Operator: Greetings, and welcome to the Allied Motion Technologies Inc. Third Quarter 2018 Financial Results teleconference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Craig Mychajluk.

Craig Mychajluk: Yes. Thank you and good morning, everyone. We certainly appreciate your time today as well as your interest in Allied Motion. Joining me on the call are Dick Warzala, our Chairman, President and CEO, and Mike Leach, our Chief Financial Officer. Dick and Mike are going to review our third quarter 2018 results and provide an update on the Company's strategic progress and outlook, after which we'll open it up for Q&A. You should have a copy of the financial results that were released yesterday after the market closed. If not, you can find them on our website at alliedmotion.com. On the website, you'll also find slides that accompany today's discussion. If you are reviewing those slides, please turn to Slide 2 for the Safe Harbor.

As you are aware, we may make some forward-looking statements on this call during the formal discussion as well as during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated on today's call. These risks and uncertainties and other factors are provided in the earnings release as well as with other documents filed by the Company with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

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

With that, please turn to Slide 3, and I'll turn it over to Dick to begin. Dick?

Richard Warzala: Thank you, Craig, and welcome, everyone. We continue to perform well as our One Allied approach to efficiently manage customer engagement, coupled with our determined focus on delivering market-leading solutions, is proving to be an effective value proposition in what has been a very strong environment for our business. Revenue increased 23% to $80.1 million, another record quarter, and was driven by double-digit growth in all of our major served markets. We have certainly benefited from a strong economic environment. We're also selling into innovative and expanding markets that are servicing powerful trends, such as factory automation and robotics, which require a broad range of both platform and custom-is-critical motion control solutions. Our vehicle market, which has been at headwind in the recent past, achieved improved year-over-year sales for the fourth consecutive quarter.

Diversifying our sources of revenue in an effort to develop a more robust space of business and increased avenues for organic growth is a key component of our long-term strategy. Distribution contracted a bit this quarter and is a small top-line contributor overall, but we believe the long-term potential is attractive, and we remain very much engaged in fostering the growth of that business.

Our efforts to improve operational efficiency are paying off as we saw the leverage potential of our business model with operating margin expanding 90 basis points to 9%. Orders were $85 million in the quarter, up 17% year-over-year, and our backlog grew 24% to nearly $116 million, marking the sixth consecutive quarter of reaching a new record backlog level.

With that, Mike, let me turn it over to you for a more in-depth review of the financials.

Mike Leach: Thank you, Dick. Please refer to Slide 4. Third quarter revenue was $80.1 million, up just over 23%, and up over 24% when excluding the impact of unfavorable FX of $0.7 million. More than two-thirds of the growth was organic and was broad-based with strong growth in all of our major served markets, particularly within Vehicle and A&D. For the quarter, sales to U.S. customers were 55% of total sales compared with 53% in the prior year period.

Slide 5 shows the change in our revenue mix by market for the trailing 12 months ended September 30, 2018. The vehicle market continued to perform very well with 33% TTM growth fueled by the rebound in the power sports market and aided by our acquisition of the Maval OE steering business in the first quarter. Also notable is the strength in industrial, which continues to reflect the increasingly favorable trends in factory automation.

Slide 6 provides detail on our operating performance. Third quarter gross margin was 29.7% compared with 30.1% for the third quarter of last year. Higher volume and productivity helped to somewhat offset the impact of the lower margin profile of the recent acquisition. Total operating expenses for the quarter were down 140 basis points to 20.6% of sales, while G&A expenses of 10.2% of sales were up 70 basis points, primarily due to higher incentive compensation and additional personnel to support our growth. E&D and selling expenses were each down 90 basis points. As a result, operating income increased 37% or $2 million to $7.2 million, and our operating margin expanded 90 basis points to 9%.

Interest expense for the quarter was flat at $0.6 million.

The effective tax rate in the quarter reflects recent tax reform, and was 26.7% compared with 33.1% from the prior year period. We anticipate the effective tax rate for Fiscal 2018 to range between 24% and 26%, and we expect a lower rate in the fourth quarter, which is driving the full-year estimate.

