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CORPORATE PARTICIPANTS

Jim Ryan *Curtiss-Wright Corp. - IR*

Dave Adams *Curtiss-Wright Corp. - Chairman, CEO*

Glenn Tynan *Curtiss-Wright Corp. - VP, CFO*

CONFERENCE CALL PARTICIPANTS

Sam Pearlstein *Wells Fargo Securities - Analyst*

Kristine Liwag *Bank of America Merril Lynch - Analyst*

Steve Levenson *Stifel Nicolaus - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Curtiss-Wright fourth quarter and full year 2014 financial results conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to (Inaudible) today's conference, Jim Ryan, Director of Investor Relations. You may begin.

Jim Ryan - *Curtiss-Wright Corp. - IR*

Thank you, Nicole, and good morning, everyone. Welcome to Curtiss-Wright's fourth quarter and full year 2014 earnings conference call. Joining me on the call today are Dave Adams, our Chairman and Chief Executive Officer, and Glenn Tynan, our Vice President and Chief Financial Officer. Our call today is being webcast, and the press release as well as a copy of today's financial presentation are available for download through the Investor Relations section of our Company website at www.curtisswright.com. A replay of this call also can be found on the website.

Please note today's discussion will include certain projections and statements that are forward-looking as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations, and are not guarantees of future performance. Forward-looking statements always involve risks and uncertainties, and we detail those risks and uncertainties in our public filings with the SEC. In addition, certain non-GAAP financial measures will be discussed on the call today. A reconciliation is available in the earnings release and at the end of this presentation, and will be available on the Company's website.

Now I'd like to turn the call over to Dave to get things started. Dave?

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

Thank you, Jim and good morning, everyone. For our agenda today, I'll begin with a brief update on recent events followed by Glenn, who will review our fourth quarter and full year 2014 financial performance and our 2015 guidance. Then I'll return to provide some additional color on our margin expansion progress and opportunities before we wrap up and open the call for questions.

It was just over one year ago we were discussing the numerous changes taking place under the vision of One Curtiss-Wright in order to better position our Company for the future. I'm happy to report that we made tremendous strides in 2014, and I'm very proud of the results produced by our various teams.

We established a game plan early on, and our teams executed on that plan. As a result, we were able to drive efficiencies across every aspect of our Company, and the result is what we promised, increasing shareholder and customer value alike. We are and will continue to be focused on cost improvement, leveraging the critical mass of One Curtiss-Wright across the enterprise and achieving top quartile metrics. Upon reflection, some of the highlights of our 2014 performance include operating margin at 12.6%, a greater than 300 basis point improvement over reported 2013 results.

Full year EPS grew nearly 20%. Return on invested capital increased to 10%, up 300 basis points over 2013 reported results, and we generated excellent free cash flow with a conversion rate that exceeded of 150%. We are unwavering in our intention to deliver top quartile operational metrics within our peer group appear our results speak for themselves.

Our strategies are working and best of all, we see plenty of runway left on this journey. Furthermore, our focus to improving profitability, expanding our margins, and driving steady improvements in working capital and free cash flow will drive strong shareholder returns for years to come.

Now I'd like to turn the call over to Glenn to provide a review of our quarterly and full year performance.

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Thank you, Dave and good morning, everyone. Our discussions today of current and future results, except for cash flow, are on a continuing operations basis, which excludes all divestitures.

Our fourth quarter results included solid improvements in operating income, operating margin, and especially free cash flow generation. Operating income rose 5% due to the continued benefit of our operating margin improvement initiatives, and lower corporate overhead cost, despite slightly lower sales. This led to an operating margin of 13.1%, up 90 basis points from the prior year, driven by improved organic sales and operating income in our commercial/industrial and energy segments.

As a result, diluted earnings per share from continuing operations of $0.94 in the fourth quarter increased modestly compared to the prior-year period. And following strong year-to-date results, new orders were 8% lower in the fourth quarter, primarily due to lower demand within the defense markets. However, new orders for the year were up 12% overall, primarily within the aerospace and naval defense markets.

And finally, free cash flow for the fourth quarter was $166 million, exceeding our expectations and up 86% compared to the prior-year period, with free cash flow conversion coming in very strong at 360%.

Moving on to our full year results, we concluded 2014 with a strong overall performance. Sales improved in both overall commercial and defense and markets. Most notably due to strong growth in our general industrial, and oil and gas markets.

Our full year operating income margin benefited from our ongoing marketing margin improvement initiatives, specifically portfolio rationalization as well as lower costs related to our organizational realignment initiatives. Overall, operating income grew 19%, 14% of which was organic, driving operating margin up 140 basis points on a continuing operations basis to 12.6%.

