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# The Timken Co. (TKR)

Q3 2021 Earnings Call

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**Philip D. Fracassa**

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## OTHER PARTICIPANTS

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**Rob Wertheimer**

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**Christopher Dankert**

*Analyst, Loop Capital Markets LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Anna, and I will be your conference operator today. As a reminder, this call is being recorded. At this time, I would like to welcome everyone to Timken's Third Quarter Earnings Release Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. Mr. Frohnapple, you may begin your conference.

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**Neil Frohnapple**

*Director-Investor Relations, The Timken Co.*

Thanks, Anna, and welcome, everyone, to our third quarter 2021 earnings conference call. This is Neil Frohnapple, Director of Investor Relations for The Timken Company. We appreciate you joining us today.

Before we begin our remarks this morning, I want to point out that we have posted presentation materials on the company's website that we will reference as part of today's review of the quarterly results. You can also access this material through the download feature on the earnings call webcast link.

With me today are The Timken Company's President and CEO, Rich Kyle; and Phil Fracassa, our Chief Financial Officer. We will have opening comments this morning from both Rich and Phil before we open up the call for your

questions. During the Q&A, I would ask that you please limit your questions to one question and one follow-up at a time to allow everyone a chance to participate.

During today's call, you may hear forward-looking statements related to our future financial results, plans, and business operations. Our actual results may differ materially from those projected or implied due to a variety of factors, which we described in greater detail in today's press release and in our reports filed with the SEC, which are available on the timken.com website.

We have included reconciliations between non-GAAP financial information and its GAAP equivalent in the press release and presentation materials. Today's call is copyrighted by The Timken Company, and without expressed written consent, we prohibit any use, recording, or transmission of any portion of the call.

With that, I would like to thank you for your interest in The Timken Company, and I will now turn the call over to Rich.

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## Richard G. Kyle

*President, Chief Executive Officer & Director, The Timken Co.*

Thanks, Neil. Good morning, everyone, and thank you for joining Timken's third quarter earnings call. Our third quarter results reflect what is a very strong, but also unpredictable industrial market. Results also demonstrate the resiliency of our business to respond to a wide variety of market conditions, as well as the strength of our team and their ability to successfully navigate through the issues as they arise.

Our revenue of \$1.037 billion was up 16% from last year. The revenue set a new third quarter record and was 13% higher than the previous record set in the third quarter of 2019. Additionally, order input continued at a strong pace, and we ended the quarter with a very healthy backlog. Demand continued to be more erratic than normal due to customers battling through multiple supply chain issues, such as the global chip shortage, international freight delays, but demand remains a very positive situation and one that we expect to continue through next year. Given our own supply chain challenges, we're pleased with the 16% revenue gain, but it did come at a significant cost premium. Earnings per share of \$1.18 was also a record for the third quarter and was \$0.04 over the prior record.

EBITDA margins declined 220 basis points from last year to a still very respectable 17.2%. I want to remind everyone that our year-over-year comps for the quarter and year-to-date included the temporary cost actions we took last year at the height of the pandemic. 2020 temporary cost comps normalized in the fourth quarter of this year. From a cost perspective, steel, freight, and other purchase material were all up significantly from prior year and up sequentially from the second quarter. Labor efficiency in our plants also continue to suffer from a variety of issues that included volatile plant schedules due to demand and supply changes, pandemic-related absenteeism, and the onboarding of new hires to meet the increased demand. Pricing was up over 100 basis points year-on-year, but continues to lag cost increases by a significant margin. Sequentially, price realization increased from Q2 to Q3 and has increased sequentially each month from June through September.

Our cash flow performance reflects continued inventory build to serve increased customer demand and to account for the extended lead times within the supply chains. We're not providing specific revenue or earnings guidance due to supply chain uncertainties, but I will provide additional color on what we are seeing. Demand remains strong in total across markets and geographies. Channel inventories are also favorable to provide support for the demand strength to continue well into next year.

Timken has steadily ramped up our ability to supply the market through the course of the year, but the uncertainty around supply and costs remains elevated. Some of the issues that impacted us in the third quarter have improved, some have gotten worse and some new ones have arisen. The chip shortage is not forecasted to stabilize anytime in the near future. Logistics delays are not expected to improve until after the holiday shipping season at the soonest and logistics costs continue to rise. Steel costs appear to have leveled off, but remain much higher than they were a year ago and are not moving down. We're doing very well addressing our internal labor inefficiencies, but new issues continue to surface, such as the intermittent power outages at our plants in China and a recent resurgence of the virus in Romania. We expect pricing to increase sequentially from Q3 to Q4, but we still expect price/cost to be negative in Q4.

Our revenue typically declines modestly from the third quarter to fourth, call it, low to mid-single digits, and we expect the sequential decline this year to be slightly greater than recent history. This would still result in solid year-on-year revenue growth in the mid to high single digit range. We expect EBITDA margins to decline sequentially in the fourth quarter as they normally do. And I, again, caution that the supply chain situation remains very dynamic, so the range of possible outcomes is wider than normal. As we look out to 2022, we're planning for the demand situation to remain strong comparing the start of 2022 to the start of 2021, we will enter next year with a much higher backlog, higher order input levels and higher production levels.

We also expect more self-help in 2022, both from pricing as well as operational initiatives. We predominantly price at the time of shipment, and we expect a step-up in price at the start of the year from the fourth quarter. Keep in mind, many annual price agreements will open for repricing at year-end, and we will benefit from other pricing actions, which continue to gain traction, including our material recovery mechanisms.