If you look at Slide 7, you can see our strong bottom-line results. Net income increased $1.8 million, or 59%, to $4.9 million, and on a per diluted share basis earnings were up $0.19 to $0.52 per share.

Adjusted EBITDA increased 29% to $10.8 million and Adjusted EBITDA margin expanded 60 basis points to 13.5% of sales. We use adjusted net income and Adjusted EBITDA as an internal metric and believe it is useful in determining our progress and operating performance. These are non-GAAP measures, so please be advised to review our reconciliation and the related disclosures in our release and at the end of our slides.

Slide 8 provides an overview of our balance sheet and cash flow. The Maval acquisition in the first quarter was funded with debt and cash, which is reflected in the numbers on the slide. Debt net of cash was $51.1 million, or 33.7% of net debt-to-capitalization, up from 30.1% at the end of 2017.

Capital expenditures were in line with expectations at $10.6 million through the first nine months, which included numerous investments for productivity improvement and growth initiatives. We continue to expect our Fiscal 2018 cap ex to range between $13 million and $16 million, as a higher level of spending is needed to support the significant project wins that we will be ramping next year. Also, as mentioned last quarter, we're in the early stages of developing our capital plans for the next generation of our off-road capabilities.

Inventory turns were 4.6 in the quarter, and DSO was 50 days, which was up some but expected given payment terms with certain large customers. We did increase inventory levels again in this past quarter, in support of our strong sales pipeline and in part due to the tightened supply chain and inventory stocking to support customer demands in a period of extended lead times.

As we mentioned last quarter, sales still remain very fluid and we continue to monitor and evaluate the situation. In terms of inflation, our exposure remains fairly limited as we have protection with about half our contracts addressing commodity cost inflation.

I will now turn the call back over to Dick.

Richard Warzala: Thank you, Mike. We'll now turn to Slide 9. With continued strong demand in end markets, third quarter orders grew 17% to $85.1 million. Absent unfavorable FX, this level was relatively close to the record order level we hit in the sequential second quarter.

We did end the third quarter with a record level of backlog of nearly $116 million, up 4% over the sequential second quarter.

The $225 million in vehicle market awards we previously announced are not included in our reported backlog numbers. We expect revenue from those awards to begin ramping in mid to late 2019. Importantly, we are creating a larger base of business that enhances our ability to realize continuous and sustainable organic growth well into the future.

Looking at our Outlook slide, we made excellent progress during 2018 as we focused on executing our strategy to ensure that we achieve our strategic goals and objectives on a long-term basis.

Adding new sales partners, or ASPs, to expand our distribution channel reach remains a priority, and we are on target to reach our goal of 20 by year-end with 17 signed on at this point. As previously mentioned, onboarding ASPs is a long and involved process as new partners have a lot to digest in terms of understanding how to market our products and our integrated solutions. Building up distribution will be a multi-year effort that we believe has the potential to significantly expand our reach and is well worth the effort. To put it in perspective, there are competitors in this space generating as much as 50% of their revenues through this type of channel, and while we do not expect to reach that high of a rate, we're in the very early stages at around 2%.

AST, or Allied Systematic Tools, is an integral element of our culture and is contributing to our performance as we emphasize continuous improvements in quality, delivery, cost and innovation. The consolidation of our individual North American motor units into one unit, North American Motors, continues and is going well. In addition, integration of the Maval OE steering business continues to make progress as we combine our technologies to further strengthen our capabilities in steering solutions. We expect the Maval acquisition to be neutral to slightly accretive to earnings in 2018.

During the year, we've experienced solid organic growth and we have a strong backlog heading into the future. While fostering organic growth is an emphasis, strategic acquisitions are an equally important element of our overall strategy. We continue to develop acquisition opportunities, and we remain consistent in our approach to ensure they are a good strategic fit and that the economics work as well.

