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ROG - Q2 2017 Rogers Corp Earnings Call

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PRESENTATION

Operator

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

I would now like to turn the conference over to Mr. Jack Monti, Director, Investor Relations. Please go ahead.

Jack Monti

Thank you, Dan. And thanks so much, everyone, for joining Rogers' Second Quarter 2017 Earnings Call.

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

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

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

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

I will now turn the call over to Bruce.

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

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

Please turn to Slide 4. I'm very pleased to report that in Q2 2017, Rogers achieved another quarter of exceptional net sales and earnings. Net sales were $201 million, an increase of 28% over Q2 2016 or 30% in constant currency. This robust performance was driven by double-digit organic growth in each of our 3 business units. In addition, our recently acquired businesses continued to deliver beyond our high expectations.

Top line performance, combined with our continued focus on operational improvements, resulted in an outstanding profit increase. We achieved an all-time record gross margin of 40%, up 180 basis points over Q2 2016. Adjusted EBITDA was $47 million, up 60% versus Q2 2016. And adjusted EPS was $1.33, up 51% over Q2 2016.

During the past several years, Rogers has intentionally transformed into a more diverse company by expanding our portfolio through new product innovation, driving geographic penetration and executing on prudent acquisitions. This diversification has helped us perform consistently and deliver steady growth. A good example of this is the -- is in the ACS business. As the telecom market moves towards 4.5G and 5G technologies, which has moderated the 4G LTE buildout, ACS has been able to maintain growth by taking advantage of other market opportunities, such as automotive safety and aerospace and defense. With our strong position in these and other exciting markets as well as a passionate focus on operational efficiency, we believe our profitable growth opportunities remain compelling.

Please turn to Slide 5. I would like to begin by reemphasizing the importance of our blueprint for success. Across the enterprise, our commitment to the 4 pillars of Rogers' growth strategy has enabled us to achieve substantial, sustainable results and impressive shareholder returns. Our market-driven focus is helping us advance our position in the markets we serve. One example is our emphasis on developing next-generation technology to meet growing demand for wireless data, where the proliferation of video and social media is driving a compounded annual growth rate of wireless data consumption of 51% over the next 3 years.

In e-Mobility, which is a key growth engine for our PES business, consumer demand and a global push to reduce CO2 emissions are contributing to a compounded annual growth rate of 26% through 2022 for EV/HEV production.

We are making additional investments to build upon our innovation leadership, adding a third innovation center in Chandler, Arizona, which will focus on antenna systems to enhance 4.5G and 5G performance and other promising technologies. We continue to expand the number and depth of our relationships with technology partners and universities in order to access and develop new technology platforms that have promising commercial applications.

We are very pleased with our success in synergistic M&A. The integrations of DeWAL and Diversified Silicone Products, or DSP, are going exceptionally well, and the operations are running smoothly. A recent example of Rogers' ability to capture additional value from our acquisitions is our team's success in accelerating the commercialization of a new DeWAL technology, a flexible, flat cable harness used in clean room automation. Utilizing Rogers' operations and engineering network allowed us to accelerate product scale-up to support rapidly developing customer demand.

In addition, by leveraging Rogers' global reach, we believe we will be able to expand sales opportunities for DeWAL and DSP product offerings globally. These are a great example of how we're maximizing synergies with our acquired companies.

Our focus on operational excellence is enabling our top line results to flow through to the bottom line, particularly in our PES business unit, where Q2 2017 operating margin was 10.8%, up from 3.9% in Q2 2016. A number of initiatives are contributing to this improvement in PES, including efforts to convert to a more flexible manufacturing cost model.

At the bottom of this slide, we have included our target of achieving top-quartile operating profit growth when compared to our peer group. We believe this is a good indicator of our success, combining top and bottom line growth, to deliver leading shareholder returns.

Turning to Slide 6. We hold significant market positions in our 2 key growth areas of advanced mobility and advanced connectivity, which are aligned with our technology portfolio, marketing initiatives and new product pipeline. Roughly half of our revenue comes from applications in these markets.

Based on our close collaboration with our customers and extensive understanding of our markets, we believe that we are well positioned for success in these emerging opportunities, where application challenges require ongoing innovation, an area of strength at Rogers.

As we get further along in the 4G life cycle, we're seeing 4.5G and 5G design evaluations accelerate, and Rogers is achieving meaningful design wins. We have earned our market position here, having been on the forefront of each new wireless generation, where our technologies and products have demonstrated world-class performance.

