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KMG - Q4 2016 KMG Chemicals Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the KMG Q4 and fiscal year 2016 earnings conference call. (Operator Instructions). It is now my pleasure to hand the conference over to Eric Glover, Investor Relations Manager. Sir, you have the floor.

Eric Glover - *KMG Chemicals Inc. - IR Manager*

Thank you, Brian. Good afternoon and welcome to the KMG fourth-quarter and full-year 2016 financial results conference call. I'm joined today by Chris Fraser, our Chairman and CEO, and Marcelino Rodriguez, our CFO. In a moment we will hear remarks from them, followed by Q&A.

During today's call we will refer to financial measures not calculated according to generally accepted accounting principles. Please refer to today's earnings release available on our website for the reasons we are presenting non-GAAP financial information and for the appropriate tables that reconcile these measures to our GAAP results.

Before we begin, I would like to remind everyone that the information on this conference call includes certain forward-looking statements that are based upon assumptions that in the future may prove not to have been accurate and are subject to significant risks and uncertainties including statements as to the future performance of the Company.

I will now turn the call over to Chris Fraser, our Chairman and CEO. Please go ahead, Chris.

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

Thank you, Eric. Good afternoon and thank you, everyone, for joining us today.

Our Q4 and full-year 2016 earnings release was issued today after the market close and we will file our 10-K tomorrow. After my remarks, I will turn the call over to Marcelino for a review of the financials. After Marcelino's comments, we will take your questions.

Fiscal 2016 was a very successful year for KMG. We not only achieved record financial performance including our highest net income, earnings per share, adjusted EBITDA, and operating cash flow in KMG's 20-year history as a public company, we made significant progress strategically and operationally, expanding our global presence and capabilities. We ended 2016 in an exceptional strong financial position. During the year, we reduced debt by $17 million, resulting in a debt to capital ratio of 20%, our lowest level since mid-2013. Additionally we more than doubled operating cash flow to $41 million compared to the prior year, driven by greater than 50% gain in net income and a significant improvement in working capital.

Backed by our strong balance sheet, we are well-positioned to strategically invest in our current business and to invest for the long-term to expand our capabilities and enhance long-term shareholder value.

Before I discuss our financial results in more detail, I would like to highlight some of the progress the KMG team has made during the year. From an operational standpoint, we continued to make progress in 2016. We completed the consolidation of our European Electronic Chemicals assets, further optimizing our operations in that region and helping to drive record financial performance in our Electronic Chemicals business in 2016. We will continue to strive for even greater efficiency and supply reliability throughout our global operations with a particular focus in Europe and Asia, where we see opportunities for further optimization.

In 2016, we expanded our global presence and strengthened our relationships with our key global customers while further extending our participation in growing end markets such as Internet of Things, automotive, and data center. Above all we continue to work closely with our customers to ensure that our products meet their evolving needs for purity and quality.

In April, we began the process of integrating Nagase FineChem, a Singapore-based manufacturer of Electronic Chemicals into our existing operations in Singapore. This acquisition represents an exciting step forward for our Electronic Chemicals business, enabling us to elevate and expand our presence in Asia, the largest and fastest-growing region in the world semiconductor production.

With the integration of Nagase well underway, we have begun the engineering and design to upgrade the site's manufacturing, filtration, and packaging capabilities to expand and enhance our product offering to our semiconductor customers in Asia. Our total planned capital investment is approximately $8 million to $10 million, the majority of which we expect to invest in fiscal 2017.

Strategically during fiscal 2016, we fully integrated Val-Tex, our newest growth platform into our global operations. Going forward, we continue to seek compelling opportunities to expand and grow this new industrial lubricants platform through additional value-creating acquisitions.

Throughout 2016, we continue to make investments in our people, technology, and systems to better manage our current global businesses and build the infrastructure and capabilities to support our future growth. One of the key steps we took early this year was the relocation of our corporate offices from Houston to Fort Worth. This transition provides the necessary physical space to accommodate our current needs and future expansion as well as strengthen our capabilities at the corporate level.