We also expect to operate more efficiently in 2022 as we get deeper into our production ramp and the labor issues specific to the pandemic ease. We no longer expect near-term cost relief for material/ logistics or labor, but we do expect price to be a much larger contributor to margins, and we also expect to improve our internal labor efficiencies.

We're planning for a very strong start to 2022, with a step-up in sequential revenue and margins in the first quarter from the fourth. We also expect contribution to our full-year 2022 results from capital allocation. We continue to have a bias to M&A, with share buyback as an attractive option. I want to take a moment to highlight two of our acquisitions, Rollon and iMS. Rollon was our first step in the linear motion. Rollon is a leader in the engineered linear space, developing unique customer applications for a wide range of markets and applications. The business has a strong management team, strong technical value proposition, and has been an excellent addition to the Timken portfolio. Rollon has a small but growing position in linear systems for factory automation. To expand our product offering, last quarter, we acquired Intelligent Machine Solutions, or IMS. This bolt-on acquisitions gives us a full size range of linear systems for the factory robotic space and gives us greater scale in the US market. We will continue to drive financial and strategic value for the corporation through the acquisition of businesses like Rollon and IMS.

I also want to highlight that we recently released our 2020 Corporate Social Responsibility Report. Sustainability has been core to our products for more than 120 years, and being an excellent corporate citizen is a priority for all of us at Timken. We're proud of our work in developing renewable energy sources and the actions we're taking to reduce our own environmental impact. We're also committed to being a top global employer with a diverse workforce, giving back to our communities and leading the corporation ethically and with strong governance practices.

Before I turn it over to Phil, let me close with saying that while the last couple of years have been filled with unplanned events, our response to those events has really demonstrated the strength and resiliency of the company for all stakeholders.

After delivering record revenue and record earnings per share in 2019, our world was turned upside down in early 2020 with the onset of the pandemic. Yet as the year progressed, we managed the downturn well with strong cash flow and earnings, excellent decremental margins and an increase in the dividend. And while we delivered good financial results, we also continue to advance the company's strategy, including delivering a breakout year for our renewables business and completing the acquisition of Aurora Bearings. 2021 had been dealt with a surge in inflation across many of our key input costs, as well as unexpected supply chain and labor market challenges. Despite these challenges, we are once again on track to deliver another year of record revenue and earnings per share as we continue to advance the company's strategy with our outgrowth, operational excellence and capital allocation initiatives.

Looking at 2022, we're confident that the company can and will perform well if the inflationary environment persists. We're in a great position to deliver new record levels of revenue and earnings again in 2022, all while continuing to advance the company's long-term strategy to grow as a diversified industrial leader. Phil?

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## Philip D. Fracassa

*Chief Financial Officer & Executive Vice President, The Timken Co.*

Okay. Thanks, Rich, and good morning, everyone. For the financial review, I'm going to start on slide 11 of the presentation materials, with the summary of our results. Revenue in the third quarter was \$1.037 billion, up 16% from last year and up more than 13% from the third quarter of 2019. We delivered an adjusted EBITDA margin of 17.2% and adjusted earnings per share of \$1.18, up 4% from last year. Both revenue and adjusted earnings per share were Timken records for the third quarter.

Turning to slide 12, let's take a closer look at our third quarter sales performance. Organically, sales were up 13% versus last year, as both segments delivered double-digit growth led by Process Industries. We also saw double-digit growth across both our bearings and power transmission product lines. Pricing was positive in the quarter as we continued to implement price increases across the portfolio. In addition, currency added almost 2% of the topline, while acquisitions, including Aurora Bearing from last year and the recent iMS acquisition, contributed close to 1%. On the right hand side of the slide, you can see organic growth by region. This excludes both currency and acquisitions. All regions were up in the quarter versus the year-ago period, led by Latin America and Europe, with broad-based growth across most sectors.

Let me comment a bit further on each region. In Latin America, we delivered strong growth in the quarter, up 27%, with distribution and off-highway posting the strongest gains. In Europe, we were up 22%, with broad growth across most sectors, led by off-highway, distribution and general industrial. In North America, our largest region, we were up 10%, driven mainly by strong gains in the distribution off-highway, marine and general industrial sectors, which were partially offset by lower automotive shipments. And finally, in Asia, we were up 7%, driven by growth in the off-highway, distribution and general industrial sectors, while automotive was down.

Turning to slide 13, adjusted EBITDA was \$179 million, or 17.2% of sales in the third quarter, compared to \$174 million, or 19.4% of sales last year. The increase in adjusted EBITDA dollars compared to the prior year reflects the favorable impact of higher volume and related manufacturing utilizations, along with positive price/mix and favorable currency. But as you can see, these items were almost fully offset by significantly higher material/logistics, and other costs.

Let me comment a little further on our manufacturing and operating expense performance in the quarter. On the manufacturing line, we've benefited from higher production volume in the quarter, but this was mostly offset by higher labor and other costs to serve the increased demand. From a footprint standpoint, our new bearing plant in Mexico continues to ramp, and we are in the process of closing our bearing plant in Italy.

Moving to material and logistics, we saw a significant increase in costs compared to last year in the quarter, reflecting inflationary pressures and higher international freight costs. Looking at the year-on-year change, we believe this will be the largest quarterly headwind of the year. And finally, on the SG&A/other line, costs were up slightly year-on-year as we had higher spending to support the higher sales levels, offset partially by lower incentive compensation expense in the period. And recall that we had a small amount of temporary cost actions in the third quarter of last year that did not repeat.

On slide 14, you'll see that we posted net income of \$88 million, or \$1.14 per diluted share for the quarter on a GAAP basis, which includes \$0.04 of net charges from special items. On an adjusted basis, we earned \$1.18 per share, up 4% from last year. Our third quarter adjusted tax rate was 23.3%, bringing our year-to-date adjusted tax rate to 24.5%. This reflects our geographic mix of earnings and the impact of tax planning initiatives.