Turning to Slide 7. As I mentioned, we are extremely pleased with the smooth integration and subsequent performance of both DeWAL and DSP. We continue to actively identify and pursue synergistic acquisitions as we further strengthen our capabilities and expertise. Our targets are companies that play at the top of the pyramid, with market and technology leadership, highly engineered applications, differentiated offerings and an attractive financial profile.

Please turn to Slide 8. ACS achieved second quarter net sales of $74 million, an 11% increase over Q2 2016. Growth in applications for automotive Advanced Driver Assistance Systems, or ADAS, and aerospace and defense were partially offset by lower demand for wireless 4G LTE applications.

As we look ahead, we see strong indicators that 5G is gaining traction with the deployment of fixed wireless access. Several major operators are pursuing plans to put high-speed Internet into the home to compete with existing cable and fiber-to-home applications, often referred to as the last mile.

Our customers look to Rogers for our diverse portfolio of high-reliability and high-performance solutions that solve their challenges and enable them to compete in these rapidly evolving markets.

We are also well positioned to meet the needs of advanced automotive safety systems as they expand into mass-market models. ACS holds a leading market position here, with a portfolio that spans the full range of customer requirements for short, mid- and long-range radar sensors.

Please turn to Slide 9. In Q2, the EMS team achieved all-time record quarterly sales of $78 million, a 70% increase over Q2 2016. Our recent acquisitions contributed $22 million of sales revenue to EMS. On an organic basis, EMS net sales increased $10 million or 21% over Q2 2016 due to higher demand across all major markets, including general industrial, portable electronics, automotive and mass transit. The EMS focus on geographic expansion and market penetration is paying off, with healthy demand for general industrial applications across all regions. These results, along with consumer confidence and optimism among our preferred converters, lead us to believe that we'll see continued strength in the industrial sector.

In portable electronics, we have benefited from a large increase in back pad wins, and we are well positioned in the market to grow our share in this segment.

Our automotive sector is also growing, with greater adoption of our sealing and vibration management solutions across a number of leading EV/HEV OEMs and further penetration of our unique water-resistant PORON foam material into automotive sealing applications.

Looking ahead in EMS. We will continue to actively seek acquisitions of companies that operate at the top of the pyramid, extend our market reach and expand our technical capabilities to provide a broader set of solutions to our customers.

Please turn to Slide 10. PES achieved strong Q2 net sales of $44 million, a 14% increase over Q2 2016. This growth was driven by broad-based demand across all markets, including electric and hybrid electric vehicles, laser diode coolers, renewable energy and variable frequency motor drives.

We continue to see impressive growth in the e-Mobility market, where consumer demand for high-performance electric vehicles and government mandates are driving an increase in EV/HEV sales. Working directly with a number of the world's top OEM and Tier 1 manufacturers, PES is strongly positioned to solve our customers' toughest material challenges.

Another key focus area for PES is profitability improvement through operational excellence initiatives. Our project to consolidate the Belgium locations is on track, with the office move complete and the production relocation scheduled to be completed in the second half of 2018.

In addition, we are implementing more automation in our plants to improve quality and throughput to further increase PES operating margins.

Turning to Slide 11. Looking at the macroeconomic conditions, we are very encouraged by the positive growth outlook in many of our key markets. We are closely monitoring economic indicators such as GDP growth as well as geopolitical tensions that could impact current business confidence. We believe that our increased market and customer diversification achieved in recent years positions us to well -- well to deliver consistently strong performance.

In summary, we are extremely pleased with our performance in Q2 and through the first half of 2017. We are confident in our ability to continue to deliver strong shareholder returns.

I will now turn the call over to Janice, who will report on our Q2 results in greater detail as well as additional financial highlights. Janice?

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

Thank you, Bruce, and good morning, everyone. Our Q2 results were outstanding, with another quarter of robust sales growth, margin expansion and earnings growth.

Our strong sales, including acquisitions, demonstrate our success in developing a portfolio of market-relevant products to provide solutions to our customer needs.

As you'll see in this presentation today, the momentum we experienced in Q1 continues into the second quarter of 2017.

Now if you turn to Slide 13, I'll review our second quarter results in more detail, followed by the third quarter guidance forecast.

Q2 2017 revenue, as previously noted, was $201 million, which exceeded both our guidance and Q2 2016. Our growth was primarily the result of strong volumes across all our business units and the recent acquisitions.

Adjusted operating margin was up 560 basis points from 13.5% in Q1 2016 to 19.1% in Q2 2017, a significant increase, primarily due to higher volumes, favorable performance, acquisition profits and synergies, partially offset by SG&A and R&D investments.