However, to further clarify the strength of our 2014 results, if you compare our current performance to our original reported 2013 results prior to the divestiture activity, operating margin improved 330 basis points year-over-year from 9.3% to 12.6%. As you can see by our results, we've been steadily improving Curtiss-Wright's profitability through increased operational efficiency.

Diluted earnings per share from continuing operations of $3.46 increased 19% compared to the prior-year period. On the heels of a very strong fourth quarter, we concluded the full year 2014 with a solid free cash flow performance that exceeded our expectations, generating $265 million, which equated to 156% free cash flow conversion rate.

And finally, we generated a solid improvement in our return on invested capital, which increased 300 basis points from 7.4% reported in 2013 to 10.4% in 2014, due to improved operating performance and the divestiture of non-core assets. As a result of our divestitures, we are moving forward with a leaner and more profitable portfolio of assets, which should continue to drive improvements in operating margin and return on invested capital.

Moving to the 2014 end market sales, overall commercial market sales grew 8%, led by 2% organic growth and the benefit from acquisitions in the general industrial market. In the commercial aerospace market, we continue to produce solid results, driven primarily by higher sales in the Boeing 737 and 787 programs, as well as increased service technology revenues.

In the general industrial market, higher sales were driven by a solid combination of 5% organic growth, as well as our Arens Controls acquisition, serving the on-road and off-road truck and specialty vehicle markets. Growth in this end market was primarily driven by sales from medium- and heavy-duty commercial vehicles. Overall, our 2014 sales grew 19% in this end market.

Next, to the oil and gas market, where we experienced solid fourth quarter and full year sales growth. As a reminder, due to the previously announced divestitures which are included in discontinued operations, this end market primarily consists of our industrial valve businesses, whose key products include severe-service and pressure relief valves.

While the overall oil and gas industry was impacted by the swift reduction in oil prices during the fourth quarter, the net impact to Curtiss-Wright was negligible due to our broad product diversification. I want to note that while 10% of total Curtiss-Wright 2014 sales remained in this end market, approximately half of these sales were actually to the chemical and petrochemical customers. As a result, and in order to simplify Curtiss-Wright's end market structure, these remaining sales are now reflected in the general industrial market herewith and going forward, given the more industrial focused nature of these businesses.

And finally within the power generation market, we continue to the experience lower revenues on both the U.S. and China AP1000 programs as they continue to wind down. On the aftermarket side, beginning in the second half of this year, we experienced lower sales to existing domestic operating reactors due to lower outages, plant closures, and deferred spending on plant maintenance due to competitive pressures resulting from lower natural gas prices.

And next to the defense markets were sales increased 3% overall in 2014. In aerospace defense, we experienced higher demand from embedded computing products in general, and on several long-term production programs, most notably helicopters and the Joint Strike Fighter.

We also experienced another solid performance in our naval defense market, where we've continued to benefit from the steady funding of key U.S. Navy ship building programs, most notably for the Block IV build of the Virginia class submarines, which was partially offset by lower sales on the Ford class aircraft carrier program based on timing of production.

Next, I'd like to move on to our 2015 financial outlook beginning with our end market sales. Full year 2015 sales are expected to grow between 2% and 4% in both our overall defense and commercial end markets.

I'll begin in the defense market where overall defense industry sales are expected to be flat in 2015, as sequestration has largely been avoided. For Curtiss-Wright, our 2015 outlook for overall aerospace and naval defense sales is relatively flat with 2014, while ground defense sales are expected to be higher. Sales to the naval market will be impacted by essentially flat year-over-year production on both the Virginia class submarine and Ford class aircraft carrier programs.

In aerospace defense, we are expecting a mixed performance in 2015. The Joint Strike Fighter program is expected to be one of the key contributors, while overall helicopter sales are expected to be down. In ground defense, however, international sales will continue to be solid in 2015, primarily aided by a contract for turret drive stabilization systems supporting a large scale program in South Africa.

Domestically, we anticipate renewed sales in the U.S., as modernization programs for the Bradley and Stryker vehicles begin to ramp up. As a result, we expect improved overall ground defense sales in 2015.

In the commercial aerospace market, we expect sales to be relatively flat with 2014. Hardware sales to Boeing are expected to improve again in 2015, primarily driven by higher sales on the 737 program, but those gains are expected to be somewhat offset by lower shot-peening sales. We are also expecting improved sales for regional jet and commercial helicopters.

In power generation, we expect sales to be flat in 2015. As previously noted, since the middle of last year we have seen increased headwinds impacting U.S. nuclear plant operators, which led to several plant closures and deferred spending. We expect these challenges to continue this year and as a result, we are projecting reduced sales in our power generation aftermarket business.