Next, let's take a look at our business segments, starting with Process Industries on slide 15. For the third quarter, Process Industries sales were \$550 million, up 18% from last year. Organically, sales were up roughly 14.5%, driven by growth across most sectors, with distribution and general industrial posting the strongest gains. Marine was also up year-on-year, driven by increased activity and new business wins. We also benefited from higher pricing in the quarter. In addition, the favorable impact of currency translation added about 2.5% to the topline while acquisitions added nearly 1%. Process Industries adjusted EBITDA in the third quarter was \$131 million, or 23.8% of sales, compared to \$115 million, or 24.7% of sales last year. The increase in adjusted EBITDA reflects the impact of higher volume, related manufacturing utilization, positive price/mix and the benefit of currency, partially offset by higher material and logistics costs.

Now, let's turn to Mobile Industries on slide 16. In the third quarter, Mobile Industries sales were \$487 million, up 13.7% from last year. Organically, sales increased nearly 12%, with off-highway and heavy truck posting the strongest gains while automotive was down. And while aerospace was relatively flat in total, we did see higher commercial revenue in the quarter versus the year ago period. We also benefited from positive pricing in the quarter, and currency translation and acquisitions each added about 1% to the topline. Mobile Industries' adjusted EBITDA for the third quarter was \$58 million, or 11.9% of sales, compared to \$68 million, or 16% of sales last year. The decrease in adjusted EBITDA versus last year reflects the impact of higher material/logistics and other operating costs, offset partially by higher volume, related manufacturing utilization and positive price/mix.

Looking at our two operating segments, Mobile Industries was more negatively impacted by the customer and supply chain disruptions during the quarter. These temporary disruptions resulted in relatively higher operating costs and greater manufacturing inefficiencies in Mobile Industries versus Process.

Turning to Slide 17, you'll see we generated operating cash flow of \$106 in the third quarter, and after CapEx, free cash flow was \$63 million in the period. The decline in free cash flow reflects the impact of higher working capital to support our sales growth, compensate for supply chain disruptions and serve customer demand. We also had higher CapEx to fuel our growth initiatives. From a capital allocation standpoint, Timken paid its 397th consecutive quarterly dividend and repurchased 400,000 shares during the third quarter.

Taking a closer look at our capital structure, we ended the quarter with a strong balance sheet. Our leverage as measured by net debt to adjusted EBITDA was 1.6 times at September 30, which is near the low end of our

targeted range. This puts us in a great position to continue to drive our growth and capital allocation strategies moving forward, including M&A and share buybacks.

Now, let's turn to slide 18 for additional commentary on the outlook. Rich provided color on the outlook in his remarks. So I'll just touch on a few other items. For the full year, we continue to expect CapEx spending of around \$150 million, which includes ongoing growth investments in areas like renewable energy and marine. We anticipate net interest expense of around \$58 million for the full year, and we currently expect the tax rate to equal the year-to-date rate of 24.5%.

Finally, for the fourth quarter, as Rich indicated, we are expecting adjusted EBITDA margins to be lower than the third quarter, driven by the lower anticipated revenue and persistent cost and supply chain headwinds. Note that we continue to implement price increases and other operational excellence initiatives across the enterprise to offset the headwinds. We expect significant price realization next year and we also expect the positive impacts from our ongoing manufacturing footprint initiatives.

So, to summarize, we delivered strong revenue and solid operating performance in the quarter despite the very challenging environment. We'll continue to focus on serving customers and mitigating the cost headwinds while advancing our strategy, and we're confident in our ability to generate higher levels of performance in 2022. This concludes our formal remarks and we will now open the line for questions. Operator?

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## QUESTION AND ANSWER SECTION

**Operator:** Yes, sir. Thank you. [Operator Instructions] We will now take our first question from Stephen Volkmann with Jefferies.

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**Stephen Volkmann**

*Analyst, Jefferies LLC*

Q

Hi. Good morning, guys. Thanks for taking the questions.

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**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Good morning.

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**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Good morning, Steve.

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**Stephen Volkmann**

*Analyst, Jefferies LLC*

Q

I guess the only thing that sort of surprises me is this price situation, and I guess I'm a little surprised that you only had 1% or so, I think you said in the quarter. It just feels like more of your revenue base should be sort of adjustable more quickly, but maybe I'm wrong about that. But I guess the key question is when you talk about significant price in 2022, I think most industrial companies we follow are talking kind of mid-single digits. I don't know if you can just sort of dive into that a little bit more. And I guess what's keeping you from sort of pushing this more aggressively?

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Well, maybe to hit the last one, I don't think there's anything keeping us from pushing it more aggressively with the exception of the – in hindsight, we certainly started late and started a little too small, but I think we're certainly looking to make up for that in the coming months. So maybe going back to your comment on the 1%. That was greater than 1%. And to your point where we can move price, which is roughly half the portfolio, we started that late in the second quarter. As I said, our pricing had improved from May to June, June to July and improved each month through September and improved again in October. So that is happening. I think as you look to next year, it's probably a little early for us to get very specific on where we would expect to land, as quite a bit of that is in discussion today, but I think if you look at our – our objective certainly would be to cover our cost increases that we've had to date with our price and get to positive price/cost in 2022.

And if you look at the financial walk on slide 12 (sic) [13] (00:23:25) and see the negative \$53 million of material/logistics that we have in the third quarter, certainly 1% to 2% wouldn't make that happen. So, [ph] while not (00:23:40) getting too specific, the numbers need to be certainly above the low single digit range to make that happen. I think the other comment I would make on being a little late, I mean I think we had anticipated that more these logistics costs and things would be a little more transitory than what they have been, so we're moving to catch up with that now.