Lastly, we mentioned our long-term goals, which is to continue the rate of growth we have demonstrated over the last several years from a combination of acquisitions and organic expansion. Importantly, over time we believe we can enhance our margin profile as we further our strategy and expand our multi-technology solution opportunities and further penetrate desired markets.

With that, Operator, let's open the line for questions.

Operator: Thank you. At this time, we will be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key.

Our first question comes from the line of Greg Palm from Craig-Hallum. Please proceed with your question.

Greg Palm: Good morning and congrats on the results here.

Mike Leach: Thank you, Greg.

Richard Warzala: Thank you.

Greg Palm: Dick, I would love to get your thoughts on the overall macro. You seem to be somewhat insulated, based on the results and order backlog versus what some other industrials are talking about. So, maybe just a brief minute on what you're seeing/hearing from customers, and then can you remind us, I don't think you have really much exposure to China, to Asia-Pac, but can you just remind us what your exposure is there?

Richard Warzala: Sure. Let's start with the China side first. I would agree with you that we don't have a great deal of exposure there, but we do obviously use China's supply chain for many of our products. Right now, the way tariffs are being handled by all, if not most, companies is that it's a pass-through cost and it's one that we will deal with and, hopefully, in the near-term something will get resolved there.

In terms of the macroeconomics, I can say that we are watching it very closely, because we do see a little bit of uncertainty in some markets. Just to remind everyone, we work off of frame contracts in many cases, short lead times, and in some cases, it’s a delivery within 24 hours. In some cases, we get a two-week or three-week window depending on the relationship we've built with the end customers. We see a little bit of fluctuation going on. Nothing major, but we do see some fluctuation in demand.

Greg Palm: Got it. From a certain end market standpoint, is there anything that jumps out at you as outsized strength here in Q3? What stands out to you?

Richard Warzala: Actually, as we mentioned, everything was quite strong, so nothing really jumps out. Again, it's our end market, so there could be things happening in the general industrial market out there that we're not impacted by, but I can say that there is nothing that jumps out. It's continued to be fairly strong across the board.

Greg Palm: Yes, that's great. As it relates to gross margins, I think it's the first time I've seen in the deck an outlook for longer-term, low to mid-30s, where we've been running high 20s, I would say, for most of the last few years. I'm just kind of curious how you get there, how much of this is volume dependent versus mix, some of these multi-solution type products?

Richard Warzala: We’ll leave that to our IR firm to answer since they put it in there. No, I think, Greg, just to answer your question here directly, we've stated, I think continuously, that we believe that there is a margin expansion opportunity and remind everyone when we did the Maval acquisition, we said that it was going to have an impact in a negative way on our gross margin. I think if we were to eliminate that from the calculation, you will see that we are making progress there. We also talked about leveraging the footprint that we have and we're starting to see that take effect. We're confident that we'll continue to see growth in the gross margin line, as long as the volume stays up, of course. Volume has to stay up to leverage the overheads. As long as it stays up and continues to grow, and we continue to implement ASD throughout the Company, we're confident that it will continue to expand. As we also mentioned, multi-technology solutions do have a positive impact on the overall gross margins. You can blame the IR people, but they are correct in what they're saying.

Greg Palm: It's a good thing to have in there. I mean, likewise on the operating EBITDA margin front where that was a nice expansion and I think, by my math, the largest quarterly since, I don’t know, Q2 or Q3 of ‘16. Going forward, assuming you get to a low to mid 30s gross margin, and I don't know if you have a three-year or five-year operating margin target, but what sort of structures should we be thinking out longer term for the Company?

Richard Warzala: You are talking about business structure itself or are you talking about financial structure?

Greg Palm: Either operating margin. I'm just thinking about the cost structure and what sort of operating margin targets or EBITDA margin targets you may be striving for going out three or five years?

Richard Warzala: Sure. I'll turn it over to Mike; that's a tough one.