Turning now to our financial results, fiscal 2016 was a record year for KMG in many ways with consolidated net income up 54% to $18.7 million and GAAP diluted earnings per share increasing 52% to $1.57, an all-time high. Entering fiscal 2016, we forecast adjusted EBITDA of $40 million to $42 million or an increase of approximately 11% year-over-year at the midpoint of the range. We ended fiscal 2016 generating record adjusted EBITDA of 45.4 exceeding the top end of our revised guidance range of 43 to 45. This marked our second consecutive year at greater than 20% growth in adjusted EBITDA, which is especially notable given that we experienced a $600,000 negative impact from foreign-currency translation and incurred stock-based compensation expense of $5 million compared to $3 million in fiscal 2015.

In the fourth quarter, we achieved our 10th consecutive quarter of double-digit growth in quarterly adjusted EBITDA of $11.6 million, a 15% increase over the fourth quarter of 2015. The Electronic Chemicals segment operating profit improved substantially in the fourth quarter compared to the prior year period with segment operating income increasing by 50% year-over-year, driven by higher product sales on are expanding global presence. Segment results also benefited from continued operation efficiency and lower distributional costs.

During our fiscal fourth quarter, conditions within the global semiconductor manufacturing market remained sluggish, due in part to continued softness in the PC market. While certain semiconductor end markets such as data center, automotive, and Internet of Things have experienced growth this year, data from semi indicated calendar second-quarter worldwide silicon wafer area shipments were flat compared to the prior year period and down 2% in the first half of the year. Looking ahead, the global semiconductor wafer market is expected to decline slightly in calendar 2016 with a modest improvement expected in calendar 2017.

Excluding a negative foreign-currency translation impact of $450,000, our fourth-quarter Electronic Chemicals sales increased approximately 1% from the one-year period to the prior year period due to product volume growth in Asia. This growth was partially offset by lower sales volume in

North America as well as lower service revenue in Asia as we scale back our less profitable service business to focus on driving product volume growth.

Q4 sales in our Electronic Chemicals segment declined from prior year period largely as a result of reduced demand in our industrial lubricants segment due to the year-over-year declines in energy prices and drilling activity. Q4 sales in our penta business were flat on a year-to-year basis as overall customer demand remained steady.

In summary, I'm pleased with our 20% year-over-year growth and consolidated fourth-quarter operating income to $7.1 million. However as Marcelino will discuss in more detail, certain discrete items raised our fourth-quarter effective tax rate to 42.6%, limiting growth in earnings per share in the fourth quarter. Q4 GAAP EPS increased 11% year-over-year while adjusted Q4 EPS increased by 19% from last year's fourth quarter.

Corporate overhead expenses increased 2016 in part to excess audit fees associated with our delayed 10-K filing and material weakness from fiscal 2015. I'm pleased to say this has been remediated and is now fully behind us.

In fiscal 2017, we anticipate a reduction in corporate overhead expense due to lower audit fees and other steps we are taking to manage these expenses.

Looking ahead to fiscal 2017, we are planning for continued EBITDA growth and margin improvement. As stated in our earnings release today, we project fiscal 2017 sales of approximately $300 million to $305 million. This forecast assumes a continued headwind from the strong US dollar, which we estimate will impact sales by approximately $5 million. Excluding the impact from foreign-currency translation, we estimate fiscal 2017 sales of $305 million to $310 million or a gain of 2% to 4% over fiscal 2016.

Our Electronic Chemicals business is closely tied to global semiconductor production. According to current industry trends, the global semiconductor market is forecast to grow modestly in calendar 2017. As a result, we expect our global Electronic Chemicals sales to increase at a low single-digit rate after taking into account the expected currency headwind.

In our Other Chemicals segment, we expect moderate sales growth, driven by our Industrial Lubricants businesses, which should experience improved demand against the backdrop of higher energy prices. We anticipate relatively steady demand for utility poles treated with penta as purchasers throughout North America continue their regular pole maintenance and replacement program.

Our adjusted EBITDA guidance for fiscal 2016 is $47 million to $49 million, reflecting our expectations for growth in our Electronic Chemicals and Industrial Lubricants business as well as our continued focus on enhancing efficiency. In addition we will benefit from the addition of Nagase FineChem for a full 12 months.

However, we expect headwinds in raw material costs in our Wood Treating Chemicals business compared to the relatively low levels we experienced in fiscal 2016.