**Stephen Volkmann**

*Analyst, Jefferies LLC*

Q

Okay, that's great color. And just a quick follow-up on that is I know you have some big contracts with big customers. And I'm guessing they're probably not excited about price increases. But in the past, you've actually been willing and able to exit some non-profitable type contracts. Should we be thinking along those lines again in 2022 as we try to read this?

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

No, I don't think so. I think the risk of us losing business from pricing in 2022 is very slim. And I think we will net I think positive on the share side next year. To your point of what keeps you from going far than that, short term – your first question, short term is very little. I think our customers would generally have a tough time moving anything that they produce – that they buy from us in a timeframe and at a cost position with available capacity, et cetera, in a timeframe. So we have a lot of short-term price power, but as you know, we also look to price. When we look to move pricing up, we don't intend to move it back with the exception of the material flow-throughs that we have. So, we're looking to find that right spot that covers the cost, gets us positive price/cost, but also isn't something that when markets level off that we're having to walk back in anyways. And I think as I said, there is a quite a bit of room for us to move in that direction to start the year.

**Stephen Volkmann**

*Analyst, Jefferies LLC*

Q

Great, thanks. I'll pass it on.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Thanks, Steve.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

Thanks, Steve.

A

**Operator:** We'll now take a question from Rob Wertheimer with Melius Research.

**Rob Wertheimer**

*Analyst, Melius Research LLC*

Hey. Sorry to have the next one about price also, and that was helpful. I'm just curious, Rich, if the pace at which you look at pricing is changing right now. You mentioned you were a little bit behind. I don't know if that's just structurally how your agreements work or whether you felt like the organization could have responded faster and if you change things to make, in a new inflationary environment, swifter decisions. And then, out of curiosity, was the surprise in the quarter, and I assume it was on cost, was it almost entirely transit or it was kind of more balanced, and did that contribute to be behind the curve? Thanks.

Q

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

Yeah. On the price, I would say, a big part of us being behind on prices is by design, that we pass through material price increases, typically at least a quarter late, sometimes two quarters late. And then we also have a fair amount of our business tied up on 12 month pricing agreements. So as material cost – and it's probably only the second time in 20 years that material costs have gone up this quickly. The only other time would have been in the 2008 timeframe. So typically, it's not a real big deal to have that lag, but it's definitely caught us in the first couple of quarters as well, actually, beginning in the fourth quarter of last year, it started to catch us. But we – again, we make that up, so that happens by design. When the costs go the other way, it happens the opposite way and there's a lag where we hold that elevated material cost for an extended time before it comes back down.

A

And then the other part is where we have pricing contracts. And again, I think it's generally the nature of the business, and as a general rule right now, shorter is better because it gives you better time to do that, but our customers generally expect us to commit to one year. So, I think as you look forward where we're in a position right now is, again, we've got a fair amount of pricing power and we just got to make sure with where we land to start the year, that we've got enough price to cover the cost. So, I think in the last part, certainly would probably move a little bit faster where we had the opportunity. But the cost curve, this pretty unique cost curve and how quickly this came out at us from one quarter to the next, international freight cost, the price of a container from India to Europe doubling and things like that. So, I wouldn't be too critical of where we landed. And again, there is usually a little bit of lag there. So, I think we'll be okay there.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

Yeah, Rob, and this is Phil. Regarding the second part of your question in terms of what changed relative to expectations in the quarter. I mean, certainly, logistics was a big shocker in terms of some of the ocean freight rates and the international freight rates. But I would say across the board, the supply chain disruptions beyond that broadly got a little bit worse, the inflation and then the – some of the inefficiencies that sort of emanate from that, it was probably across the board, but no question on logistics would have been the big one in the quarter.

A

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

I would say in general, we came in the quarter thinking some more of this was transitory and would ease, and, again, as Phil just said, logistics went up. We thought the pandemic – some of the specifics around the pandemic would ease in the plants and, during the third quarter, we had quite a bit of absenteeism in our southern US plants and some other parts of the world that rippled through our productivity. So, go back four, five months, we thought some things will be better and that didn't happen, I would say, all that. And then obviously, the – on the demand side as well, automotive revenue was significantly affected by the chip issues.

**Rob Wertheimer**

*Analyst, Melius Research LLC*

Yeah. Okay. Thank you.

Q

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

Thanks.

A

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

Thanks, Rob.

A

**Operator:** We'll now take our next question from Chris Dankert with Loop Capital.

**Christopher Dankert**

*Analyst, Loop Capital Markets LLC*

Hey. Good morning, guys.

Q

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

Good morning.

A

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

Hi, Chis.

A

**Christopher Dankert**

*Analyst, Loop Capital Markets LLC*

I guess, so to move down just a little bit here, SG&A, pretty impressive execution on the quarter. I guess, as we move into the new year given incentive comp, just base wage inflation, logistics, et cetera, should we expect to kind of move back into that mid to upper \$150 million a quarter type range? Just any color on how we should think about SG&A kind of as we move out of 3Q here.

Q

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

Yeah. Certainly in absolute dollars, I think as you look next year, there'll be some pressure there. But I think from a leverage standpoint, maybe a touch up, but we're looking mix aside, I think we can keep it pretty – I don't see it's going back to where we were a couple of years ago any time soon as a percentage of sales.

