Thermadyne Holdings Corporation
Third Quarter Earnings Conference Call
November 7, 2007

Operator: Good morning, my name is Ray; I will be your conference operator for the day. At this time, I would like to welcome everyone to the Thermadyne Holdings, Corp. Third Quarter Earnings Conference Call. All lines have been placed on "mute" to prevent any background noise. After the speakers' remarks, there will be a question and answer period. If you would like to pose a question during this time, please press "*", then the number "1" on your telephone keypad. If you would like to withdraw your question, press the "#" key. Thank you and it is now my pleasure to turn the call over to your host; Paul Melnuk, Chairman and CEO of Thermadyne Holdings. Sir, you may begin your conference.

Paul Melnuk: Thank you. Good morning everybody. I'd like to welcome you to Thermadyne's Third Quarter Conference Call. With me today, is, Steve Schumm, our CFO, Mark McColl, in house counsel and Mark Jolly, our Global Controller.

Last evening, we issued a press release with our third quarter, 2007 results and we also filed our Form 10-Q with SEC. A copy of the press release and 10-K filing can be obtained from our website at www.thermadyne.com, or by contacting Investor Relations at: 636-728-3189.

As we begin, let me remind you that this call may contain forward looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect management's current expectations and involve a number of risks and uncertainties. Actual results may differ, materially from such statements due to a variety of factors that could adversely affect the company's operating results. These risks and other risks, relating to our business are set forth in documents filed with the Securities and Exchange Commission. Specifically, our most recent annual report on Form 10-K and other reports filed from time to time with the SEC.

In a moment, Steve will discuss, in detail, the unaudited 2007, Third Quarter Results. Before he does, however, I'd like to just offer a few highlights.

Our results continued the improving trend than began in mid 2006 and this is the third consecutive quarter of bottom line net income. Sales growth was 11.4%, compared to the prior year quarter and operating results were up 20% for the same period.

Our business plan initiatives are bearing fruit with good, better, best tiered product and brand strategy, contributing to sales growth and margin improvement. In addition, our TCP continues the improvement process, continues to deliver results, with 16 million of savings year to date. However, material inflation, although not in the headlines as it was last year, is running at a 13% rate, year to date. Copper and brass, two of our principle materials, are up 17% in the year to date period. Resins, hoes and other petroleum related materials have experienced similar inflation rates this year, while a number of metals such as: nickel, chrome, aluminum, and stainless steel are up at higher rates this year. In all, material cost inflation has increased our cost $18 million year to date; more than an erasing our TCP cost savings.

We put through a price increase in August 1, in the range of 2 to 3%. When planning this increase in early may, it appeared that material inflation would be moderating, based on the outlook at the time. Given where commodity prices have moved since then, our pricing action was less than it should have been. We are, however, working to improve our pricing and administration processes, such that we should be able to improve the lag between the time we make our decision and the time it becomes effective. We are also contemplating hedging strategies to further mitigate exposure to price movements over the shorter term.

And for the longer run, our product people are researching alternate materials and designs to substitute with lower cost materials and to take unnecessary material out of our products, where possible.

Another encouraging trend is the improvement in cash flow and working capital efficiency. This quarter, cash flow from operating activities was 3.3 million, a $10.5 million improvement from the same period last year. In addition, the improvement in cash flow from operating activities for the year to date period was more than $20 million. Working capital efficiency improved 2.5 percentage points from September of ’06 to 31% at September 30, 2007. This equates to almost $13 million of working capital savings, despite the investment in inventory to support new product launches and the impact of higher manufacturing costs. These gains have been realized through continuous process improvement work throughout out business. These are not “quick fixes” and are being undertaken in a carefully planned manner, so as to not upset any of the progress we have made with improved deliveries. There is much more room for continued improvement, though.

I’m also pleased that we are beyond the crisis management phase of our turnaround and able to begin to proactively manage the business for the long term. Our management and organization is far more stable and the level of customer satisfaction continues to get better each quarter. We’re also pleased to have Carey Moody on board as our Head of Global Operations. He brings a wealth of experience from the highly competitive consumer electronics industry, where aggressive cost reduction was the only means of staying in business. And although, only with us for a short time, it is clear that he will drive our TCP continuous improvement process to a higher level.

After Steve reviews the financial results for the quarter, I'll offer some comments on the outlook for the balance of the year and beyond. Steve.

Steve Shum: Thanks Paul and good morning. My remarks will be focused on the results of continuing operations. Our operations in South Africa were sold in May and we expect to complete the disposal of our operations in Brazil by year end, consistent with our announcement last December. Accordingly, both these operations are reclassified in the financial statement presentations for all periods and shown as discontinued operations.