Adjusted operating income was $38.4 million in Q2 2017, improving $17.1 million versus $21.3 million last year. Adjusted EBITDA of $46.5 million improved $17.5 million or approximately 60.3% compared to the second quarter of 2016.

Net income of $20.9 million in the second quarter of 2017 was up $15.5 million versus the prior year or 700 basis points as a percent of revenue.

Second quarter 2017 adjusted earnings per share of $1.33 exceeded our 2016 second quarter by $0.45, was above the high end of our guidance and was 51.1% higher than Q2 2016.

Please now turn to Slide 14 for a review of our quarterly revenue. Our revenue was up 27.9% on a year-over-year basis. The second quarter effect of currency exchange rates unfavorably impacted revenue by 2.4%, or $3.8 million, primarily due to the euro and renminbi devaluating.

Adjusted for FX, our organic revenue was up $25.7 million, or 16.3%. The acquisition revenues were $22 million and added 14 points to the revenue growth.

More specifically, EMS saw broad strength across its markets, increased sales in all regions. The growth was driven by the acquisitions and higher demand in general industrial, portable electronics, automotive and mass transit applications.

PES had strong revenue across its markets, including growth in laser diode coolers, renewable energy applications, variable frequency drives and EV and HEV.

Lastly, ACS had strong growth in high-frequency circuit material for ADAS and increased sales in aerospace/defense, partially offset by weaker demand in 4G LTE wireless infrastructure.

Looking at our Q2 2017 adjusted operating income, on Slide 15. Second quarter results increased 560 basis points or $17.1 million compared to 2016 second quarter. This was primarily due to favorable volume and performance, driven by increased capacity utilization, operational process enhancements and automation, conversion of fixed cost structure to variable where possible and synergies from the recent acquisitions. This income was partially offset by the $3.1 million increase in SG&A due to the acquisitions and higher-incentive compensation and slightly higher R&D investment.

Now let's look at our adjusted EBITDA on Slide 16. Adjusted EBITDA of $46.5 million increased $17.5 million in Q2 2017 as compared to the second quarter of 2016, improved -- and improved as a percent of revenue 23.1%. This increase was driven primarily by the same reasons just noted during our discussion of adjusted operating income, such as favorable volume and performance. Partially offsetting this was a $2.9 million increase in SG&A due to higher incentive compensation and increased SG&A due to the acquisitions.

Turning to Slide 17. We exceeded the top end of our Q2 2017 guidance range for adjusted earnings per share as well as exceeded our Q2 2016 adjusted earnings per share by 51.1%, or $0.45, resulting in $1.33 in adjusted earnings per share for Q2 2017.

As the slide depicts, 45% increase was primarily due to $0.82 of favorable volume and other; $0.02 favorable performance, offset by $0.13 unfavorable SG&A bonus incentives and acquired SG&A expenses; $0.04 unfavorable miscellaneous income and expense; and $0.22 unfavorable due to changes in effective tax rate, primarily due to the 2016 reversal of uncertain tax positions, with a Q2 tax rate of 33.9%.

If you turn to Slide 18, you'll see our Q1 2017 (sic) [Q2 2017] segment revenue. ACS, EMS and PES segment revenues increased by 10.6%, 69.5% and 14.4% or $7.1 million, $31.8 million and $5.5 million, respectively.

More specifically, in Q2 of 2017, our ACS segment revenue increased mainly as a result of increased demand in high-frequency circuit materials for ADAS and aerospace/defense. These gains are partially offset by lower demand in the wireless 4G LTE infrastructure.

The EMS segment revenue improved 69.5% in 2017 second quarter. Organic sales increased $9.8 million, or 21.4%, due to higher demand for general industrial, portable electronics, automotive and mass transit applications. In addition, the recent acquisitions contributed $22 million.

Finally, our PES segment was our second fastest organically growing segment with 14.4% growth in revenue, principally are due to laser diode coolers, renewable energy, variable frequency motor drives and EV and HEV.

Looking at Slide 19, you'll see our segment adjusted operating income. First, ACS adjusted operating income was $14.5 million, up $2.9 million from Q2 2016, 220 basis points as a percent of revenue. This was primarily due to the favorable impact of volume and mix; favorable performance due to productivity improvements focused on cost-containment efforts, operational enhancements and automation. These favorable impacts are being partially offset by unfavorable impact from commodity purchases; slightly higher freight due to the increased volume; SG&A, primarily incentive compensation and R&D investment.