A

**Christopher Dankert**

*Analyst, Loop Capital Markets LLC*

Q

I mean, again, you touched on it a little bit here. We had some temporary cost actions from last year that we're lapping. I guess is there any other additional costs we should keep in mind that, I mean, T&E obviously is still down, but anything else measurable or notable that we should keep in mind as things kind of get back to "normal"?

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Certainly, travel remains significantly down from where it was. It certainly come up a little bit, but a lot of the dollars are tend to be in international travel, and that's still well below 50% of what it used to be. And again, I don't know that I would expect it to go 100%, but we believe certainly there will be some needed increases in that as you look forward. Again, incentive comp in dollars could be a headwind next year, but that's only if we're growing and it merits being a headwind. So from a leverage standpoint, that wouldn't necessarily be the case. And then I think, in general, I think with some of our growth initiatives and whatnot, you'll see some head count coming back in to the business probably next year. But again, would expect that to leverage. And from a percentage, I think we're in pretty good shape.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Yeah. And Chris, the only thing I would add – this is Phil – when we're looking at the rest of the year, as we said, we had a little bit of higher spending in the quarter, also slight favorability on incentive compensation. So as we look ahead to the fourth quarter, I think you'll see us probably be more in line with the first half rate, if you will, as we move into the fourth quarter with some increased spending occurring and as we revert back to normal incentive comp accruals.

**Christopher Dankert**

*Analyst, Loop Capital Markets LLC*

Q

Got it. That's very, very helpful, guys. Thank you. And then just a follow-up if I could on alternative energy. We've talked about it quite a bit in the past. Just any expectations for 2022, just given what we can see in the backlog at this point?

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Yes. Certainly, we're planning for a more moderate year of growth right now, so I mean, as I said, this year, we're looking at double digits and we remain on track to be in the double digits. We'll have a shot for that next year, but certainly it's pretty well publicized. The China wind industry is slowing down here a little bit at the end of the year. They're going to start off a little slower. But again, we've got some new platforms go in there. We're not just wind, we're not just China. So I would say no change to our long-term bullishness on the forecast, but would expect a more moderate growth rate next year as we sit here today.

**Christopher Dankert**

*Analyst, Loop Capital Markets LLC*

Q

Understood. Thanks so much, guys.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

Thanks, Chris.

A

**Operator:** We'll take our next question from David Raso with Evercore.

**David Raso**

*Analyst, Evercore ISI*

Hi, thank you.

Q

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

Good morning, David.

A

**David Raso**

*Analyst, Evercore ISI*

Without [indiscernible] (00:33:46) having guidance, I just wanted to make sure we have a little sense of parameters here. When you look at price/mix versus material/logistics, I mean, the cadence for the year, first quarter was negative [ph] \$28 million (00:33:58) then negative [ph] \$36 million (00:33:59) last year and now third quarter just came in at negative [ph] \$47 million (00:34:03). For the fourth quarter, it's also on a lower sales base. So just from that alone, I would think it'd be down sequentially. Can you give us some sense of how you think about price/cost in the fourth quarter versus the third quarter? And then when would you expect sort of how you're thinking about negotiating right now for pricing? For the cadence, when would you expect price/cost to be neutral?

Q

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

Hey, David. It's Phil. Maybe I'll start with the fourth quarter commentary. So as we said, we do expect the third quarter to be sort of the largest quarterly year-on-year headwind. So when you think about last year, we actually did see – in the fourth quarter of last year, we did see logistics started to move up, didn't quite get hit as much by the material in the fourth quarter. That was more in 2021. So as we look ahead to the fourth quarter, I think we'll continue to get price. As Rich indicated, we're going to get more price in the fourth quarter than we did in the third. And then we would expect that year-on-year headwind from material and logistics to moderate, probably more on the logistics side than on the material side, but to moderate in total. [indiscernible] (00:35:11).

A

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

No, as I said earlier, I'm not sure we're ready to say when price/cost goes positive, but I'd say our objective is that it happens next year. We're not done with enough of the pricing to say that for sure. But certainly, we expect to step up in price realization from Q4 to Q1.

A

**David Raso**

*Analyst, Evercore ISI*

Well, maybe if I could just a quick follow-up on that then, the percent of your pricing that's been negotiated for next year, I'm just curious, if you have to generally characterize, what percent of your pricing for next year has already been negotiated, so, sense of your visibility on that side, and then, sort of what percent of the cost. Maybe

Q

it's only a six month comment, I know it's hard to know, maybe your logistics costs, 6, 8, 12 months from now. But so we're just trying to get a sense of how much do you have visibility on price/cost versus it's still mostly in front of us on negotiation. Thank you.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Let's say the half that we are able to move price at any time during the year, I would call that – negotiated that we have either implemented or are implementing actions to make that happen. And then, I'd probably throw in another 25% to 30% that we have pretty good line of sight to where we're going to land within a reasonable tight range. So I think we're two months away from being able to provide I think final specifics on that. But it'd be a pretty solid number. I think on the cost side, I think that's where more risk is that we've just got to make sure we don't undershoot it on the price side that the costs continue to escalate. So we've got material. We generally have pretty good visibility to the material side three to six months out, but things have continued to go up. And Phil already talked about, we were surprised in the third quarter with some of the rate increases that we've seen on, in particular, international freight. So that curve and how that plays out, I think, is a big factor on when that flips to positive.

**David Raso**

*Analyst, Evercore ISI*

Q

I appreciate the color. Thank you.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Thanks, Dave.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Thanks, David.

**Operator:** Our next question will come from Steve Barger with KeyBanc Capital Markets.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hey. Thanks. Good morning.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Good morning, Steve.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Hey, Steve.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

For your 4Q revenue comments, do you expect positive year-over-year organic growth in both segments or could Mobile be down? And then same question for segment EBIT. Do you think that grows year-over-year in each as some of the headwinds ease?