Our fiscal 2017 guidance does not include the impact from potential acquisitions which remain a fundamental component of our growth strategy. With substantial borrowing capacity on our credit facility, a strong balance sheet and upgraded systems and capabilities, we are ideally positioned to acquire assets or businesses that will enhance our growth and deliver long-term shareholder value.

The expansion of our Industrial Lubricants business and further broadening of our Electronic Chemicals business in Asia are key areas of emphasis currently.

In closing, our strong results in fiscal 2016 reflect our continued focus on execution and driving efficiencies consistent with our growth strategy. We've made significant progress over the past several years and with investments we've made and capability to develop, I am confident we can achieve an even higher level of performance in the years ahead.

Before I turn the call over, I would like to introduce our new CFO, Marcelino Rodriguez. Marcelino brings strong financial and operational leadership to KMG and I'm confident Marcelino will be a valuable asset as KMG continues to expand and grow in the coming years.

Marcelino Rodriguez - *KMG Chemicals Inc. - CFO*

Thank you, Chris, and good afternoon, everyone. I'm excited to be here at KMG and I look forward to getting to know each of you better in the coming years.

In my remarks, I will discuss adjusted or non-GAAP numbers as we believe non-GAAP information can provide useful insights into the underlying operating performance of our business. The non-GAAP numbers I referenced are reconciled to the corresponding GAAP numbers in today's earnings release.

Fourth-quarter consolidated net sales was $75.3 million compared to $75.9 million in last year's fourth quarter. Sales declined slightly on a year-over-year basis due to the impact of foreign-currency translation and reduced sales in our Other Chemicals segment.

Gross profit margins in the fourth quarter were 38.3%, up 343 basis points from last year's fourth quarter. Gross profit margins improved due to more favorable pricing and enhanced manufacturing efficiency in Electronic Chemicals and lower costs in Other Chemicals segment.

Fourth-quarter distribution expense declined to $8.9 million or 11.8% of sales from $10.8 million or 14.2% of sales in last year's fourth quarter. Distribution expense decreased primarily due to lower diesel fuel costs, reduced Electronic Chemicals volume shipments in North America, and lower distribution costs in Asia.

Fourth-quarter SG&A expense was $12.7 million, up from $9.3 million in last year's fourth quarter. SG&A increased in fiscal 2016 compared to the prior year due to increase to stock-based compensation, corporate relocation expense, higher professional service fees, and SG&A associated with the NFC acquisition.

Fourth-quarter interest expense was $194,000 versus $309,000 in the same period last year. The decrease was due to lower debt levels as we paid down $20 million in debt during fiscal 2016 including $6 million in the fourth quarter.

Our effective income tax rate on a GAAP basis was 42.6% in the fourth quarter. The Q4 2016 tax rate was higher than we anticipated because we completed a transfer pricing analysis in the fourth quarter resulting in a change to our estimated tax provision as we reserved the $300,000 against a previously anticipated tax benefit.

Fourth-quarter GAAP EPS was $0.32, (technical difficulty) up 19% from $0.32 in last year's fourth quarter.

Turning to our segment results, fourth-quarter Electronic Chemicals sales were $66.3 million, unchanged from last year. Excluding the effect of the stronger US dollar, Electronic Chemicals sales grew by about 1% compared to the prior year fourth quarter with higher product sales in Asia partially offset by reduced demand in North America and lower service revenue in Asia.

Q4 operating income in the Electronic Chemicals segment was $8.2 million compared to $5.5 million in last year's fourth quarter. The increase in operating income was primarily due to higher product sales, increased manufacturing efficiency, and lower distribution expenses in North America.

Other Chemicals Q4 segment operating income was $3.2 million compared to $2.3 million in the prior year. The increase in operating income was due to improved costs including synergy benefits from the integration of our Industrial Lubricants business.

Operating cash flow for fiscal 2016 was $41 million, more than doubling the $17.6 million reported in fiscal 2015. The increase in operating cash flow was primarily due to strong growth in net income and improvements to working capital. The working capital improvements we experienced in fiscal 2016 reflect the investment we've made in our ERP system, which has enhanced our inventory and receivables management and strengthened our business analytics.

Capital expenditures were $14.4 million for the 12 months ended July 31, 2016, slightly lower than our expectations. Our CapEx spending involved our ERP system implementation, UPC integration and assets, investments to support increased shipments, volume in our Electronic Chemicals business. In fiscal 2017, we project capital expenditures of $20 million which includes a portion of our planned capital investment in Singapore.