Mike Leach: Well, as we've talked about in the past, Greg, I think we do expect to see a continued expansion there. I mean, I think the leverage capability in that area is particularly strong. As we've talked, we have and will continue to invest in engineering heavily, so I think where you'll see the opportunity to leverage is on the administrative and the selling. That said, I think we'll continue to invest in those areas as well. As we continue to grow, we need to have an organization to support our future growth plans; however, again, my full expectation is that there is the potential, assuming continued increase in revenues, for significant leverage capability there.

Greg Palm: Okay. I guess the last one for me, on the M&A landscape. I'm just curious to get your thoughts. I didn't really hear anything mentioned, but how is the pipeline and does the current environment make you more enthusiastic about going after acquisitions? Any commentary on where valuations are on a relative basis to maybe last quarter or the beginning of the year would be great?

Richard Warzala: Sure. Well, I think, Greg, we've talked about it all along and many times we say that we're very disciplined in what we do. Certainly, we can grow the Company organically and provide good results, and I think we've demonstrated that, but as I stated earlier, we still see that as a very important part of our overall strategy. We're careful about what we pick. We see an awful lot and we pass on most. So I will say to you again, if and when we do an acquisition, I believe that you can feel confident that we've done our homework and our due diligence, and it's the right strategic fit. It's the right fit from a cost standpoint to make sure that our model continues to work in the future. So, the pipeline is there, companies are popping up, we're doing our work to evaluate and we'll just keep plugging along here. We'll make sure that, when the right one occurs, it'll happen.

Greg Palm: Very good. Congrats again on the results and best of luck going forward.

Mike Leach: Thank you, Greg.

Operator: Once again, if you'd like to ask a question, please press star, one on your telephone keypad.

Our next question comes from the line of Dick Ryan from Dougherty & Company. Please proceed with your question.

Dick Ryan: Thank you and also congratulations on the quarter. Hey, Dick, in the slide deck you mentioned new customer and solution wins, but I don't think you addressed it in your commentary. Can you give us a little perspective on what you're referencing there?

Richard Warzala: We have several new customers we're working with on solution wins. I think I do have to be a little careful and I probably should have added some commentary on that. When we call it a win, we have a design and win, but it takes a little longer to actually go into production and see it in shipments; however, we are continuously seeing and experiencing opportunities for multi-technology solutions. Again, when we get what we call a win, we've been selected and we're designed in. Now, of course, we're at the mercy of whether or not their end product takes off and how quickly they can ramp up in the production. So, it's just an ongoing reminder that it is a focus of the Company and that we continue to have wins in that space.

Dick Ryan: Okay. The reference to factory automation and robotics within the industrial segment, can you give us a sense of how significant, and then the contribution, that segment is? How is that moving the needle within the industrial segment?

Richard Warzala: Yes. I think the industrial market is maybe our largest single opportunity in the future for growth. I would prefer to call it industrial automation at this point, as opposed to factory automation, because think of all the warehousing applications. You would not consider that factory automation, but it certainly is the handling of packages and materials and so forth, a really fast ramp-up and it's global. We've recently taken an even harder look at this, because we find we are addressing opportunities all over the globe. We've put together a team, I call it a hit team internally, to really go after this using the platform of products we have to build around. We want to go after this hard, and in an integrated manner, with the solutions we can provide globally.

I would say it is definitely an exciting market, definitely a fast-growing market and expect it will continue to grow. You see shortage of labor and, as that moves in to automation, we can play in that space. It's going to be our speed to play and how quickly we can pull together the elements that we have into a long-term cost-effective value proposition for our customers. So, it's a good one.

Dick Ryan: Okay. How does the BID pipeline look currently versus last quarter or six months ago? Whatever perspective you can give us?

Richard Warzala: I would say there's not much change there, Dick. I'd say that you don't see a drastic change quarter-to-quarter and so it's continuing. Again, I think what we're seeing is, the pipeline continues to expand in terms of multi-technology solution opportunities, but we are in a position where companies do come to us and we have some recognized leadership in certain market segments, and we do see that occurring. Fortunately, what we see is, we are in the early stages of design and that's where you need to be to win in this business.