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

We expect both segments to be up...

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Right.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

...within Mobile, though, we are looking for automotive to be down year-on-year, but both Process and Mobile, we're looking to be up for the fourth quarter, for year-on-year. Well, I'm sorry. What was the second question, Steve?

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Segment EBIT. Do you think that can grow year-over-year as some of the headwinds ease, as you get a little bit of price realization, and specifically in Mobile?

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Yeah. I would say on the Mobile side, Steve, we'll continue to be impacted by supply chain disruptions, as I indicated. Mobile is getting a little bit more negatively impacted than Process from the supply chain disruptions and even some of the cost pressures. So we'd expect it to continue to be a little bit more challenging on the Mobile side than the Process side. As we talked about, we expect margins to be down in the fourth quarter from the third just on the lower revenue and kind of a continued headwinds, and then for likely Mobile to be more impacted just like it was in the third quarter.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. Yeah.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

I think one of the [indiscernible] (00:39:15) I'd add to that, maybe a little bit to your question, Steve, and a little bit of David's question before that as well on the price/cost bar and looking again on slide 12 (sic) [13], I mean, there is also an element both in the manufacturing, which is positive \$5 million, but these volumes would have certainly driven – we would have certainly aspired to a larger favorable than \$5 million on the manufacturing side of these volume levels and within the \$53 million. There are parts of that that are self-inflicted, which, again, we're not necessarily – we're not looking to recover absenteeism in some of our plants. We're not looking to cover maybe some – there is premium freight in there and some things that we're pretty confident of, have already improved and are going to improve as we look to 2022. So, as you look at these cost increases, there is an inflationary part,

there is probably a normal cyclical part, and there has also been this I'll say heightened inefficiency part. And we try to – trying to bucket those and make sure as we look next year we're covering what we think is going to remain.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. And just bigger picture, since 2015, you've spent \$1.6 billion on acquisitions, largely in Process to drive better mix and aftermarket and reduce cyclical. And now, a couple of quarters into an expansion, you had to withdraw guidance due to Mobile. So, does this require more Process M&A or more diversification of Mobile or just in general, what can you do to improve visibility?

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Yeah. I mean, Steve, I would just say, obviously, we really – we like what the M&A is doing for the company. And as Rich said, we've got the balance sheet, we'll look to continue to do M&A that has tended to be more focused on the Process side. I mean, our Mobile business is a great business. I think as we indicated with the automotive chip shortages and some of the other issues affecting Mobile, Mobile was a little bit disproportionately impacted. But I mean, the challenges we're facing around supply chain inflation are kind of across the enterprise. We're working to get pricing across the enterprise, not just in processing, and you'll see that as it comes through.

So, I think our strategy will remain the same, which is leverage the best parts of the enterprise, focus the M&A on continuing to diversify the portfolio, with an emphasis on the aftermarket and a tilt toward Process Industries. And then in Mobile, like we have been, be very thoughtful about where we participate, be very focused on the returns we generate in that business and driving both forward together. And, if you go back 5, 10 years, we were a much larger Mobile Industries segment than Process. A couple of years ago, they kind of went neck and neck. Now, Process is slightly larger and I think that'll continue. But I think – I don't think there's any change to the strategy. But we certainly wanted – and we would like to do some more M&A, as we move forward.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. Thank you.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Thanks, Steve.

**Operator:** We'll take our next question from Joe Ritchie with Goldman Sachs.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thanks. Good morning, everybody.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Good morning.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

So I know we've talked a lot about pricing. I'm just curious, with some of the suppliers that we cover, and so like the auto industry and the truck industry, it's sometimes difficult to really go back to the customers and get price. And it's really mostly platform-driven. I'm just wondering if you could just maybe just provide us just a little bit more color as to those specific customers and your ability to get pricing increases in 2022.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Yeah. So I think somebody commented earlier that our customers are not ever really looking for a price increase or welcoming a price increase, but also they certainly recognize that – what's happened with steel prices. And I don't have a lot of concern, Joe, that we're going to be able to get prices through Mobile Industries and retain share. So I think the conversations are progressing there. And I think the other thing when you look at it with what's happening with their own supply chain issues and constraints, a reasonable price increase on their bearing spend with Timken Company is probably not generally in their top 100 issues that they're facing on their own supply chain issues. So we will get the pricing next year.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Yeah. The only thing I would add to that, Joe – this is Phil – is when you think about some of the big OEMs, where contracts renew, its operating much, as Rich described. But in some of the multiyear deals, even ones that aren't renewing this year, they – any time we have a multiyear deal, we have a price adjustment mechanism in there, works both ways. But needless to say, in this kind of an environment, it's working in our favor. So as those mechanisms are adjusting, we are getting – frankly, automatically, getting some positive price from some of the multiyear deals we have that aren't up for a negotiation this year. So that's worked in our favor as well. And that started probably a little bit in the third quarter. We'll expect more in the fourth quarter, and then that will continue. Typically operates on a lag – a quarter or so lag from when our costs go up. But it is working in our favor as well.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