Brian, now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Rosemarie Morbelli, Gabelli & Co.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Thank you. Good morning, everyone. I was wondering when we are looking at the Industrial Lubricants, are you seeing any sign of pick up in the oil and gas which currently is your main market? And still looking at that particular business, any signs of potential acquisition in the near future, again given the softness of that market and maybe some small companies struggling?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

That's a good question. As I mentioned, we did see a slowdown in sales from fourth quarter last year to fourth quarter of this year. And as you know, part of their business is in pipeline maintenance and the other portion has to do with oil drilling. We have seen a slight uptick in drilling here recently and we are encouraged by signs as oil prices have started to tick up, we are seeing some encouraging signs right now from just the previous quarters. So we are optimistic.

We've put in in our guidance an uptick in revenue for 2017 in that business basically on the expectations that some of the normal maintenance will get back to its normal pattern on pipelines as well as expectations will be some enhanced drilling and therefore some additional sales.

As far as acquisition opportunities go, we still think there's plenty of opportunities there. We still like the space very much. We do think it's good timing to make those acquisitions as many of these companies had very good 2014s and as they suffered a little bit in 2015 and an 2016 has continued with low oil prices, we do think that some of them are -- it's a good opportunity to make some of those acquisitions.

So we are bullish about it. We are working aggressively towards that but we are also being prudent in making sure we pay the price for the assets when we get them. But we do think there's good opportunity there.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Two more questions if I may, Chris. We expected revenues to be lower year-over-year. What about sequentially? Have you seen any sign of life Q4 sources Q3 or this is not a big enough change for the two quarters for you to see anything yet?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

Are you speaking just about Industrial Lubricants?

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Well, yes. Let's stick with that.

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

So we have seen a slight increase in Q4 versus Q3, which again is creating some of that optimism as we go further into 2017. So again, it is partly I think people are getting more comfortable with the current level of oil prices and as it stabilizes closer to 50, there's a realization that it's not going to go down to that lower level that it once was. So there seems to be confidence and we are seeing some enhanced drilling, which is benefiting us as well as some additional maintenance going on.

In addition, this is the season for maintenance so we do have some seasonality benefit as well that we are seeing here through the summer and into the fall.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Okay, then lastly, when we look at acquisitions, what kind of a leverage are you willing to do for the right acquisition?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

That's a good question, Rosemarie. It really depends. So we've got a really strong balance sheet so obviously we can handle more debt than we currently have. And we are confident in our existing businesses and the ability to generate cash flow, therefore to deleverage if we were to take on more debt.

Having said that, it depends on the acquisition opportunities. So in a space that we know and industries we know for example the three platforms that we're in today, we would be willing to take on a little bit more leverage. In a new platform, we would be a little bit more prudent because obviously we don't have the inherent knowledge in that segment.

So it really depends on the acquisition, the opportunity, and there's more to it that goes into it, just leverage. Part of it has to do with cash flow, how quickly we can deleverage, so there's a lot of components that go into what that leverage ratio might do.

But having said that, there's a high level of confidence in our existing businesses and to operate them into project out what those cash flows are and to know whatever risks and opportunities reside in them so that we have a higher level of confidence than we did just several years ago about acquisitions and our ability to execute and perform adequately with them.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Just following up on what you mentioned regarding a new platform, I assume that since you do not -- will not understand necessarily that particular business then you would not make a first acquisition that would be any larger than that of Val-Tex, correct?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

Again it depends. I don't want to put too many parameters around it but we will -- again, it depends on the opportunity. But having said that, we again would be more prudent in an area that we will be just venturing into as a new platform. But each case is unique and each one will be evaluated as the opportunity presents itself.

Rosemarie Morbelli - *Gabelli & Co. - Analyst*

Thank you.

Operator

(Operator Instructions). Mike Harrison, Seaport Global Securities.