Next, EMS adjusted operating income was $17.3 million, up $11.2 million from Q2 2016. This increase was primarily due to favorable impact of acquisitions and volume increases in the portable electronics, general industrial, automotive and mass transit applications; favorable performance as a result of operational excellence initiatives and acquisition synergies; converting fixed cost structure to variable; and favorable capacity utilization. Partially offsetting these positives are higher corporate allocation due to the acquisitions and increased SG&A, primarily incentive compensation.

Lastly, PES adjusted operating income was $4.8 million, up $3.3 million from Q2 2016. This increase was mainly due to favorable volume across this market, improved productivity as a result of operational excellence initiatives as well as leveraging our Eastern European footprint. And partially offsetting these favorable items are FX and slightly higher SG&A, primarily incentive compensation and R&D investment.

Turning to Slide 20, you can see we ended the quarter with cash position of $177.3 million. Rogers continues to generate solid operating cash flow of $64.5 million in the first 2 quarters, which represents an increase of $13.2 million versus the same period last year. The increase in cash flow is largely driven by the higher 2017 net income, partially offset by the use of working capital with higher accounts receivable and higher inventory, driven by the sales growth, although our working capital metrics have improved.

We had strong adjusted EBITDA of $100.8 million year-to-date, which funded our strategic priorities, including the acquisition of DSP as well as a debt pay down of $50 million in the second quarter.

Year-to-date cash conversion is approximately 65% due to the working capital requirements to fund the growth in the first quarter, with the second quarter cash conversion approximately 89%.

Year-to-date taxes are $17.6 million.

Lastly, we invested $9.7 million in capital expenditures during the first 6 months of the year or 2.4% of revenue.

Taking a look at our Q3 2017 guidance on Slide 21. Revenues are estimated to be in the range of $193 million to $203 million, with earnings in the range of $1.14 to $1.24 per diluted share. On adjusted basis, we guide earnings in the range of $1.20 to $1.30 per diluted share.

At the midpoint, our Q3 2017 revenue guidance represents a year-over-year increase of 19.8% compared to Q3 2016. This revenue guidance includes anticipated unfavorable currency fluctuation of 1.3% or $2.2 million.

On a sequential basis, the midpoint of our guidance range is approximately $3.5 million below our second quarter of revenue due to the 4G LTE wireless infrastructure and timing of certain high-reliability orders.

Guidance for earnings per share has a midpoint of $1.19 per diluted share, which includes $0.11 with the sale of our Belgium facility for footprint optimization and in total reflects an increase of $0.31 per diluted share compared to earnings of $0.88 in Q3 2016.

On an adjusted basis, earnings per share guidance has a midpoint of $1.25 per diluted share, which is a $0.30, or 31.5%, increase from $0.95 in Q3 2016.

This year-over-year increase is primarily due to higher volume, acquisition profits and synergies, improved operational performance, partially offset by higher commodity prices and SG&A.

For the full year 2017, Rogers expects capital expenditures to be in the range of $30 million to $35 million and an effective tax rate to be approximately 32% to 33%.

While our Q3 guidance has slightly lower demand compared to Q2 2017, the Q3 2017 guidance is anticipated to increase adjusted earnings per share to over 30% versus Q3 2016, with revenue growth at approximately 20% on a reported basis and roughly 21% on an FX-adjusted basis.

In summary, Rogers has a competitive product portfolio, diversified customer base, leaner cost structure and a business model that drives revenue earnings and cash flow growth.

I will now turn the call over to Bruce.

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

Thanks, Janice. This concludes our prepared remarks. We'll now open the line for Q&A. Dan?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Craig Ellis with B. Riley.

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

Bruce, I wanted to follow up on a point you made regarding engagements with 5G infrastructure. Given the company's strong participation in prior next-gen wireless transitions, can you help us walk through the milestones from where you are now to volume ramp of materials associated with the 5G rollout which, from some of our other companies we're hearing, is pulling in from what had been a 2020 expectation to now more about a 2019 expectation?

