarter for that product, which is really the copper foil.

Craig Andrew Ellis - *B. Riley & Co., LLC, Research Division - Senior MD & Director of Research*

Just clarifying those comments, though, the copper derivatives and the premium freight, were those OpEx items or COGS items?

Janice E. Stipp - *Rogers Corporation - CFO, Principal Accounting Officer, Senior VP of Finance and Treasurer*

Premium freight is the -- in your growth volume cost of goods sold derivatives, we don't have hedge accounting, so that would be in other income and expense.

Craig Andrew Ellis - *B. Riley & Co., LLC, Research Division - Senior MD & Director of Research*

Got it. And then, Bruce, for you and perhaps for Janice as well. At the Analyst Day, the company was real clear on the importance of inorganic growth in achieving the $1.2 billion target. Can you just give us an update on how you're looking at the landscape now and the readiness of the company given the progress made thus far with DSP and DeWAL integration?

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

Sure. Well, we have -- as you mentioned, this is part of our core strategy. M&A is part of our core strategy. And we have a very seasoned team now out identifying opportunities, and we continue to work through those. So we see still opportunities out in front of us. And we are as an organization quite able and ready to pull the trigger at the appropriate time.

Craig Andrew Ellis - *B. Riley & Co., LLC, Research Division - Senior MD & Director of Research*

And do you sense that valuation expectations are still reasonable? One of the things that has changed fairly meaningfully since Analyst Day is that we have had a significant and fairly broad-based move in the market. Do you sense that you can still transact at multiples that are as reasonable as some of the things that we've seen in the last year? Or has the market really inflated expectations for counterparties and put things in a position where targets aren't as abundant as you would like?

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

We're seeing multiples that are reasonable in the sense of what they've been over the last couple of years. And so from our perspective, we are -- we still think there's good value out there.

Operator

There are no further questions at this time. (Operator Instructions) And there are no further questions at this time. I turn the call back over to the presenters.

Bruce D. Hoechner - *Rogers Corporation - CEO, President and Director*

Thank you very much. And thank you, everyone, for joining the call today. We are pleased with our performance in Q3, and we're looking forward to a strong finish in 2017. Have a good day, everyone. Thank you.

Operator

This concludes today's conference call. You may now disconnect.