In the new build business, we expect lower production on the existing domestic and China AP1000 programs in 2015, as these projects continue to the wind down. We continue to negotiate and finalize contract language for the new AP1000 China order, which we now expect to receive in the third quarter of 2015.

Therefore, our guidance for 2015 includes production revenues and operating income relative to the new order of [$13 million] and [$3 million], respectively. Note that we expect this program to be a significant driver of future organic growth in our new build power generation business, and overall Curtiss-Wright for years to come.

Next, to our general industrial market, which we expect to be our leading market performer in 2015, with sales growth ranging from 5% to 9%. Based on the critical mass that we achieved over the past few years, we expect the benefit from the increased demand for our industrial vehicle products, based on solid growth outlook for OEMs and increasing global desire to reduce emissions.

Within our industrial valves business, we expect to see continued strong global demand for our petrochemical and refinery related MRO product offerings, supporting ongoing maintenance needs. And within the services side of the general industrial market, we expect our surface technologies businesses to benefit from solid demand for our highly technical peening and coating services to domestic and international customers, particularly in the automotive industry.

Continuing with our financial outlook, based on our expected sales growth range of 2% to 4% in 2015 - nearly all of which is organic - we expect full year sales to be approximately $2.3 billion. Total operating income guidance is expected to grow 7% to 10% in 2015, while operating margin is expected to expand another 7 to 80 basis points to a range of 13.3% to 13.4%. All three segments are expected to benefit from incremental operating margin improvement initiatives in 2015.

And finally our guidance for diluted earnings per share is a range of $3.80 to $3.90, which represents double digit EPS growth of 10% to 13% over 2014. In addition, we expect approximately 40% of our full year EPS to be in the first half of the year, which is significantly different than 2014, with 46% was generated in the first half of the year. The primary driver for this difference is that we expect to incur costs relative to completion of the engineering and endurance testing on the current AP1000 program in the first half of the year, and benefit from the new China order in the second half.

As you saw on the press release issued last night and as a result of previously announced discontinued operations, we are realigning certain segments and businesses as follows. The Energy segment will be renamed as the Power segment. The businesses serving the new build power generation and nuclear naval defense markets, which had previously been reported within the Defense segment, will join with the nuclear aftermarket business in the new Power segment.

The remaining oil and gas businesses, which had previously operated within the Energy segment, will join the Commercial/Industrial segment, and this also supports our change in the end market guidance to represent these businesses within the general industrial market moving forward. The Defense segment will be comprised primarily of the electronics businesses providing ISR and electronic warfare solutions to the aerospace and ground defense markets.

As a result, restated historical financial results for 2014 and 2013 periods are included in the earnings press release, and are downloadable from the Investor Relations section of our website. Please note that starting with our first quarter 2015 results, we will be reporting in the new segment structure.

Next, to our 2015 segment guidance in the new structure. Starting with the commercial/industrial segment, sales are expected to grow 3% to 5%, primarily led by growth in the general industrial market.

We are projecting a 30 to 40 basis points improvement in operating income compared to 2014 to a range of 14.8% to 14.9%. The increase in operating income and margin will be driven by improved sales for industrial vehicles, sensors, and industrial valves.

Offsetting those improvements is a slight reduction in profitability for surface treatment services, following a robust 2014. Next to the defense segment, where sales are expected to grow 2% to 5%, primarily led by growth in ground defense market.

We are projecting solid improvement in operating income compared to the 2014 results, driving a 110 to 120 basis point increase in operating margin, to a range of 18% to 18.1%. Higher profitability will be driven by solid demand for our turret drive stabilization systems, and embedded computing products for both defense and commercial applications.

Moving to the new power segment, sales are expected to be flat to slightly lower in 2015. However, we are projecting significant improvement in operating income compared to our 2014 results, driving a 160 to 170 basis point increase in operating margin, to a range of 11.4% to 11.5%. The most significant drivers are improved profitability on the domestic AP1000 revenues compared to a challenging 2014, as well as higher margins associated with the new AP1000 China order.

Next, I want to take a few minutes to discuss our pension plans. On January 30th, 2015, we elected to make a $145 million contribution to our corporate defined benefit pension plan. This contribution will substantially offset the headwinds in our 2015 pension expense as a result of declining interest rates. Further, this action will significantly lower our projected pension expense, and eliminate the need for further cash contributions offer the next five years.

We believe this contribution has a strong return on investment of approximately 10%, as the Company's pension plan assets have consistently produced a solid rate of return in addition to the resultant elimination of PBGC premiums. In 2015, we are projecting pension expense to be approximately $33 million.