Dick Ryan: Last question, maybe, on the forward-looking gross margin. On the organic side, you're knocking on that door, if you will, the lower end of that 30% range. The key part you've talked about is M&A. In your short list of targets out there, in the gross margin profile of those targets, are they above Allied's core gross margin, or once you get them in under your umbrella, then it's the One Allied approach that brings those margins up?

Richard Warzala: As we're looking out there, one of the things we're looking at is when acquisitions have attractive gross margins. I would say attractive gross margins are one of our criteria when looking at companies. Now again, as I say that, I'm reminded, in the prior question from Greg, that we did acquire a company where the gross margins were significantly below what we see as an average, with the idea that, as it becomes part of an overall systems solution, it will bring the margins up. I would say our focus really is on expansion of gross margin, both through acquisition and organic, so we will focus on those that can provide that.

Dick Ryan: Okay. One more for me. Employee retention, is that becoming an issue or how are you handling that?

Richard Warzala: At this point, I would say we have done a very good job. I remind you that we are made up of a number of smaller companies around the globe and I think each of the companies has done an excellent job of retaining their talent. We are also recognizing that the market has tightened; the market is tough. For us, the people are critical, which I'm sure why you're asking the question. Even with our bonus program coming into the year, we recognized that we might have to make some improvements there in order to retain talent, because we sell people when they come into the company that we want them to bet on themselves. There is a variable side of your compensation, so when you do well, you can do better than market and that's exactly what's happening. I think our retention will be fine. We're constantly aware as we're recruiting people of current market rates and so forth, that it's critical. We will stay on top of it, but it's been good for us. We have not had many issues there.

Dick Ryan: Okay, great. Thank you.

Richard Warzala: Thank you, Dick.

Operator: Our next question comes from the line of Josh Goldberg from G2 Investment Partners. Please proceed with your question.

Josh Goldberg: Hi. Congratulations on the good results. Dick, can you talk a little bit about the opportunity you have to increase your content, whether it's in vehicles or in industrial, because of some of the changes in NAFTA?

Richard Warzala: Sure, a good question. Obviously, we know that our vehicle market is strong. The change that has occurred in NAFTA is that the requirement for North American content went from 62.5% to 75%. Obviously, that's good for us, and I do know that it's a challenge for the vehicle companies to meet that. To meet 62.5% is a challenge, and the 75% is going to be even more so. We're looking at it on a very proactive basis, and again, leveraging our footprint that's there and finding ways where we can help our partners, our customers, to increase North American content and help them meet that new requirement. We're asking ourselves, what can we do to resource some materials and/or components that we're bringing in from offshore into North America? We are being proactive and we are working with our customers. That just says that there's a greater need for a Company like ours to be a partner with them to ensure that they can meet it. So, it's a positive.

Josh Goldberg: So, just so I'm clear though, you have not seen any aspects of this yet, because it has not gone through the congress?

Richard Warzala: Well, no, everybody's already gearing up in anticipation that it's going to happen. It's not like they're sitting back and saying well let's not do anything. We've addressed some of this before the change, because as I said, they were already having struggles meeting the content requirement of 62.5%. Now going to 75%, it's an even greater challenge. It's not that our customers are sitting back and saying, "Well let's see if it happens first before we do anything." No, they're talking to you and saying "Hey, what can you do to help us here?"

Josh Goldberg: Do you think it's likely, Dick, that that single event can probably increase your growth rate next year. I know you've talked about motion control being a double-digit market and you want to outperform it, both organically and inorganically. Do you think that where you are positioned, it might help even further?

Richard Warzala: Well, again, when you get an opportunity, being on the early side, it typically takes two to three years from design win to full production. So it will take time, because companies are not going to be able to just resource and select you unless it's really critical. They will have to pay the penalty, potentially, for a short period of time, but they will be working on the longer term to make sure it goes away. I would not look at it and say, this is a 2019 all of a sudden big jump, but I would tell you that beyond that there is certainly an opportunity.