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

Yes, first of all, I think, I mentioned in my -- I know I mentioned in my prepared notes that we're seeing a lot more activity in design and activity on 4.5G and 5G. And we've heard and seen in the press, there's trials going on for fixed-based wireless access in the U.S. by 2 of the major carriers. And we understand that things are moving along there. We're seeing the same thing or hearing the same thing that, I think, you've referred to, that the pull-in of 5G originally scheduled for about 2020, we're anticipating to see some applications coming in, in 2018. In the meantime, we're also expecting 4.5G applications to be put into production, at least some of them, towards the end of this year. I think the other thing that's very encouraging on the telecom front is the Narrowband Internet of Things second buildout that was announced in China. They went through in the first quarter with the first buildout of it. And now we're seeing that, that announcement come out. So we anticipate, by the end of the year, early 2018, to see some of that buildout in China happening. So I think that's part of it. I'll ask Bob if there's any other clarity he has on this.

Robert C. Daigle - *Rogers Corporation - CTO and SVP*

Just a couple of things, Craig. I think one of the key drivers for the acceleration, if you would have asked people 18, 24 months ago, the projections on when chipsets were going to be available to support 5G were out there around 2020. And as we all thought, PES, early this year, chipsets are now available. The other thing that, I think, has moved more quickly than people had originally anticipated is establishing the standards. I think that's been pulled in. So there is a lot of activity going on. In terms of our position, we're very optimistic about our position with customers. We have -- we believe we have the right products, the right technology to establish a position in the market similar to where we've been with 4G LTE, but potentially with some upside in content because of complexity. You're going to see -- I mean, 5G, in order to achieve the data rates they're looking for and the bandwidth of that higher frequencies, which plays to our strength, the complexity associated with these higher data rates also plays very much to our strength. So again, we're optimistic about the outlook for 5G. Also I think it's interesting to note that what's being called the fixed wireless or last mile is really a new application area in the wireless broadband area. So I think that's an additional upside in terms of infrastructure, in terms of doing -- competing with the cable guys for the last mile connection. And then as Bruce already mentioned, the whole investment in Narrowband Internet of Things that's beginning to kick off. We've seen one phase, and the belief right now that there's going to be another wave in China coming in late this year or early next year, I think, are all very encouraging for the industry.

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

Yes, just one final comment on the ACS business in general and with, let's say, the lull -- the apparent lull here in telecom buildout. We're seeing, in other parts of the ACS business, significant growth, right? In ADAS, we saw north of 50% growth year-on-year. If you listen to the Tier 1 suppliers of radar systems to automobiles, a lot of projections that are 50%, 60% growth year-on-year. So we're very optimistic there. And basically, what we're seeing is the diversification of the ACS business is allowing us to weather the little bit of lull here between 4.5G and 5G on the telecom space.

And we're filling that up with ADAS as well as very strong aerospace and defense sales. So overall, again, our diversification objectives are being met. And we're seeing it play out here.

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

I appreciate those points. And Bruce, following up on the ADAS point. The company has had a very positive outlook for ADAS over the next 3 to 4 years, and I think that, that view is being validated. But with 50% year-on-year growth now, is the size of the market, as we look out to the 2020 time frame, becoming larger than the company had previously expected? Or are you just seeing that the market may be moving more rapidly to a penetration level that's somewhat unchanged?

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

Yes. Our view is that the penetration level, it's a question of how fast the adoption of the technology is moving, particularly in the mid and on the more compact and smaller lower-priced automobiles. And it's becoming a much more standard option on automobiles, in general. So it's basically just been an acceleration of the penetration of the applications. And as we continue to see the movement towards autonomous, that will -- that's another level of application and additional materials that we should see moving forward. So this has got a long, long road ahead of us. Very positive for us.

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

And then I'll ask a margin-related question, maybe combine 2 into 1, and then hand it over to others. Very strong gross margin performance in the quarter at 40% at the target level. And operating margins across all segments moved very strongly on a year-on-year basis and are in the double digits. As we look at the current margin structure of the business, can you talk about the sustainability, in your view, of those margins? And are there any headwinds that we should be aware of that are coming? Because it certainly seems that from a company-specific standpoint, whether it be the initiatives in Belgium or shared-services initiatives, there are a number of levers to at least sustain what we're seeing.

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

Sure. I'm going to ask Janice to comment on that.

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

Yes. I mean, we did reach our target this quarter, that we're very proud about that we've achieved it. We've worked very hard to achieve that in many different disciplines. One of them is our supply chain. The other is operational excellence. So we're very proud of that. We do think that we will be able to sustain it. We do see copper prices increasing, although we do have derivatives in place to offset those. But, obviously, that only offsets for a certain period of time. But we have operational excellence programs that are in place as we talked about the Belgium -- consolidating the Belgium facilities in Europe. We have synergies to be taking place still continuous with the acquisitions. So we anticipate that we'll be able to sustain it in the long run, even with volumes moving up and down a little bit. Our target is one that we think that is very sustainable in the future.