And I guess one more comment, I think, in the shortest term to your point of this being platform driven, again, it takes a lot of engineering work, sourcing work, et cetera, to respond to resource Timken or one of our competitors if we're trying to win business. Typically, the first action is you go on the penalty box on new platforms and that sort of thing. And again, I think we will be fine there. But to one of the earlier questions, I mean we have to get the price when you look what's happened with our cost structure. And we will get the price and I don't think we will lose any business over that. In fact, I think we'll be a net winner next year. But if the choice comes down to that, we would probably stick with we need pricing to cover what's happened with our cost structure in 2020 – 2021, sorry.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. No, that's helpful. Thank you both. I guess the follow on, trying to understand also a little bit more of your surcharges and how that actually works, because obviously we're in a hyperinflationary environment from a freight perspective. And I'm just trying to understand whether like you end up potentially eating some of those excess costs, transport costs that you're experiencing this quarter, whether that actually come through in the following quarters. Just any other color around that would be helpful.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Yeah. So typically, we're – as Phil said, definitely in a multiyear agreement, we do not want to be exposed to variation in steel prices over that time. So, we will have a quarterly, bi-annual pass-through mechanism that looks backwards and then adjust going forward. So if costs went up in the first half of 2021 and that gets trued up in July 1st, you eat it all in the first part and you start to offset it in the second part. I would say they're not – they're certainly not margin expansive for us. It's really a – it's a protection and the feeling you'd probably still get a low compression there because, at best, you're making up for your cost and not getting cost plus margin. We don't generally have that.

And then we have some things like that too with currency in some places and some other exposure to make sure that, over an extended period, we get in this environment that we have some protection and coverage there. And then obviously, we can reprice the base price of that as well when the contract opened up. Where we have typically not had any protection, which has been a problem this year, is freight costs, and I don't think that that's ever been a problem until this year. But this year, it's definitely become a challenge and one that, again, I think we will get on the right side of within the next couple of months.

**Joe Ritchie**

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay, great. Thank you.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Thanks, Joe.

**Operator:** We'll take our next question from Ross Gilardi with Bank of America.

**Ross Gilardi**

*Analyst, Bank of America Merrill Lynch*

Q

Hi. Good morning, guys.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Good morning, Ross.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Hey, Ross.

**Ross Gilardi**

*Analyst, Bank of America Merrill Lynch*

Q

I just want to ask, I mean you had planned a fair amount of reinvestments into the business going into this year. The number that I recall was, I think, \$75 million, over the next year or two, largely in our renewable side, correct me if my facts are wrong there. But where does that stand if you pushed any of those more growth related investments out at all, just given a lot of the other things you've got to deal with right now?

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Yeah. The \$75 million was specifically the renewable, multi-year renewable investment. And no, we've not pushed any of that out. Probably, if you go back to when we announced it, so they slipped a little bit just because of the supply chain issues that we're all talking about, that machine built schedules and things have probably slipped a little bit, but we completed – the big move we made this year, we completed the solar facility relocation. We went from three overfilled facilities into one larger, more modern facility. The dust on that really – we finished that really in the second quarter, but the dust on it kind of settled in the third quarter. And I would say we're – we'll now start – as opposed to incurring the cost of moving, we'll now start getting the benefit of having a consolidated and better facility there. So it's a little bit of a margin expansion for us going forward as well as capacity expansion.

And then the other two big ones underway are we have a facility expansion in China for what we call our ultra-large bearings, a couple of meters in diameter. That project is progressing well. And that's both some bricks and mortar of facility expansion, as well as equipment coming in. And then a couple of expansions of facilities in – more equipment expansions in Romania, China as well as India for the market. And all of that's progressing well. So investment continues. Again, we mentioned it earlier, but we'll be up double digits again this year in renewables, and there is some market pullback in parts of the world. But we're still pretty optimistic what we can do next year and certainly long term on the investments.

**Ross Gilardi**

*Analyst, Bank of America Merrill Lynch*

Q

Got it. Thanks for that color, Rich. And then I'll give this one a shot, and I know you don't want to speak too much about 2022 yet, but just based on everything you've got going on with pricing and the phasing that you see and just your current expectations on supply chain, I mean, what is the earliest you could realistically see EBITDA margins turn positive again on a year-on-year basis? Is it not until the second half of 2022?

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Yeah. Let me actually come back and make one more comment on the renewables investment, Ross. You go back to my comment that the third quarter was a revenue record by 13% over 2019. Renewables really is the big delta in that timeframe. Some other markets have gotten back above where they were in 2019, some are below, automotive is obviously below. But I do think as we look into next year, we've just got a much bigger base of renewable business, which is really giving the company a whole another level of scale if you will back to where we were at in some of the industrial markets in 2018 or 2019. So probably not ready to say when, and certainly the first quarter comp is a high bar. So I said we'd expect to step up meaningfully from the fourth quarter to the first quarter, but not sure I'm ready to say that we would expect it to be above or below 19.9%. But certainly our objective would be for topline growth next year, full year margin expansion and record earnings per share and better cash conversion.

**Ross Gilardi**

*Analyst, Bank of America Merrill Lynch*

Q

Got it. Thanks, guys. Thanks, Rich.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Thanks, Ross.

**Operator:** Our next question will come from Tim Thein with Citigroup.

**Tim W. Thein**

*Analyst, Citigroup Global Markets, Inc.*

Oh, yes. Hi. Good morning. Thanks. Maybe just...

Q

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

Good morning, Tim.

A

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

Good morning.

A

**Tim W. Thein**

*Analyst, Citigroup Global Markets, Inc.*

Yeah. Good morning. As we think about kind of the various drivers for next year, maybe you could talk about product mix and maybe distill that even further into distribution. Obviously, we do have some data that we can observe from some of your public customers there, but obviously that doesn't tell the whole picture. So just curious if you could say a few words in terms of kind of just where we are. I would imagine there's a whole lot of restocking that's going on. But just what you see on the on the distribution front globally.