Net sales of 126.6 million in the third quarter of 2007, increased 11.4% over the prior year's third quarter results. This exceeds the 9.5% growth rate, year to date. If one removes the 3.6 million foreign currency translation effect, we had an 8.2% growth in the three month period, which also exceeds the year to date growth of 7.1.

Our sales growth is being driven by the International markets. You will see in our 10Q, that are increase in International sales was 23.3% for the third quarter as compared to last year's third quarter. If one adjusts the numbers to exclude the impact of foreign currency translation, the sales growth is approximately 15%. This 15% increase in the third quarter, exceeds the nine month pace of 13%. As you would expect, the proportion of our International sales is growing. In the third quarter of 2007, our International sales increased to 42% of our total sales as compared to 38% in last year's third quarter. For the nine months in 2007, our International sales were 40% of total sales; increasing from the 37% in last year's nine month period.

Our sales growth, in the US, during the third quarter, was comparable to the pace we have been reporting throughout this year. That is, mid single digit. But this somewhat understates our growth pace in the US in that we have intentionally walked away from the sales of certain products and customer relationships that were not economically good for Thermadyne.

We are experiencing revenue growth in all product lines, for both the third quarter and on a year to date basis. Our gross margin, of 30.1%, is a slight improvement over the prior year's third quarter of 29.5%. The third quarter of 2007, is also another 30 basis point improvement over last quarter's; i.e. the second quarter margin percentage. And this is despite the increased LIPO charge in the third quarter of this year, versus the second quarter. Thus, we are continuing the trend of steady improvement in gross margin, which began in the last half of 2006. For the nine month period, our 30.8% margin is a 200 basis point improvement over the margin in last year's nine month period.

SG&A costs in the third quarter of 2007 were 21.5% of sales. This is consistent with the 2007 year to date relationship of 21.6. The current year SG&A expense ratio is down approximately 100 basis points, from last year's adjusted ratio of 22.5%; I say adjusted SG&A ratio because the prior year ratio I quoted removes the 6.1 million of unusual accounting and bond fees incurred last year.

Interest cost declined $267,000 in the third quarter to 6.7 million, as compared to the third quarter of 2006. This decrease in costs result from the decrease in our average indebtedness outstanding. As a reference point, we had $16 million less debt at September 30 of this year as compared to September 30, last year. We also now have a reduced interest rate structure, for both our borrowings under the working capital facility and the second lien credit agreement; as a result of new agreements, we recently signed, in June.

We showed this decline in our interest cost for the third quarter, even though the special interest rate adjustment on the senior sub notes had climbed to 175 basis points for the third quarter of 2007. This adjustment to the interest rate on the notes averaged 140 basis points for the first nine months of this year. This special interest rate adjustment will decline to 125 basis point adder (sp?) for the fourth quarter of this year. This special interest adjustment declines by another 50 basis points to a 75 basis point adder when our leverage ratio falls below four. We foresee it declining to this level by the middle of next year.

The income tax expense recorded in the quarter shows an effective rate of 57%. The year to date rate, 56%. As a reminder, this high rate is not the rate of taxes we are currently paying, our cash payment amounts are approximately 75% of the amount you see in the financial statements and they relate to taxes which we are paying in foreign jurisdictions.

The bottom line, from continuing operations shows the company with net income. We earned 1.3 million in the third quarter, with 4.2 million for the nine months. What a difference a year makes; last year's third quarter was a net loss from continuing operations of 5.6 million. We are on track to complete the disposition of our Brazilian manufacturing operations, during the fourth quarter of this year, as previously reported. We do not expect any significant cash impact.

We are frequently asked about EBITDA; even though it's a non GAAP measure; so we've attached a schedule to the earnings release, which shows the computation. The operating EBITDA as adjusted for the third quarter of 2007, was 14.5 million from continuing operations. As compared to 12.1 million in the prior year. For the nine months in 2007, adjusted EBITDA has increased to 11.9% of sales versus 104% for last year's nine month period.

Let's look at our liquidity position. During the quarter, we have positive cash flow from operations of 3.3 million. As Paul mentioned, this is $10 million better than in last year's third quarter, with 4 million of the improvement coming from better working capital management and the remainder from increased operating income. Total debt, as of September 30, was a net 240 million, as compared to 256 million at last, last September, 2006; for a decrease of $16 million. At June 30, our unused availability in cash was $53 million.

And with that, I'll turn it back to Paul.

Paul Melnuk: Thanks Steve. A 20% operating earnings improvement is good performance, reflecting the many good things that are going on within our company. However, results would have been marketably better, were it not for the rate of material inflation. In the short term, inflation is beyond our control, but it is manageable over the longer term and this is where we must focus more attention in the future.