Josh Goldberg: Okay. Two other quick questions, one for Mike and then another one for Dick. By the way, just a really great job so far this year, building this business and making great acquisitions. Talking about the inventory situation, it looks like, in the 10Q, some of the inventory was actually finished goods. Was it a sign that maybe you still had some more business that maybe you just pushed out to the fourth quarter?

Mike Leach: Well, as Dick mentioned earlier, we operate with some frame contracts, where many times calling windows can range from 24-hours to two or three weeks, so we can see some fluctuation quarter-to-quarter where we would have a build and things could get pushed out within a window that would result in inventory. I think that's a portion of it.

Josh Goldberg: You're not concerned that you over built in any way, expecting more demand than what you thought in the third-quarter? That's not the case?

Mike Leach: Correct. If I can add to it, we have opened a new manufacturing facility in China that is transitioning from the older building that we used to operate in, and I think there is some strategic inventory build there to accommodate that transition as well.

Josh Goldberg: Okay, is it fair to say that, because you're still positive November 1st, that some of the tariff issues or double ordering that you're seeing from other component companies have not really affected you yet?

Mike Leach: Again, there is an impact that the tariffs have on us. I think we've described in the past that it's not overly material. As Dick mentioned, there is a pass-through component that has been pretty well accepted in the marketplace, to pass those costs along to the customer, so the net impact to us is minimal.

Josh Goldberg: Okay. Regarding the acquisition earlier in the year, I know you talked about it on your fourth quarter call that the hope would be that, as you combine your product with the Maval product, there's an opportunity for an integrated solution on the vehicle side. As I say, it doesn't happen right away. You have to get the design wins and it has to grow, but are you seeing wins in the integrated steering solution because of this acquisition?

Richard Warzala: Yes, that is another good question. Maval was working with a very similar customer base as what Allied was already working with; basically, more than two separate suppliers supplying to that customer base. The customer would purchase the products and then would have to do the integration and assembly themselves. When you do individual components versus an integrated design, you typically see the interface and the couplings that have to occur between those added extra parts, extra costs and extra labor.

So, the push is in two ways; number one is the potential change in the type of technology they want to use in their devices, which would expand into our integrated solution offering. And second, saying hey, we would like to buy one part from the supplier that incorporates both, and in the single supplier here, it takes responsibility for higher level system. That's really what we're seeing. So, the answer is yes. We were already working in parallel. We were working together even before the acquisition on solutions, and it just made sense for when we did it, knowing that the trend is more in that direction, that it became a part of our portfolio.

Josh Goldberg: Okay. Last one for me. Obviously you've made a few acquisitions here. If you go back 10 years, the Globe acquisition was really a changing point in your Company. And you've talked about the acquisition this year being really positive and a few other acquisitions. Dick, the way you're able to integrate them into the One Allied, you must be looking for something pretty big right now to buy as well.

Richard Warzala: Well, we have. Again, we continue to look, and we are confident in our abilities to integrate acquisitions and confident that, as long as we have the talent coming in - and, of course, that's part of our criteria into the acquisition - and we can develop the culture together with Allied and the acquired company, we will find ways to leverage the capabilities to build additional value. So, Josh, thank you for the compliment in that regard.

Our team has become more experienced and even better at it. Our AST tool kit is a great way to bring companies together in terms of culture and so forth, and we really do strive to find an ability to leverage. Sometimes it takes a little longer, but I'm very comfortable and confident that we will continue to find ways, and we stress it every day. Thanks again for your compliment there, and I think that's what you would expect to continue to see.

Josh Goldberg: Yes. I think you are on the verge of something pretty big, especially if you have the NAFTA working for you. You buy a couple of other companies that need to get scaled, and be the size of you and sell it into your customer base, and this Company could be quite a bit bigger in a couple of years. I know there aren't a lot of analysts covering the Company yet, but this is…

Mike Leach: But we have two very good ones in Dick and Greg, of course.

