

The logo for Seeking Alpha, with the text 'Seeking Alpha' in white and a gold Greek letter alpha symbol to the right, all on a dark red background.

Natus Medical, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) And your first question is from the line of Erik Schneider, UBS Securities.

Erik Schneider – UBS Securities

Good morning, gentlemen. Just a quick question for Steve on the gross margin side

you laid out the Excel-Tech drag on margins, and higher material obsolescence specifically; did those together account for the two, roughly 260 basis point decline in that or was there something else in there and could you attribute how much, how many basis points or percent went to each of those two factors?

Steve Murphy

I think it's accurate. It was about 260 basis points and the inventory write-off was about 1%, a little less than 100 basis points and the Excel-Tech gross margin is still running at about 60%.

Erik Schneider – UBS Securities

Okay. And that is just something that is going to continue because that is the nature of that product line?

Jim Hawkins

This is Jim, Erik and our goal is to get that to 65%. We did communicate at the time of the acquisition it would take some time. We hope to get it over 60% by the end of this year, but in the following year to make a run at 65%.

Erik Schneider – UBS Securities

Okay, and then, Jim, just more generally, you said that you are still looking for that \$250 million run rate coming out of '08. To go beyond that, I think you mentioned previously that you would think of adding another leg to the growth story. First, is that still true; and second, do you have a sense of how close or how far a field to the current categories that additional leg would be?

Jim Hawkins

Yes, on your first point, yes, we certainly are focused and are looking to achieve our goal of exiting 2008 at a \$250 million run rate. As most of our shareholders know, that is something we have

focused on now for a little over four years and we are still driving on that full steam ahead. On your second point, about our next – once – if we are successful in achieving our \$250 million goal, to go to the next level, we haven't really communicated either a dollar amount target or a time frame. We would plan to do that after the end of this year, once we are running at that rate. But certainly, it would be in an area that would have, I would say, similar characteristics, where we wouldn't be necessarily butting up against the Medtronics or GEs or Philips. We would be finding a market niche that we could sell our products into the hospitals, that we could differentiate ourselves, and have a product where we could achieve a 65% gross profit.

Copyright © 2008 CNET Networks, Inc. All Rights Reserved.