Our good, better, best tiered brand and product strategy is beginning to have a meaningful impact on the business. Investment in new products, particularly in our premium professional range is generating new sales in margin, both domestically and internationally. Automated plasma sales are growing rapidly and the launch of the upgraded manual plasma line, on October 1st of this year was exceeding our most optimistic forecasts. We also have more products and resources helping penetrate new developing markets, contributing to the growth internationally.

This strategy allows us to exercise far more pricing discipline because we have products that carry our brand reputation for quality, durability and performance that are directed to the more price conscious customer. The benefits of this strategy should continue to build over the quarters and years to come, as we get better at execution, invest more of our resources and higher impact new products and simplify and standardize our products offerings.

Of course, the TCP process should also deliver ongoing cost savings. We are increasingly excited about the opportunity for further cost savings and believe we are just scratching the surface of the potential.

As noted in our press release, despite some concerns about the general US economy, our end user markets remain reasonably strong, driven by heavy industrial and infrastructure investment and rising export demand. In addition, the International markets are growing at rates considerably higher than US, driven by their own internal growth and infrastructure demands.

With the outlook for relatively strong demand in the global economy, the downside is that material cost inflation would be expected to continue. As such, we are getting more focused on both short, and long term initiatives to better manage this outcome. On the other hand, it is also likely that a decline in global economic growth may also result in declining commodity prices that would mitigate the effect of more modest top line growth.

In summary, we are more encouraged about our prospects; we have strong brands that are getting stronger and good relationships with our customers. Our plan is to build on these strengths and become ever more aggressive at taking cost out of our business and our products to ensure we not only have the best products, but also, the best total cost base to be the most competitive in the market.

And Ray, with that I'd like to now open it up to questions.

Operator: Thank you. At this time, I would like to remind everyone if you would like to pose a questions, please press "*" and the number "1" on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from Edward Koones of SP Capital. Please go ahead.

Edward Koones: Good morning.

Paul Melnuk: Hey Ed.

Edward Koones: You didn't comment much on the fourth quarter. Other than, I think, in the press release, you mentioned you expected some improvement. Can you provide any; I have two questions. The first part is; can you provide any guidance for the fourth quarter profitability margins?

Paul Melnuk: I think, as noted in the press release, we would expect that margins will increase in the fourth quarter from levels that they were in the third quarter and the year to date average. Generally, sales in the fourth quarter are a little bit weaker than the third quarter sales levels, but not by a significant amount. As I mentioned, the outlook for end user demand for our products seems to be pretty solid, we expect growth in the US markets to continue at rates that we've seen this year and similarly the International markets, we don't see anything that will change their growth pattern that we've seen recently, as well.

Edward Koones: And, I actually have a free form question now. The second part is, your costs in this current quarter, were they fairly stable throughout the quarter, or did they increase towards the end of the quarter? And then, the third part is, because you implemented a price increase, August 1^{st}, would we see a benefit from that roll into the fourth quarter?

Paul Melnuk: Well, as I mentioned, you know, the growth in margins in the, in the fourth quarter, is largely driven because we'll get the full impact of the price increase that we've put through. In terms of the cost increase, in a, as I mentioned in my remarks, the, what has, the rate of inflation, this year, in terms of the impact has actually been higher than it was last year, in terms of the impact on our results, and the commodity purchases that we make this year, versus last year, have been relatively flat, year over year, in terms of their rates of inflation. But what has happened over the course of 2007, is that many of the, our components suppliers have been catching up on price increases, in, I think in a similar way to what we have been, and so we've seen this year, an escalating rate of material inflation on some of our components and, you know, with commodity prices stabilizing a little bit over the last several months, we would expect that aspect of the inflation to stabilize somewhat, as well.

Edward Koones: All right, so with the improvement in margin next quarter, you might be at a 65 million, you know, mid 60's, EBITDA run rate and you know, that's just a company trading at slightly north of six times Ibadan, which is a significant discount to the competitors and you know, you guys have done a good job touring the comp[any and stabilizing it, but when you look at the stock price over the last four years, it's basically unchanged, where as, Lincoln is up close to tripled and if you look at your main customer; Air Gas, they've almost tripled.

So, you know, my question is, you know, what is the, what's your strategy going forward, in the sense that though this company needs remain public, because if you don't get the value realized in the market, you know, my guess is you could probably get 30, 40% premium for the stock price if it was a financial buyer and probably close to 100% in premium in the stock price with a strategic buyer and you know, at what point does management or does the Board look at those options, because it's not really clear to me why this company needs to remain publically held.

Paul Melnuk: Well, I think in, in terms of you know, recently we became listed on NASDAQ, I think our shares do not have a great deal of liquidity and it has, as what we have indicated before, is, with a listing in NASDAQ, we intend to take a more proactive approach with respect to getting out and telling our story, we think we've got a great story to tell. (Talk over).