Finally, we are forecasting 2015 diluted shares outstanding to be $47.8 million, based on our expectations for share repurchases to more than offset the dilution from stock issuances. Next, to our cash flow. For 2015, based on the benefits of our operational improvement initiatives and working capital reduction efforts, our free cash flow guidance, adjusted to exclude the $145 million pension contribution, is expected to range from $245 million to $265 million with an expected conversion rate of 135% to 142%. As compared to 2014 on a continuing operations basis, we are maintaining a very solid free cash flow level, similar to our very strong 2014 results.

And finally, to capital allocation, we have expectations for a solid cash position in 2015. I want to reiterate our commitment to having a more balanced capital allocation between capital expenditures, returns to shareholders and strategic bolt-on acquisitions.

We ended 2014 with approximately $450 million in cash on the balance sheet, of which $250 million is domestic and currently invested in marketable securities. In considering our operating cash flow for 2015, and anticipated proceeds from divestitures, we expect to have approximately $600 million of available cash to deploy in 2015.

The combination of the pension contribution and capital expenditures represents about one-third of our expected available cash that will be used for operational needs. We expect to allocate another third of our operating cash flow to our shareholders in the form of share repurchases and dividends, which Dave will cover in a few minutes. And the remaining one-third will be available for potential bolt-on acquisitions, all of which supports our balanced capital allocation strategy.

Now I'd like to turn the call back over to Dave to provide an update on our operating margin improvement initiatives and future outlook. Dave?

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

Thank you, Glenn. As promised, we wanted to give you some specific insight into how we performed during the first year under the One Curtiss-Wright vision. In short, we had a phenomenal year in 2014. As you can see on the slide, our operating margin improved 330 basis points in one year, as it increased from a reported 9.3% in 2013 to 12.6% in 2014. Without a doubt, a key contributor was portfolio rationalization and the divesting of several non-core businesses, which was part of our addition by subtraction strategy, aimed at alleviating any management distraction from our primary objectives.

Since our last call, we've completed the sale of our upstream oil and gas business, as well as the commercial aviation ground support equipment operation and closed three underperforming facilities within our Surface Technologies business. It is worth noting that following the 2014 divestiture of our upstream processing business, we no longer have significant exposure to the upstream market.

In addition, we are proceeding with a divestiture of the remaining downstream oil and gas assets that be being held for sale, despite the recent difficulties in that marketplace. These remaining businesses are comprised of solid teams of dedicated employees who provide very technically advanced and robust products. While the timeline has pushed slightly to the right compared to our initial plans, we expect to complete the sale of these assets by mid-year.

Our divestiture actions alone resulted in 210 basis points of margin improvement in 2014, enabling us to achieve upper core cost status versus our peer group. The portfolio rationalization actions have helped both strengthen our portfolio and improve Curtiss-Wright's profitability and returns, providing an even better than expected benefit. Overall, the divestiture activity that we've put into action encompasses the entirety of the portfolio reshaping that we expect to accomplish at this time.

Consolidations and corporate realignment also played a key role, representing 80 basis points of margin improvement in 2014, as we delayered the organization. Combined, these actions represent the bulk of the low hanging fruit that we've been able to remove from our day-to-day operations and they have significantly improved the operating margin profile of Curtiss-Wright.

Now that we've had time to reflect upon the past year's performance, I'd like to take a few minutes to walk through our future plan, in line with our commitment of more transparency with the investment community. Having progressed through the first year under the One Curtiss-Wright vision and given the many changes that have taken place, including size, structure, and financial performance levels, we've diligently reviewed our projections that we've presented at Investor Day, as well as our initial assumptions for operating margin expansion.

As a result, some of our assumptions are changing. First, I want to review our organic growth outlook. Our long-term guidance for the 2014 to 2018 period was 5% to 6% compounded annual growth rate, which exceed the growth rates across nearly all industries in which we participate.

While we're still confident in achieving solid overall organic growth, general business conditions and economic activity play a role in our sales growth, and we currently feel that the prior range may no longer be realistic. As such, we're revising our long-term outlook for organic sales growth to a new range of 3% to 5%, still outpacing our served markets. We'll continue to focus on growing the top line and driving organic growth, including expectations for solid industrial sales, the ramp in the next aircraft carrier, and future contracts on the AP1000 program, just to name a few.

Our operating margin for 2014 clearly surpassed the previous upper quartile guidance of 12.5%. We continue to target the upper quartile performance, and we estimate that when we update that analysis, after peers have filed their 2014 10-K's, top quartile will increase from 12.5% at Investor Day, to somewhere north of 14%. The bar will be raised across the entire peer group, and we are up for the challenge as top quartile performance, whatever it is, remains our goal and we have line of sight for achieving this goal.

We took care of the low hanging fruit in 2014, and the more difficult work lies ahead. Our team remains focused on achieving solid operating margin expansion to reach and maintain upper quartile status.

