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MSC.Software Corp. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Barbara Coffey from Kaufman.

Barbara Coffey - Kaufman Brothers

Can you speak a little bit about the reseller network and what end markets they're selling into and what kind of traction they're seeing?

Bill Weyand

Sure. I would be happy to. Our reseller or channels business remains robust and we've been focused on expanding the number of channels partners. It tends to be that they focus more on the supply chain in some of the smaller global countries around the world. It has been an integral part of our business and should continue to grow as we introduce products like our engineering solvers or SimDesigner or SimOffice. It's particularly targeted for the channel partners and resellers as well.

Barbara Coffey - Kaufman Brothers - Analyst

And was there any -- in the quarter as you look across the different countries, was there any sort of difference in selling cycle times based on different regions of the world?

Bill Weyand

Not necessarily. We obviously like others have experienced some softness in the U.S. market due to the economies and some of the things that are going on there. Europe obviously continues to be very strong for us and our customers are investing significantly there. SimEnterprise is the classic crossing the chasm and is beginning to get worldwide attention by major OEMs who need to do simulation on a worldwide basis, and Asia-Pacific particularly outside of Japan continues to be very strong.

Barbara Coffey - Kaufman Brothers

Thank you.

Bill Weyand

You're welcome.

Operator

Our next question comes from Michael Coady from B. Riley.

Michael Coady - B Riley

If you look at your R&D dollars, have been creeping up pretty regularly. And I know you're doing more off-shoring. Can you talk about when you think you'll get a return on that investment, when you may see R&D come down as a percentage of revenues?

Bill Weyand

Sure. I'd be happy to comment. Well, you are right. The spending has gone up. And it has gone up for several reasons. We are supporting basically a larger group of functionality that we've introduced with our three on not only of our engineering solvers, but our new feature-rich SimEnterprise solutions.

As a percentage of revenues, as we begin to accelerate adoption of it, it should start to trend down from the percentage of revenue we're looking at today. Ongoing product enhancement and upgrades are clearly what will be driving our business and growth going forward. And it has been a journey. We have obviously invested a significant amount of money starting in '05 to enhance all of our traditional engineering solvers. And you can see by the maintenance renewal that our technology is not only incredibly sticky, but the reality is that some of our customers that may have moved away from some of our solvers actually have moved back. And you can see it by the significant maintenance renewals of reactivating something like Nastran versus other options in the marketplace.

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