Mike Harrison - *Seaport Global Securities - Analyst*

Good afternoon. I was wondering, Chris, can you comment on where you are seeing your customer inventory levels in the Electronic Chemicals business? I think there are some concerns out there that September demand didn't rebound from a weak August the way it usually does. And I was just curious if you are seeing that in your Q1 numbers yet?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

As you know, we are partially into our first quarter but we're not going to really talk too much about that. Having said that, our fourth-quarter revenue was slightly softer than we had anticipated and that's why our revenue was slightly down from what we had originally thought just here a few months ago. We saw slow down there and we thought at that point it was a -- the inventory take down in the industry that a lot of people had been experiencing, we saw that slightly in certain regions, not all regions.

But overall as we move into the first quarter, Mike, we are optimistic about what a lot of our customers are saying. They are fairly optimistic about the second half of 2016 and they are giving good projections and guidance for that. So we are feeling good about that as we go into our first quarter. Again we have confidence in it and we are believing the second half of 2016 is going to be stronger than the first half.

The overall industry projections are down 2% for the first half. However industry is speculating that it's going to be flat to 1% down 2016 versus 2015 so by virtue of that in order to get to a flat level for the full calendar year 2016, you are going to need a 2% growth in the second half over last year. So just doing the math speaks that the second half will be stronger than first half and a lot of our major customers have given pretty good guidance for Q3. So again, that gives us some optimism about how the rest of the year, calendar year will finish out.

Mike Harrison - *Seaport Global Securities - Analyst*

Okay, and then I wanted to talk to you about the EBITDA margin performance in electronic chemicals as well. For the full year you were up 400 basis points despite a challenging or very low growth market. Can you give us a sense of where you are seeing additional operating efficiencies as you look out to next year? And obviously the outlook for growth is still fairly limited here so just as I think about the margin number for next year, it sounds like you expect margins to improve a little bit, but maybe 400 basis points is -- would be an overly optimistic number for next year.

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

As we guided our revenue, our revenue guidance is somewhat moderated as you can see, partially because of the FX impact but partially our year, our fiscal year overlaps 2016 and 2017. The industry is projected to -- semiconductor industry is expected to grow 3% to 4% in 2017. But that is a full-year 2017 versus a full-year 2016 calendar year. So we are getting half of that in our projections and half of this relative modest 2016 growth.

So having taken that into consideration and then reflecting on where that revenue is going to come from, what the kind of margins we get in those regions, what type of products, so part of it is the mix opportunity that we see we're going to get some margin enhancement. But we also do see operational efficiencies that we can continue to drive.

We've gotten most of our consolidation of operations completed; however, there's a next step of process improvements on business processes. As Marcelino touched upon, working capital is just one area but as you take that into our business processes, whether it's in supply chain in our distribution costs or whether it's in our other aspects of our business all the way through our businesses, we see opportunities.

Europe is a great example. Consolidating the manufacturing operations give us one leg of that margin improvement. But the next step is the business process and everything from customer service management to supply chain, all of those elements as we bring those together and really drive Europe as one unit, we see opportunities there as well.

So it's a combination of where we are selling products, some of the mix we have, some of the higher-end products we expect to see continued growth in as some of these fabs moved to higher tech products and higher purity levels, they command higher margins. More blends have better margins. And so when you put all of that together along with our operational efficiencies and business process, we do expect to get some margin improvement in 2017 as well.

Mike Harrison - *Seaport Global Securities - Analyst*

In terms of your NFC integration, it sounds like you are pretty pleased with that. Is that still running ahead of schedule in terms of the savings and efficiencies there and can you also comment on what the contribution of NFC was to the revenue in Q4?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

So we have not broken that one element out in specifically in the quarter, NFC, in part of our total EC. But having said that, we are pleased with it. As you know we have a toll arrangement with NFC that will take us to April of 2017 and then at that point those products will hand over to us and we will be doing the marketing.

So those sales are actually hanging in there as good as we expected, a little bit better. The margins are as expected. But as we move into 2017 and we take those products over, we are expecting to do more and more of some of our manufacturing on that site, everything from inventory utilization of the warehousing as well as some of the storage and handling on that site as we build out the capabilities.

We are pleased with that acquisition and as we've begun the engineering on that, we are very pleased with the facility itself and our ability to expand and add the capabilities. So we are in the engineering phase. The estimates around capital are on par with what we had estimated, $8 million to $10 million to do the modifications. The bulk of that will be spent in 2017 so we are working towards permits, engineering with the ultimate starting up of some of those new capabilities in 2018 and beyond.