Operator

Your next question comes from the line of Daniel Moore with CJS Securities.

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

Bruce, Janice, Bob, congrats on exceptional quarter, particularly on the margin front. A couple of quick housekeeping. Wireless telecom, what percentage of ACS revenue did that represent in the quarter? And what was the rate of decline? And maybe just kind of outlook for the next quarter or 2.

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

Okay. So the power amp, antenna component was 39% of ACS in Q2.

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

Got it. And I know it was down a little bit. Did you have anything more specific there in terms of the growth rate?

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

Well, the -- it was down both on power amp and antenna side. And that -- we see part of that is some of the buildout that we saw in Q1 for IoT. And the IoT was finished, completed. And we continue to anticipate sort of a lower level of buildout until some of these other things come along, so -- that we've been talking about, the 4.5G, for example.

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

Got it. Very helpful. Speak to the diversification, certainly. And then following up on the margins, maybe just looking at 1 or 2 segments, specifically. EMS adjusted operating margins of above 20%. Janice, maybe you've already touched on this or maybe you've already answered it, but talk about how much the recent acquisitions contributed and how much room for improvement we have in that business? And kind of wanted to focus specifically on the PES side as well, similar questions?

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

Well, EMS, obviously, the sales were up $22 million to the revenue. So that actually increased our operating profit. We don't give a lot of detail on segment reporting or product reporting or I'll say more than segment reporting. But obviously, the synergies and the performance did play a role in EMS achieving the operating income up to $17.3 million, $11 million increase from last year. Also the organic growth helped them quite a bit. Obviously, the utilization of facilities and the throughput helped them because they had higher sales year-over-year also.

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

And maybe any areas, not specifically in terms of margins, but any areas where you're running up against capacity and might need to add a little bit?

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

In the EMS, no. We have sufficient capacity at this point in time for the foreseeable future.

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

Got it. And then maybe just shifting gears, and I'll hand it over. Bruce, on the M&A front, any specific applications, areas, technologies that you'd like to bring into the fold and that you're going after? Or is the approach kind of more simply opportunistic at this stage? And thoughts on the pipeline and prospects for completing additional deals, either between now and year-end or early '18, just any update there would be great.

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

Sure. So as you know, this is core part of our strategy. We have very active activities on the M&A side. We mentioned, and we've continued to mention on the -- and within EMS, we continue to look for complementary technologies that would add to our capabilities and utilize our networks. So in that space, we continue very specifically to look at some opportunities there. More broadly, we're looking at adjacencies and technologies related to our other 2 businesses as well. So across the board, we are always looking for top-of-the-pyramid types of businesses, strong customer relationships, technology leadership, those kinds of attributes, of course, a very strong financial profile. So in terms of commentary on between now and year-end and so forth, there's just lots of work going on. And as we all know, it -- sometimes, things happen quickly. Sometimes, it takes a bit longer. But I can assure you we are still very active out there.

Operator

(Operator Instructions)

Your next question comes from the line of Joan Tong with Sidoti.

Joan K. Tong - *Sidoti & Company, LLC - Research Analyst*

A couple of questions. First, I want to ask you about portable electronics, that particular business. And you mentioned that the back pad applications, and you have some business wins there. I want to ask you about the penetration of your -- of that part within the smartphone OEM at this point. How much you have there in terms of penetration? And what is your opportunity going forward?

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

So we've done quite well in the last, I'd say, year or so in the penetration of the back pads and LCD displays. And that drove a lot of the growth in Q2, in the portable electronics segment for EMS. As we move forward, we still see opportunity in LCD, and the LCD designs and technology will be with us for quite a while. So we will continue to see, we believe, wins there and growth in that sector. On the OLED side of the house, I think we've mentioned before, we've had a few wins in smaller local Asian phone manufacturers. We are still working on a number of other opportunities. None of those opportunities are baked into any of our projections or guidance in Q3. But we, again, see opportunities there. But -- also when working with some of these larger equipment -- portable electronics equipment manufacturers, there's a veil of secrecy. So we don't always know what's happening until it almost is actually upon us. So that's -- overall, our view of the portable electronics opportunity is still very strong, and we see still opportunities out there. In any event, in any of the applications moving forward, whether they're OLED or LCD screens, we have a lot of applications in the smaller parts with our phones, whether it's on the microphones, cameras, buttons and so forth. So every unit that gets sold always has -- almost 95% of the time will have something from Rogers in it.