Edward Koones: Your public quote is still fairly small, when you look at the actual traded stock because of the, securing your larger shareholder owning; you know, probably over 30% of the profit (sp?) or somewhere along those lines.

Paul Melnuk: But, as we, you know, I think as we get out and tell our story, and as I said, starting to say, we've got a great story to tell and as we get out and tell that story, I would expect that that would free up some liquidity and you know, we shared the view, and the Board shares the view that our stock is trading at a significant discount and you know, we've got a great story to tell and are intention is to get out and tell it more frequently in the short term.

Edward Koones: Okay, thanks.

Operator: Once again, press "*1" to pose a question.

Our next question comes from Jeff Wertheim of Boone Capital. Please go ahead.

Jeff Wertheim: Good morning Paul.

Paul Melnuk: All right Jeff.

Jeff Wertheim: Good quarter. I guess my first question is: you haven't talked a lot about China and what you're doing there, because, obviously Asia has become a big focus of your markets, could you kind of tell everyone what's going on there?

Paul Melnuk: Yes, we've had very good success in China. We've been taking our higher technology of products, automated plasma, some of our high end welding equipment into that market and we've had very good success and are frankly, just in the process of "beefing up" our sales and technical support in that market. You know, warehousing, inventory, in country to support our sales efforts there, so we're pleased with, with the progress that we're making on the sales front. In addition, as you know, we had our joint venture manufacturing facility, which is making gas equipment; we're having very good success with that facility.

Production has been, has been very solid, absolutely no quality problems, the product has been very well received in the marketplace. Our global sourcing initiatives, we have a team of people in country, who are scouring the countryside looking for material component and finished goods suppliers of that meet our quality requirements at better prices and that effort is continuing.

We're expanding our resources in that area, as well and our fourth initiative in China is to build up our engineering presence, which is also been growing and what that will enable us to do is, not only reduce some of our product development and product development cost, but it will also accelerate our ability to assess and manage vendor/supplier quality in country.

So, we're pleased with it, and we're continuing to progressively push it.

Steve Shum: Well, the only thing I might add to that is with respect to our Chinese joint venture manufacturing operation. One, somewhat independent confirmation on what Paul just mentioned, is, within the last couple months, we've had two major companies tour that facility. These are companies; at least one of them has left Thermadyne about half a dozen years ago, to pursue its own manufacturing initiatives to reduce cost and they essentially have abandoned their own efforts and returned to us because they had heard of the quality and the lower cost that we were now achieving and then, another vey large company also toured the facility; so we find those as very encouraging signs of what we're accomplishing in manufacturing in China as well as the reception that our high technology plasma and some of our welding equipment is now getting in China markets.

Jeff Wertheim: Can you give any kind of indication of how much manufacturing you are doing there and you plan to do there as a percent of the company's manufacturing?

Paul Melnuk: Today, the total sourced product out of China, including manufactured product, is in the range of, of an 18%, plus or minus and we would expect that to grow over time.

Jeff Wertheim: Great.

Paul Melnuk: And you know, I'll just, you know, make the point as well that two years ago, there was virtually nothing.

Jeff Wertheim: Right, right. And then, I guess, back to your, you know, "big drag", which is your material cost inflation, and pricing, you know, it seems like, if you're getting double digit inflation and your products are now being more accepted are you going to be able to pass on to have a much higher percentage of that inflation in the next year?

Paul Melnuk: Well, our last price increase, in August, was readily accepted in the marketplace, you know, our products are competitively priced and you know, at the end of the day, we have to be able to pass on these material cost increases. I think, as I mentioned in my remarks, as, you know, with the benefit of hindsight, our last price increase was perhaps more modest that it should have been. But, we were anticipating moderating inflation and the rates have been higher than what we anticipated.

Jeff Wertheim: So, there is a, you're contemplating, it sounds like, another price increase to make up for some of additional 2007 cost inflation?

Paul Melnuk: Well, it's something that we're looking at, yes.

Jeff Wertheim: Thanks Paul.

Operator: Thank you. Once again, press "*1" when wanting to pose a question.

Again, as a reminder, if you'd like to pose a question, please press "*" and the number "1" on your telephone keypad.

There appears to be no further questions at this time. I'd like to turn the floor back to Mr. Melnuk for any closing comments.

Paul Melnuk: Okay, thank you Ray and thank you, again, everyone for taking the time to join our call and would encourage you to call us if you have any further questions and we look forward to reporting our year end results. Thank you. Have a good day.

Operator: Thank you; this concludes today's Thermadyne Holdings Corp. Third Quarter Earnings Conference Call. You may now disconnect and have a great day.