With that, I'd like to provide an update as promised on the key buckets that will drive further operating margin expansion and upper quartile performance. At our Investor Day in December 2013, we indicated that, at that time, we would need approximately $100 million of additional operating income in order to achieve our margin target of top quartile performance.

Further, we indicated that we would aim higher than that goal or approximately $170 million, accounting for the fact that things don't always go according to plan. We have done a detailed analysis of our operating margin initiatives and are resetting the total cost reductions for the period 2014 through 2018, as set forth in December 2013 to $130 million, and we have increased visibility and confidence in achieving these results.

First off, the portfolio rationalization resulted in a much larger benefit to our operating margin plans than original expected. Generating 210 basis points in margin improvement would equate to the elimination of approximately $40 million of additional cost savings that we would have needed to achieve the same level of operating margin. Of the remaining $90 million, approximately $25 million was achieved in 2014, primarily from our consolidation and corporate realignment activities.

Further, we expect to achieve an additional $25 million in 2015 with the remainder occurring in 2016 through 2018. Our savings will continue to be tracked in the following six areas. Portfolio rationalization, operational excellence, including lien and supply chain, low cost economies, segment focus, shared services, and consolidations. All are ongoing initiatives, with the exception of portfolio rationalization, which was essentially completed in 2014 and greatly contributed to our results.

So while the new dollar total savings may not necessarily match up to the high end of our initial day -- Investor Day expectations, we still expect to achieve top quartile performance versus our peer group. We're certainly on our way to even better operating margin performance over the five-year period than we anticipated, aided by the significant benefits of portfolio rationalization, and this should drive our operating margin north of 14%.

Next, a quick recap on our share repurchase program. In 2014 we repurchased more than 65% million dollars in stock under our share buyback program. For 2015 we expect to repurchase at least $200 million in stock as we continue to reward our shareholders, which should exceed potential dilution from stock issuances. This planned repurchase activity falls under the new $300 million share repurchase authorization granted by our Board of Directors this past September.

As we continue to state, Curtiss-Wright remains committed to our goal of achieving a more balanced capital allocation between capital expenditures, returns to shareholders, and strategic bolt-on acquisitions.

In summary, 2014 marked a strong start on our journey to upper quartile performance. Our continued strong operating results coupled with the recent portfolio rationalization actions, led to significant improvement in operating margins, EPS, free cash flow, and return on invested capital in 2014. While we have demonstrated great success thus far, we're not stopping here. The One Curtiss-Wright vision is a journey, and well continue to strive for and achieve performance to the best in class level.

We are on track for another strong year in 2015 in terms of operating income, operating margin expansion, EPS, and free cash flow. And we remain confident that our continual efforts to improve margin expansion and free cash flow generation will produce long-term shareholder value.

At this time I'd like to open up today's conference call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from the line of Sam Pearlstein of Wells Fargo, your line is now open.

Sam Pearlstein - *Wells Fargo Securities - Analyst*

Good morning.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

Hi Sam.

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Good morning, Sam.

Sam Pearlstein - *Wells Fargo Securities - Analyst*

I just want to make sure I understand that last slide you were just talking about, in terms of the cost saves. So, the $65 million is what? That's -- that's the remainder of the [$130 million] that you're still targeting?

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

The $65 million, Sam, is what is remaining in the period of 2015 through 2018.

Sam Pearlstein - *Wells Fargo Securities - Analyst*

Okay. I -- I guess what I'm trying to understand is if two-thirds of -- of the margin gains that you were hoping to get, you -- you've already realized from the portfolio rationalization, I'm -- I'm trying to just understand what's different now in terms of what you think you could get before that now you can't. I would have expected there to be upward pressure in terms of that 2018 margin outlook, as opposed to what it sounds like is -- is not upward pressure.

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Well, I would say -- I wouldn't say we necessarily -- some of the things have taken a little longer than we -- we experienced. We come out with pretty broad calculations and -- and estimations of what we thought was in front of us, and really we sharpened the pencil, is really what it comes down to. It's nothing really more than that.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

And some of these items roll out a little slower, like (Inaudible) supply chain, we've said it, but that one especially seems to roll out by the time you -- our forecast now, our -- I'll call it rib sticking -- it's not -- not I signed to contract and I'm going to safe 3%, I'm saying show it to me in the P&L and that's what we're including in our projections now.

So, couple -- couple things like that, share services, we thought, as an example, we thought we'd have a little bit more there, but when we peel the onion back, our IT transformation was pretty much completed already and finance has -- had some laps and HR still has some, so it's fine tuning. That's -- that's -- that's all it is. And we never gave you transparency as to how and when this occurs so we're also trying to do that so that we can lay down how we see it occurring over the next -- the remainder of our five-year journey.