So the real benefit of those start to incur in 2018. As we said before, we think the EBITDA from about a $500,000 annual basis will get over $5 million by year four. So again, we are on target for that and optimistic that we will be able to deliver and maybe possibly more.

Mike Harrison - *Seaport Global Securities - Analyst*

All right, on the penta business, a couple questions that I had. One, you had commented last quarter that you were seeing some of the utilities delay some of their maintenance spending. Is that something you are still seeing?

Marcelino Rodriguez - *KMG Chemicals Inc. - CFO*

Yes, it is. So I talked about particularly one utility but others as well discussing delaying some of their spending on pole replacement and we are seeing that continue not that it's spreading but those couple utilities that spoke about it have implemented that. And so that's why we are projecting flat growth in 2017 for Wood Treating of the revenue side. We are factoring that in. So the first half of 2016 was very strong and then as we got into the primary treating season, it didn't necessarily slow down but it didn't reach the levels that we had anticipated and as we said, it was basically on par with a year ago but we had anticipated to be slightly higher.

So that is occurring, don't believe it's a long-term trend. I think it's a short-term trend for some of the utilities to save some maintenance spending. And when you look at the long-term impacts and need for pole replacement, it exists. And so a short-term delay only pushes it out a little bit. It doesn't avoid having to spend that money.

So we factored that in into our 2017 revenue projections. But again, it's just a few utilities and we will be watching it and seeing it but again I don't see it as a long-term trend.

Mike Harrison - *Seaport Global Securities - Analyst*

All right, then the last question I had on penta is we just had a fairly damaging hurricane come through the US Southeast and kind of the East Coast there. Any indications that we had enough damage from that that we're going to see some additional replacement pole demand?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

Actually inventory gets built up pretty significantly during this season of storms so that a lot of the treaters have inventory, so we won't see an immediate surge. What we could see, Mike, is that as they rebuild the inventory and pipeline, we could see some additional volume from that. We've not factored any of that in.

The Southeast is a primary area for the use of penta, so we've not seen any impact of that yet but it could occur but we will be watching that. Again, they've built up a pretty good pipeline. This is the time of year that they get a lot of treating done because of harvesting and they build up for the winter so we will see probably a drawdown in inventory to the extent that new poles are needed.

Mike Harrison - *Seaport Global Securities - Analyst*

All right. I appreciate all your time, Chris. The last question I had is about the air products business that was spun out called Versum Materials. Obviously you guys started in the high purity process chemicals space buying a business from air products. So a couple questions come to mind there.

Number one, do you still see them as a competitor in any of the markets that you plan play in? Number two, high-purity process chemicals business at one point was a good fit for them. Now that you guys seem to have improved that business quite a bit, would there be any logic to combining your offering at KMG with what Versum has in order to broaden their portfolio?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

It's a great question, Mike. As you said, they spun that business off. It's a $1 billion entity and we don't see them as a competitor. Their markets, their gases, their products that they supply, we see a lot of their products as very complementary to us as one time they were all together air products. To the extent that there's opportunities that make sense for some kind of combination obviously that would be something to look at whether it's their assets or our assets.

But at this point, nothing immediate but it's something as I just think about the overall global Electronic Chemicals segment, there continues to be consolidation opportunities and whether it's in direct high-purity process to chemicals as we have been clearly focused on or products that are similar that we can use similar distribution channels or similar sales and marketing efforts, it would make a lot of sense to look at those.

So we are continuing looking at again high-purity process chemicals but other things that can be adapted and easily fit within our portfolio. So I just think that's just one more example of opportunities that are presenting themselves in the space that we really like that is now over 80% of our Company and we like the future of it. We like our position in it. We like our capabilities and we like line of sight we have into that. So we will see what opportunities get presented there.

Mike Harrison - *Seaport Global Securities - Analyst*

All right, thank you very much.

Operator

Thank you. There are no further questions in Q. So I'd like to hand the call back over to Chris Fraser for closing comments and remarks. Sir?

Chris Fraser - *KMG Chemicals Inc. - Chairman, President and CEO*

Thank you very much. We appreciate everyone's participation today and your interest in KMG. We look forward to speaking with you on our first-quarter conference call in December. Thank you.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude the program and you may all disconnect. Everybody, have a wonderful day.
