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FEI, Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Steve O'Rourke - Deutsche Bank.

Steve O'Rourke - Deutsche Bank

Can you break out the impact of both foreign exchange and mix on gross margin in the quarter? And when we think about gross margin going forward, I think your target in the past has been mid-40% range. Is it realistic to think you can get there sometime over the next year?

Dr. Don R. Kania

It is reasonable to believe that we can get to 45% within a year, if several things happen. One, if we see revenue growth that is supported obviously by preceding order growth, a return of our mix to a more natural distribution between our electronics businesses and our research businesses. The margins in our semiconductor products are significantly higher than they are in our research products. That currency does not continue to work against our performance, and if we roll those effects together along with some benefits from our restructuring that it is achievable in that timeframe.

Raymond A. Link

With respect to the analysis on margin, one of the difficulties with currency is compared to what? If we just compared it to the fourth quarter rate, if we rolled Q1 versus Q4 before any benefit from currency contracts, our cost of goods sold went up about \$4.6 million. So it had a very negative impact on our overall cost structure.

We did have that offset to some degree in the quarter from currency hedging contracts that we put in place. Of course the benefit of those were from contracts we put in place many quarters ago and those start to roll off, which is why we are taking some of the actions today.

The other impact that we saw during the quarter is that our electronics market division gross profit margin declined from generally around about 50% margin to a lower amount for this quarter. That was driven largely by mix. We had an unusual quarter, or we shipped a fair number of medium level instruments and not as many high-level tools in that particular market segment. We do expect that to ultimately recover and come back to more of the norm on a go-forward basis, but the flip side is we will have more of pressure from us on currency.

Steve O'Rourke - Deutsche Bank

How do you expect the percent of your cost basis to shift with the restructuring? That is from Euros to dollars. If it is 90% Euro-based now, what will it be in two quarters and three quarters and four quarters?

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