Sam Pearlstein - *Wells Fargo Securities - Analyst*

Okay. And then just looking at the -- at the revenue assumptions for 2015, in --in the segment breakdown, I get -- highlighted, I guess it's ground defense and general industrial growth are clearly well above everything else. What -- what are the specific programs? I mean, you mentioned the South African target, but how much visibility do you have in both, that industrial piece as well as the defense, that those will come through this year?

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Well, on the ground defense, obviously we have that contract and it's big, so we know that particular increase. And just so when we talk about ground defenses, remember it doesn't take a lot to get a big percentage increase in that market because it's been so low over the years.

So that contract, and actually we are -- they are reviving the modernization plans on the Bradley and the Stryker vehicles. We -- we knew this day would probably come once they canceled the GCV, and we have visibility to that on the defense side. General industrial also has some pretty -- pretty large programs looming, but whether -- I don't know off the top of my head how much of their 2015 is in backlog or not offhand, but they also have some pretty large programs as well in that market.

Sam Pearlstein - *Wells Fargo Securities - Analyst*

Okay. Thank you.

Operator

Our next question comes from the phone of Kristine Liwag of Bank of America. Your line is now open.

Kristine Liwag - *Bank of America Merril Lynch - Analyst*

Hey, guys. Good morning.

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Hey, good morning.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

Hey, Kristin.

Kristine Liwag - *Bank of America Merril Lynch - Analyst*

So when we kind of take a step back, right? I mean, you mentioned that the change in your strategic outlook with the savings is more fine tuning, but it's a pretty large difference because it's $40 million of change. Can you just away through the maybe how your assumption process is different this time, and why we should feel confident that [$130 million] is actually the real number we should be looking at?

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Well, yeah, the [$170 million] was shoot the moon, right? That was a compilation of numbers that Tom threw out as potential -- potentials, right? The [$100 million] was the real calculation. That's our hard -- we said if we stopped (Inaudible) and said, what do I have to do to get to the top quartile, we needed [$100 million].

Tom can -- presented probably the -- the -- the -- what I call the shoot the moon. If nothing, because we want to contemplate that things are going to go wrong, they're not all going to go according to plan. You're not going to get every dollar.

Part of it is we're starting to see some of the things with timing like I was just talking about before. And just remember, we're still shooting for top quartile performance. It really -- that -- so we can -- you can put any numbers you want on the -- on the -- on the paper, but we're going to -- we plan on, and we will achieve top quartile, and probably exceed top quartile performance at some point, you know, in the not too distant future.

So there are broader assumptions were made for Investor Day and we fine-tuned them, and we thought it was appropriate to share that -- that with you and the -- and the timing, and we said we'd do that after one year. This is our -- this is our scorecard report we said we'd do.

Because the middle of the year there's so many moving pieces, and as you -- you have been asking us but we didn't -- you know, we said it was probably more appropriate to -- to wait till we conclude a full year. The other thing is, again, I'll use the example of -- of supply chain.

I mean, we were calculating a percentage of our total spend. When our total spends come down, right off the bat. So that'll bring the number down and -- and a lot of the things that we have planned come down because of the size that we reduced our size, but with supply chain, you're thinking 3% of spend, that's going to take a while.

And -- and we are -- the way we're looking at it now is -- is -- is, how is -- when is it going to go roll through the P&L? When are we actually going to see these in our operating income. Not when I negotiated the contract with Office Depot that's going to save me 10% on paper, and that kind of stuff.

So hopefully, we're hoping you appreciate that we've -- we've done a fair amount of diligence on this, and we're trying to be transparent and we're going to get the top quartile, and I think when you step back and look at what we are -- what we are presenting to you, I think you will -- you will -- hopefully, you will agree with us.

Kristine Liwag - *Bank of America Merril Lynch - Analyst*

Sure. And -- and I guess just to dig down a little bit deeper there, so should we really think about the $130 million that you're revising now as being compared to more than of a $100 million before, or is this shooting the moon number now [$130 million] instead of [$170 million]?

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

The shooting the moon number is [$130 million]. That's a good question. We're trying -- we were trying to stick with that because a lot of people had that in their -- in their minds, and we are trying to stay consistent, and it's the latter. It's the [$170 million] now has -- became [$130 million].

Kristine Liwag - *Bank of America Merril Lynch - Analyst*

Sure. And then the -- just a follow on on your revenue outlook for commercial aerospace. You highlighted shot-peening as a headwind in 2015. Can you walk through more what the different drivers you're seeing there, and why shot-peening specifically as the headwind?

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

I'll talk to that, Glenn. What we experienced across the globe in all of our locations is a periodic movement of either a plant, or -- let's say a plant closed down in a particular location, and our shot-peening services are no longer needed in that location, they may move elsewhere, and we had several things occur in this case in the last 12 to 18 months. And that was between the mix in business that we've got, and those adjustments that have taken place, and some of the movement that has taken place in -- in specific, some of the movement out of some of our U.K. facilities have gone to South Korea, so they no longer require our services in that regard.