Josh Goldberg: Yes. Greg's had a great call and Dick obviously has known the Company for a long time, so I don't disagree. Don't get any more analysts coverage. I'm not telling you should do that, but I think that you really have an opportunity to grow high double digits for the next couple of years. Thanks again.

Mike Leach: Thank you, Josh.

Operator: Our next question comes from the line of Michael Makrowski from Principal Securities. Please proceed with your question.

Michael Makrowski: Gentlemen, thanks for another solid quarter.

Richard Warzala: Thank you, Michael. Where have you been?

Michael Makrowski: I had to miss the last few. It's great to see the interest that we've gotten. We'll pick the analysts up as they come, but we're drawing more folks in probably at the right time. I appreciate everything you are doing. I just have a couple of questions. The receivables and payables seem to jump a little bit more than I think they should. Can you help me with any color on those two?

Mike Leach: Well, certainly the receivables, I think it's driven by some key terms with some key large customers. I would suggest to you that, particularly in the vehicle market, you see extended terms. As that vehicle market grows for us, it's going to have a natural impact, if you will, on the DSO as well. Then from a payables standpoint, I think the payables are probably in line with the inventory build that you're seeing, and again, a lot of that is fueled by the growth, adjusting with the Maval acquisition. Then again, it has been an extremely tight supply chain for components and there's been some strategic build, if you will, through the inventory, which obviously is flowing through the AP as well.

Michael Makrowski: Okay, that make sense. You touched on China before. If I can press a little further on that, I know there are some internal geopolitical issues on the tech transfer. Is that touching you at all? Can you talk a little bit about having the plan internal versus just supply chaining out?

Richard Warzala: Absolutely. There are obviously more than a couple of things occurring with that. To update anyone that's new to the call or to remind people that were on the call before, with our move into China, although at first we were sourcing parts and bringing back in, our longer term plan was really to be on the ground in China, to supply China as it continued to expand and grow. That's really where our emphasis has been.

The move to a new facility, which was very close to the old one, has already occurred and it was seamless, a credit to the team in China who did a great job. That move was to prepare for some additional business in China. It was a recertification qualification of a higher level, and we think it gives us the opportunity to expand our base of business in China. Recognizing that, as time continues to go on and we see more of these issues cropping up, to supply the Asian region, we would need to be on the ground in Asia, and we continue to invest there.

Some of the areas that we talked about earlier, including the question about the increased content in vehicles, we already talked about that. If that's not clear, I can answer some more. We're also seeing, in the defense area, where certain components are now being required, China is no longer a qualified source of supply, and you're going to have to use non-China parts or components in there, magnets in particular for defense type applications. That's going to cause a need to find other sources and go back through some qualification.

It's easy to say they can no longer be utilized, but now you have all of these things that have been designed in, and qualified in aircraft, vehicles and all kinds of defense systems, that don't happen overnight. It went through some qualification procedure or processes. So, that's occurring. Now, we don't know if that's short term, long term or how long it will continue, but that will certainly have an impact. Again, you can expect that China grew their business because they were fairly cost-effective, and it probably will be a little more expensive now for those same components, but there is no choice. That's about the extent of what I see, other than what we talked about in tariffs.

Michael Makrowski: Okay.

Richard Warzala: Michael, let me just expand one other thing too. I do think what's important here is to recognize that, as we invested in developing the footprint globally in Europe, North America and Asia, we fully expected that the need longer term to produce more closely to the customer was going to give us an advantage, so we suffered a little bit in carrying some overhead and investing. We do see ourselves in a position now where we can start leveraging. We can make intelligent decisions about where to produce in developing sources of supply that are close geographically to our customer base. So, I do want to emphasize, I do see that as a strength of our Company.

Michael Makrowski: So, just to clarify for those that may be newer, the China footprint, from what I'm hearing, all along has been not necessarily a cheaper source for coming back over here, it was specifically for that area.

Richard Warzala: That's correct.

Michael Makrowski: So, the geopolitical is downplayed with your situation, because you're not as dependent on pulling that as a source for components for other markets.