Joan K. Tong - *Sidoti & Company, LLC - Research Analyst*

Okay, got it. And then regarding the general industrial business within EMS. Obviously, you called that out, it's pretty strong during the quarter. And I believe that part of it is driven by the macro conditions getting better and, definitely, you have seen some improvement year-over-year. How should we think about going forward? Is this sort of like a peaky type of numbers? And also, I don't want to downplay, like, your progress that you've made in the -- some of the investments that you put in that business, especially in Europe that you called out a year or 2 years ago. It seems like that's been pretty successful there. So if you can give us a sense of, like, what is -- how do you decipher what's company specific versus macro? And what is your view going forward, at least in the near term?

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

So some of the growth that we've seen in general industrial has been just the macro growth in the economy, right. So a lot more industrial activity, a lot more assumption of capital goods that are related to our materials. But a portion -- and of course, it's always hard to judge, but a portion of the growth is also new applications that we've been working on over the last number of years that have come to fruition. And those new applications, not only in North America, but in Europe and also in Asia now, we've had a concerted effort to transfer our knowledge and understanding of applications to both of those regions, both Europe and Asia. And we're seeing very good pickup. So part of it is a real penetration play. Every application we get is upside. And then you have the overlay of the macroeconomic, just drive forward and the economic growth. So it's a bit hard for us to parse it out, but I can assure you that on the penetration side, we're making some very, very good progress there.

Joan K. Tong - *Sidoti & Company, LLC - Research Analyst*

Okay, okay. And then finally, on the 2 acquisitions you made, DeWAL as well as DSP. It's -- the operations -- obviously, you have been operating that for 2 or 3 quarters already. And it seems like there's good outperformance. You mentioned there are some new business wins there that's driving upside in the past 2 quarters. And looking out in terms of leveraging the Rogers' global platform to drive more opportunities, can you give us a little bit more specific, anything that you're actually working on? Can we quantify it a little bit better? Anything would be helpful in terms of additional color.

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

Yes, so a lot of the opportunity that we see moving out of North America, both of the businesses were centered in North America and much of their sales were North American. What we've done is we've done a significant amount of training of our sales teams and technical teams in both Europe and Asia to be able to market and sell these products more globally. We're also investigating our capabilities to do some manufacturing in Asia, specifically, in one of our existing facilities on the DeWAL side. So there's activities ongoing that really spread the capabilities out from North America, and we think that's -- that will drive some nice growth for us. There's real opportunity, specifically, in Asia, in the DeWAL business that we see.

Operator

Your next question comes from the line of Sean Hannan with Needham & Company.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

First question I have is kind of multipart around the ACS business. To further an earlier comment, I think it may have come from Bruce a little bit earlier, can you characterize the penetration today in ADAS? Since you've noted that this uptake has been a bit stronger, can you perhaps put some thoughts or numbers around that for where we see that as penetration within the marketplace? So that would be the first part. And then to further the ADAS piece of the conversation, can you also remind us, folks, of the high share position you have for the materials going into those applications? And then competitively, what you might be hearing from customers or even observing anything from your peers that might challenge that position in upcoming quarters or even years?

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

Okay, Sean. To answer your first part of the question around the penetration in automotive of the radar systems, we're looking at around 15% to 20%, probably moving towards 20% right now in terms of market penetration. So that's probably accelerated from where we thought we would have been. We were probably thinking, entering the year, we would be in the 12% to 15% penetration. So 20% is quite an uptick for us. Again, that's just a judgment call based on some of the numbers that we see. In terms of how we're positioned in the market with our technology and versus alternative technologies and so forth, I'm going to ask Bob Daigle to comment on that.

Robert C. Daigle - *Rogers Corporation - CTO and SVP*

Yes. Sean, I think, as you know, we've carved out a very nice position for ourselves in this whole ADAS area. And the roots of that go back to our leadership position, frankly, in the radar systems that we're in the defense/aerospace, and we've been able to combine our capability in that world with what we've done in the wireless area, where we have products that can be converted very cost-effectively, in high volume, into circuits for these systems. And we've positioned ourselves very well to be -- to basically be in the broad array of these sensors. Part of what you're seeing in terms of the penetration story, there's really 2 pieces to this. There is the fact that more vehicle platforms are being introduced where they have these advanced driver assistance systems. But you're seeing more sensors per vehicle in the deployment. It wasn't that long ago where when you talked ADAS, it was primarily blind spot detection. Now you're seeing adaptive cruise control, you're seeing transverse vehicle detection when you back out of a parking spot, you're looking sideways. And then you start getting, I think Bruce alluded to this earlier, where in the world of autonomous, where if you look at the vehicle that they -- that Audi Q7, I think, that they drove to the auto show last year, which basically had 7 radar sensors on it to provide the -- along with cameras, et cetera for autonomous functionality. So again, I think this is a great evolution, the technology. I think some of the things that have probably changed over the past couple of years have become increasingly apparent to us anyway. And, I think, the industry that these things are moving more and more towards being standard features on vehicles, very much like the -- we had analog brakes technology evolve, airbags, those kinds of things and safety devices. I think the belief now is we're kind of going down that path with ADAS, which is, obviously, very exciting for us being in the position we're in.