So that moved away. It was backfilled from a profitability standpoint by other business, and that's typical of the model, the business model that we run on the services side. As indicated, we also had the -- some -- some mix actions in there, as well as some foreign exchange activity that sort of impacted that a little bit.

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Kristine, maybe -- maybe -- maybe this will clarify that one slide again, so -- so we understand, and maybe it will help everybody. The [$170 million] clearly comes from a compilation of comments made in each of the categories at Investor Day. We've now reset that to [$130 million].

If we were to do it today at Investor Day, it would be [$130 million]. Of that [$130 million], [$40 million] of it was accomplished via the (Inaudible), so you take that out, and what's left is [$90 million].

Of the $90 million, we're saying we accomplished $25 million in 2014, and that leaves [$65 million] for the years 2015 through 2018, of which we're saying [$25 million] is going to reoccur in 2015, as well. That's -- that's what we're trying to do, is to bring you through from Investor Day through the five-year span. Maybe -- hopefully that clarified.

Kristine Liwag - *Bank of America Merril Lynch - Analyst*

Yes, so that's very helpful. Thank you very much.

Operator

Thank you. Our next question comes from the line of Steve Levenson of Stifel, your line you now open.

Steve Levenson - *Stifel Nicolaus - Analyst*

Thank you, good morning.

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Good morning.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

Hi, Steve.

Steve Levenson - *Stifel Nicolaus - Analyst*

I know you've talked about the addition by subtraction, and I'm just wondering if you feel there's anything left to subtract, and if you're getting to the point where there are things you -- you feel you need to fill in where there's some addition ahead, and how does that fit with your cash flow and cash deployment. Thank you.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

That's a great question, Steve. And it's always difficult for me, personally, and the organization to part with businesses that are strong in their own regard, and as I indicated in my text there a few minutes ago, what's remaining right now is the downstream side of oil and gas, great products, great people, great future, just not a core element of our vision going forward.

And it will be superb in the hands of the right owner, and so I'm looking forward to that for that group. And in terms of is this it for us? Yes, it pretty much is it.

We have -- we took a long hard look at this 18 months ago, and these were the companies that looked like would not be core to the One Curtiss-Wright vision, and so we have -- we did elect to make those divestitures, most of them have occurred. As indicated, we are in the process of this remaining downstream, and hopefully we'll have some results of that fairly soon to be able to talk about within the next quarter or so.

In terms of filling back in, I've -- I've been always on the lookout for the right properties from a bolt-on perspective because, as we've talked about, we have a balanced capital allocation strategy that we've deployed, and you can see that if you -- if you follow the numbers, we've got some money there to spend in the bolt-on area, and we are looking at some that are very strategic to the Company.

We continue to move forward in -- in not all of the areas but most of them, and if I were to just highlight a few, if your next question would were to be, what's a specific interest, I would tell you that we always like sensors, we like valves, in the -- in particular the severe service valve industry that we are in, and on the industrial side, we are doing a fantastic job there with the acquisitions that we have made in the last several years, so we would perpetuate that as well. Nuclear is always steady Eddie for us, so I like that.

So yes, the answer is yes, I'm looking for some backfill, nothing huge. Bolt-on, to me, definition is under $100 million, and we've got some things that are in the works and pipeline kind of activity that would help to support some of what I would believe as being a very -- very strong opportunities for us to fill in some of the gaps.

Steve Levenson - *Stifel Nicolaus - Analyst*

Got it. Thank you very much, and thank you for anticipating the follow-up already.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Michael Ciarmoli of KeyBanc Capital Markets. Your line is now open.

Unidentified Participant - *KeyBanc Capital Markets - Analyst*

Thank you. Good morning, folks, it's actually Kevin.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

(Multiple Speakers) Hi, Kevin.

Unidentified Participant - *KeyBanc Capital Markets - Analyst*

You -- you touched on a couple of the pieces in commercial aero for next year, the growth there kind of flattish, a little bit below what we're seeing for the rest of the group. You mentioned the shot-peening, you mentioned some strength from the [3-7]. Just wondering if there's any other moving pieces within the commercial aero next year that you could touch on.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

Yes, there is one specific area I didn't talk to and that is, as I have indicated in most of the conferences that I attend -- that is, I don't mind being a smaller company, but with much better operating margin, and we are obviously demonstrating that, and we're demonstrating the move upward on the EPS side and certainly up margin, and that's of primary importance to me. And as a result of that, some -- some contracts that we look at as opportunities when we get an opportunity to bid, we may have had contracts for a period of time and or we may look at new ones that would constitute some of the organic growth that we might have otherwise seen, we'll take a fairly stringent line on where we want to participate.

