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3D Systems Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you Ms. Hughes. (Operator Instructions). Our first question will come from Jeff Rosenberg from William Blair & Company.

Jeff Rosenberg - William Blair & Company

You mentioned in your prepared remarks that the gross margins, while they improved, they disappoint you. In Damon's prepared remarks there was more of a year-over-year comparison. Can you talk a little bit about what was the cause of the shortfall in gross margin?

Abe Reichental

Let me first say I am disappointed because we indicated in the past and have expectations over time that we will not only return to our historical gross profit margins but that we will surpass them. And the areas that are still weighing on our gross profit margins you know, have to be with the residuals from transfer between suppliers which were costly in the '07 period and some of our residual inventory and price management issues that were still working to overcome

While we made progress in the fourth quarter and for the full year, I'm not satisfied with the rate of progress and I continue to believe, the company continues to believe, that once we get past some of these residuals from the shift in manufacturing suppliers and once we more conclusively resolve some of our inventory and price-related legacy issues we should be able to speed up the progress that we're making.

I also would indicate, Jeff, and I think Damon was more specific about this, that when you look at things like price and the impact from mix within price those were favorable impacts for us. So we don't think that we have any selling price issues or average selling price issues that are impacting this. We believe that this is squarely on the sourcing and supply-chain side of the area, which is we believe a challenge that is more easy to fix.

Operator

Thank you, and we'll take the next question from Bill Gibson from Nollenberger Capital Partners.

Bill Gibson – Nollenberger Capital Partners

Good morning Abe. I want to zero in a little bit on materials which certainly seeing an improvement but it seemed to back off in the second half. Is that just playing out on a short-term basis or what's going on there? Speaking as a percent of revenue.

Abe Reichental

Bill, as a percent of total revenue when you look at 40% of \$156.5 million we think that was a respectable improvement and certainly, since we embarked on this journey at the end of '03 we more than doubled our material revenue and at the same time obviously, grew overall revenue. We believe, Bill, that in the foreseeable future obviously as we place more systems the number of systems that we place now that more of the systems have integrated material cartridges within them, it becomes a precursor to future revenue sales but the selling prices of systems obviously are significantly higher on a per-unit price than the recurring revenue that comes with them. So if we sell a large frame machine in the range of say \$400,000 to \$600,000 that has an immediate substantial impact on total revenue and the recurrent revenue for that machine is going come in smaller increments.

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