Q

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

Pretty good. I would say good recent – more recent than as we talked for some time now, the recovery that really started 15 months ago coming out of the pandemic was very much Mobile OEM-led. But that has started to flip in the last quarter or so. And I think, the outlook as you referenced a couple of the large US distributors, I think that comment certainly applies to Europe as well and some other parts of the world. There is a desire probably for more restocking than what they're able to do right now. And some of our customers have commented on that, but we're trying to build inventory levels heading into next year to – for their own service and revenue opportunities that they see in front of them. So I certainly don't see mix in the short term as we look out to 2022. I'm not sure I'm ready to call it favorable, but I don't see it being the headwind that it's been for some timeframe. One of the exception that could be if automotive came on significantly stronger, if the chip situation improved, obviously that mix is down a little bit. But overall, I think it's flipping to where it should be, a plus for us versus the minus that it's been.

A

**Tim W. Thein**

*Analyst, Citigroup Global Markets, Inc.*

Got it. Okay. And then maybe just to your last comment there on cash conversion. This whole supply chain issue is debatable as to the longevity of it and when and if this reverses. But does it lead you to think differently in terms of just kind of regional stocking levels from a Timken standpoint, meaning, is there – should we assume maybe inventories are higher structurally or is that just they don't overemphasize this particular period and it reverses? I'm just curious if you've had any thoughts on that in terms of how you're thinking...

Q

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Well, actually I think for the current state and certainly for the – at least the next couple of quarters, I think the answer is yes. We need to carry more inventory because things that used to take four weeks or taking eight and 10 weeks and we have more inventory in transit today than normal because of that. So we're having to stock more either to a point in the warehouse or just in transit itself. And then also the demand situation as well. So I would say, I think we're looking at higher inventory levels, although our turns really have been okay. As the revenue has come up, they haven't slipped that much. There's been some offsets in some other areas, but generally and as the market turns, we would look to – up like this, we would look to improve our inventory turns more than what has happened. But I think certainly, the inefficiency that we've experienced this year wouldn't expect another step-up in that next year, which is what's hurt us this year.

**Tim W. Thein**

*Analyst, Citigroup Global Markets, Inc.*

Q

All right. Got it. Thank you.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Thanks.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Thanks, Tim.

**Operator:** Our next question will come from Courtney Yakavonis with Morgan Stanley.

**Courtney Yakavonis**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Good morning, guys. Thanks for the question.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Hi, Courtney.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Good morning, Courtney.

**Courtney Yakavonis**

*Analyst, Morgan Stanley & Co. LLC*

Q

Maybe if you guys can just comment a little bit more on the comment about expecting a very strong start to 2022 with the step up in sequential revenue. If you can just help us think a little bit about how we should be thinking about Process versus Mobile heading into next year, especially after your comments that obviously Mobile is going to be more impacted in the fourth quarter. And then, I guess secondly, can you just help us disaggregate what you're viewing as some of the more structurally higher costs are versus – you talked about the inefficiencies,

some of the more premium freight versus maybe just more structural increases in freight, just help us think about what could eventually come out of the system next year.

**Richard G. Kyle**

*President, Chief Executive Officer & Director, The Timken Co.*

A

Yeah. I think on the first part of the question, I think you look back last several years, probably that market would be a better example, so maybe in 2017-2018, typically, we see a pretty good step up in both segments from a revenue and margin standpoint from Q4 to Q1. And I think this year would be on the higher end of that from a margin standpoint because of the step change in pricing that we would be expecting above what would be normal – some normal price realization in that period. But it's – there is a volume factor there that usually kicks in both revenue as well as production. We have more usually higher production levels then as well, and some other factors with our seasonality, but I think if you look back at the history there, we would expect that we would be on the high end of both of those in this market.

And then on the second part of your question, I think there is an element – we're now looking that there is an element of just about everything that we've seen where our costs have gone up. There is an element of both inefficiency and/or transitory, and there is an element that's probably here to stay. So, I think steel cost could come down a little bit next year, but probably, certainly, I wouldn't expect them to go up, but I would certainly won't to expect them to go down to 2020 or 2019 levels. Our labor costs have not moved up a lot on a unit cost basis. But when labor goes up, it typically is only in one direction, it doesn't go the other way.

On the flip side in labor, we've had a lot of – we've had a very high amount of – unusual amount of labor inefficiency again from the supply chain disruptions, you just don't have good flow going through the plants from the pandemic itself with – between still this year, we had mandatory shutdowns in some parts of the world, currently some power outage issues in China that's causing some productivity issues. So I definitely think that gets better and is better today than it was in the third quarter. And then, the logistics cost, I think, is probably the biggest wild card out there in regards how that settles out. I mean, it's definitely – if you look at the charts of ocean container cost, et cetera I mean, it is just, in some cases, up 50%, in some cases, up 200%. And we're not expecting any relief on that this quarter or to start next year, but it'd be hard to imagine those prices sticking at that level in perpetuity. I think if that were to stick, then you probably would be looking at some potential changes of both our customers and ourselves in regards to where we produce products, et cetera, because it's a pretty significant rate increase. So some stay, some improve with efficiency, and then obviously price coming in over the top of it.

**Courtney Yakavonis**

*Analyst, Morgan Stanley & Co. LLC*

Q

Thanks. That's helpful.

**Philip D. Fracassa**

*Chief Financial Officer & Executive Vice President, The Timken Co.*

A

Thanks, Courtney.

**Operator:** And it appears there are no further telephone questions. I'd like to turn the conference back over to our presenters for any additional or closing remarks.

## Neil Frohnapple

*Director-Investor Relations, The Timken Co.*

Thanks, Anna, and thank you everyone for joining us today. If you have any further questions after today's call, please feel free to contact me. Thank you. And this concludes our call.

**Operator:** And once again, that does conclude today's conference, and we thank you all for your participation. You may now disconnect.

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