Part of our plan, our overall margin improvement plan, was to include the pricing strategy. And if we cannot accept the contract with a pricing strategy that contributes to this overall (Inaudible) margin improvement vision and goal and direction, then we won't accept it or we won't bid it.

So there's some of that in there, and -- and I'm not going to quantify how much. But, you know, there's a fairly good amount in there in that regard, and I did mention mix.

So those things all combined add up to something that we think is a -- let's call it relav -- redal -- relatively conservative approach, and I anticipate that, out of the ranges that we gave you, that we do have some opportunities that we're chasing that we feel very good about, and we might improve upon that.

Unidentified Participant - *KeyBanc Capital Markets - Analyst*

Okay. That's great color, I appreciate that. Just looking at the defense segment in the quarter, you know, revenues, margins, both down year-over-year, it looks like that was driven by the AP1000, just -- just wondering if you could confirm that. And then maybe a deeper dive on the AP1000 in terms of kind of where you're at on cost and orders, both domestically and China.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

I'll do the deeper dive on the AP1000 first, just to give you an update. I'll let Glenn talk to the financials on the quarter relative to this. But on the -- on the progress and where we are to date on the program is, I feel, in a very good place. Obviously I would feel it would be a better place if we had an order a year ago or so, but I feel very good with the progress that we've made.

We've had some refinement of our design, and we've had some very, very recent testing of that refinement in the last couple of days, and the results have come back positive for us. We feel very comfortable with that.

I'm confident that the team is yielding a product now that is going to meet the parameters that we need to meet, and that's why it's taken so long. We've indicated before, and I'll indicate again, this is a 60-year life pump.

It's got to be, once you plug it in, you walk away and come back 60 years later, it's supposed to be working. So, those are -- it's extremely complex. But we will be entering the Engineering and Evaluation test -- endurance and evaluation testing this month, and we expect to come out of that testing, it's a 100 day test, in the June timeframe, and so far the preliminary test going into that, the E and E tests, have been great, so I expect to come out in June with some positive results.

Things occur in between that 100 day period, in other words, we have cycles of this testing that give us better guidance in terms of where we're at technically and how the production outlook would be with production units. And so we're going to be seeing, as this time goes on, how it's performing, we'll get periodic updates, and that I look to be positive because of the changes that we've made.

So in terms of how it's looking, you know, just in anticipation of probably another question, at least if not from you, someone else, when would we expect an order, we indicated that we expect one by the end of this half, this first half, and we expect to be moving along very nicely with completion of the E and E testing and then we'll star rocking and rolling with this program.

Glenn, how about the financial question?

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Yes, it was -- the combination is not just AP1000, obviously that's a piece of it, as the -- as the program continues to be winding down, and we're also spending most of our focus right now on the testing and so on and so forth, but defense is also down in the quarter, de -- defense side, which is primarily naval defense. We have lower aircraft carrier revenues due to timing, and also lower on the PBG51, and that was partially offset by some higher revenues on the submarines, but -- net -- net naval defense was down as well. So it was both.

Unidentified Participant - *KeyBanc Capital Markets - Analyst*

Okay. Thank you, Glenn, that's helpful. Just the last one from me. Maybe if you guys can give some more color on the new segments in terms of the end market mix next year.

It looks like there's about $35 million of a gap in commercial, between the new segments and the old, and $60 million in defense. I'm just kind of wondering if you can talk a little bit in terms of modeling expectations by end market for next year.

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Let me just say one thing. The -- the really -- the only change in market reporting is, we took those couple of oil and gas valve businesses that was in the energy segment, and moved it to commercial/industrial, and particularly to the general industrial market.

So from a market standpoint, it's really just a shift between energy and comer -- commercial/industrial -- or oil and gas and commercial/industrial. Out of oil and gas. Because we'll no longer report oil and gas. And we'll report those sales in general industrial. That's really the only change, per se, from a market standpoint.

Unidentified Participant - *KeyBanc Capital Markets - Analyst*

Okay. Thank you, that's all I got. Appreciate it.

Glenn Tynan - *Curtiss-Wright Corp. - VP, CFO*

Okay.

Operator

Thank you. (Operator Instructions). I'm showing no further questions at this time. I'd like to turn the call back to Dave Adams for any closing remarks.

Dave Adams - *Curtiss-Wright Corp. - Chairman, CEO*

Thank you, Nicole. Thank you all for joining us today. We look forward to speaking with you again during our first quarter 2015 earnings call. Have a great day. Bye bye now.

Operator

Ladies and gentlemen, thank you for participating in today's conference. That does include today's program. You may disconnect. Have a great day, everyone.