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

Just another comment maybe on how we've positioned ourselves in the market. Our level of service and support to our customers is outstanding in the sense that we provide a lot of testing, a lot of evaluation and so forth and design assistance that, I think, is very difficult for others to match. And we're recognized in terms of the high-frequency capabilities of our materials and our capabilities to test and evaluate as real leaders here. So it's a multiple layer of competitive advantages that Rogers brings to the table here.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Okay, that's helpful. But when you look at, perhaps, on paper, there may be more and more materials competitors that are coming to market with products that could, again, on paper, be of use within these types of applications. And so just trying to drill into whether there is anything that's really raising your eyebrow that could ultimately create an impact to that high share position you have. Any thoughts around that? Does that senses this for where you stand today coming quarters or kind of the near years.

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

Well, certainly, from a supplier perspective to the industry, and we're supplying broadly across all of the folks who are manufacturing these sensors. I think what you might be hearing or referring to would be things like LIDAR, optical and those kinds of technologies. What we're seeing is that they are coexisting technologies. They provide different capabilities, and there are some benefits, certainly some very clear benefits to radar systems in terms of ability to see in all kinds of weather and through significant dirt and what have you. So there is a lot of benefit to radar, but it's also used in conjunction with some of these other technologies. So while it might seem like competitive materials, they're not necessarily competitive.

Sean Kilian Flanagan Hannan - *Needham & Company, LLC, Research Division - Senior Analyst of Smart Grid, Electronic Mfg Svcs, IT Components & Electronic Components*

Okay. I'll follow up offline. That's very helpful. Last question here, within the PES business, now you've been really waiting for a lot more revenue volume to come through within that segment that's been kicking in the last 2 quarters now. I think one of the material factors is being able to benefit from some of the uptrends related to EVs, HEVs and where you're positioned. Can you, perhaps, provide a little bit of thought around what inning you would say you're in, in terms of generating the revenues that you ultimately see materializing for what you're designed into, the programs you're supporting? How early are we within this momentum?

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

I'm going to have Bob comment on that.

Robert C. Daigle - *Rogers Corporation - CTO and SVP*

Yes. So I think, Sean, I'd characterize that this whole electric vehicle industry is in inning 1 of the game. I mean, you look at the relative volumes you're talking about. It's almost, some people would say insignificant part of the market today in terms of volumes in electric vehicles. But as you've noted, for Rogers, playing at the high end and kind of being an enabler in some of these emerging technology areas, it's moved the needle for us. But as a broad industry, from a broad industry perspective, I think this is very early. And again, I think you're seeing -- there's been a series of announcements recently. I think the last one, what was it?, the U.K. is going to ban gasoline, was at 2040 or something. So you're seeing some interesting -- we'll see what actually happens, but interesting trends in the industry which favor electric vehicle. And I'd characterize it in -- at least I think about it in 2 camps. I think of it as you've got the high-performance electric vehicle, which is really targeted at the luxury car market, more performance-based. And then you have the environmentally-driven part of the market, which places like China where, dealing with air-quality issue, electric vehicles are clearly a key part of that road map. And fortunately, for us, we are playing in both worlds. We're part of that supply chain, obviously, in the high end, luxury vehicle market, and we're also in the supply chain for the more mainstream vehicles that are targeting better air quality. But again, I think, there is a lot of runway for us, and we're obviously very active with a broad range of customers in terms of what's coming.

Operator

At this time, there are no further questions in the queue. I would like to turn the call back to Bruce Hoechner, CEO.

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

All right. Thanks, Dan. Thank you, everyone, for joining the call today. We're very proud of our performance through the first half of 2017 and certainly are looking forward to another strong quarter as we move through Q3. So thanks, again. Have a great day.

Operator

Thank you to everyone for attending. This will conclude today's call, and you may now disconnect.