Richard Warzala: Yes. That's correct and it's correct in that strategy. Again, if you looked at what we did and how we invested in our plant in China and the automation we put in years ago, it was fully expecting that, at some point in time (even in China, labor situation is tight for people working in factories), we would need to have a higher level of automation in the future, and that's what we invested in our facility in China.

What I'm also talking about is, we're servicing global customers and they have needs in all geographic regions. While we can't duplicate everything everywhere, where it makes sense, the volume makes sense to do so. We do have and we are producing in whether it's Europe or North America or Asia to satisfy that demand, and it's beyond just China. It's more global than that and we're making good progress there and that footprint is now beginning to be better utilized.

Michael Makrowski: One final fine tune from, again, the geopolitical, specifically to China. I'm not hearing any undue concerns as far as governmental pressures on tech. Do you see what I'm getting at?

Richard Warzala: Sure. Well, I mean, I don't mind. Maybe you have a view on that, Mike. Certainly, we have to be cognizant of the fact that there is a strain and a stress point there, but you're right. Based on what we already have on the ground and recognizing that there's good technical talent in China, and we are growing in that area too, no, I would not say that we have any overreaching concerns there.

Michael Makrowski: Good. Changing gears. The sales expense seemed a little bit of an outlier, not a big deal but sales expenses were actually flat into the increasing year-over-year sales compared with the other G&A. Anything there to discuss?

Richard Warzala: No. I would not say there's really anything there. Again, there are a couple of reasons for that. Certainly as you see the growth go up the way it has and we've added some people, what I will call more marketing/sales positions to be target market focused and to help us penetrate those better, but our sales team base was primarily in place. It will continue to expand as necessary, but I would not be reading anything into that at this point in time.

Deb Pawloski: It's coming down to as percent of sales too. So, it's not growing at the same rate as the sales are.

Mike Leach: That is subject to certain things. I mean, there are product mix considerations there with commissionable sales. So no, I don't think there's anything to read into that.

Michael Makrowski: Okay. No worries. Can you talk a little bit on organic versus acquisition growth on this year-to-year growth to help color that out a little bit?

Richard Warzala: Sure. As I think we were asked in the past, we did not disclose much with regard to the acquisition, but I think, with everyone on the line here in public disclosure, about two-thirds of our growth is organic.

Michael Makrowski: Wow! Excellent. That answers that. Last comments, the new board member seemed an interesting appointment, not much to the release and certainly an interesting addition. Any comments?

Richard Warzala: Do you know about Linda?

Michael Makrowski: Yes.

Richard Warzala: Linda is a very practical, very bright person and I think she is going to be a great addition to the Board. Certainly, we've always looked at somebody that's additive and complimentary to the team, and we feel very good about Linda. She does add diversity, which is something that we were lacking and have to continue to keep in front of us here. That's going to become more and more of a requirement going forward. So, we feel very good about Linda. We've spent quite a bit of time with her already and I think she's going to be an excellent contributor. She's supportive and her demeanor/her style is very good, so culturally, I think she fits in extremely well with the Board, which is important, and brings a different perspective to certain things, which always will continue to challenge us. I think it was a very good add for us.

Michael Makrowski: From the outside, it looked like an unbelievably excellent addition. It was extremely interesting. Again, thanks for the quarter. That's it.

Richard Warzala: Michael, thank you. Good hearing from you again.

Operator: Ladies and gentlemen, we have reached the end of the question-and-answer session. I'd like to turn the call back to Management for closing remarks.

Richard Warzala: Well, thank you everyone for joining us on today's call and for your interest in Allied Motion. We will be attending two upcoming investor conferences. For those in the New York City area, we will be at the Craig-Hallum Alpha Select Conference on November 15th; and then, on December 5th, we'll be on the West Coast in L.A. at the L.D. Micro Conference. In the meantime, please feel free to reach out to us at any time and we look forward to talking with you all again after our fourth quarter results. Again, thank you for your participation and have a great day.

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