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MKS Instruments, Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) And our first question is from the line of Brett Hodess. Please state your company name followed by your question.

Brett Hodess – Merrill Lynch

Merrill Lynch. Good morning. Leo, in the quarter, you obviously had surprisingly strong semiconductor business. As you mentioned, it was two particular OEMs that have a lot of MKS product on their system. Do you continue to see a rich mix like that even in a slower environment, because if you look at your sequential decline that you're projecting for the next quarter, it's a lot less than the shipment declines that your OEM customers have talked about already.

Leo Berlinghieri

Well, I think, Brett, we obviously have been able to grow share over time and that's always been the objective, and we showed some results that can demonstrate that over the long term. And so, I don't know what exactly the mix will be. We don't know in advance what the lead times that we have and some of the lead times even the OEMs have, what that mix will be. But, I think we expect a drop in semi OEMs, but we would expect some make up in some of the non-semi business. Certainly, with overall guidance being declined, we are expecting the semi OEMs to be deeper than any growth we can get in some other markets.

Ron Weigner

Yes, and don't forget, Brett, as I mentioned, 55% of our sales are direct to the OEMs, so not the whole total.

Brett Hodess – Merrill Lynch

And the second question I had was, given where the gross margins are looking like this quarter, 40% to 41% on that kind of revenue drop, if we look back, that's not that much of a drop really, it's sort of in the range you were at back at those revenue run rates last year. So, is the move to manufacturing in China starting to have some impact in keeping your margins from having that much decline, or are there other cost offsets in the actual cost of goods sold?

Leo Berlinghieri

Certainly, it's one of the factors that helps us reduce some of our cost of goods sold. But certainly as you know, last year we made progress in reducing our warranty expense and we're taking initiatives to reduce redundant and/or unnecessary overhead expenses as well. And to a lesser extent, as you know, it's more challenging to reduce purchase material costs, but we are still making some modest progress in those areas as well. So, it's a combination of things, Brett, that will help us on the margin side.

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