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Hanger Orthopedic Group, Inc. Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Henry Reukauf.

Henry Reukauf

Congrats on a nice quarter, great same store sales growth.

Ivan Sabel

Thanks, Henry.

Henry Reukauf

Just a quick question actually maybe for modeling purposes, I just looked at the quarter in the gross margin and SG&A on the SG&A levels and there was some volatility that when through that discussion. If I look to the end of the year, I see basically a little bit of growth in the SG&A and also some growth in the overall gross margin. Are those margin levels for the yearend? Are they what we should be thinking about within some range, a point or so on a go-forward basis with some sort -- you had some exceptional stuff this quarter? What would you say that go-forward range for gross profit margin and SG&A as a percentage of revenue?

George Mchenry

Well, if you look at our EBITDA margin that might be the easiest way to look at it going forward. We improved by about 30 basis points this year, we expect to improve by 10 to 20 basis points next year. So, that would mean overall that our margins are going to stay intact. We'll have the normal inflation in SG&A that our line item should be -- but we'll be making some investment in IN Inc as we are completing the clinical trials. We do have a little bit of concern about current foreign currency impact on our material cost in '08. But we think, we take all the factors that are impacting our results next year that we should have in total a slight improvement in our EBITDA margins and we should keep our other operating margins pretty much intact.

Henry Reukauf

And the core growth in SG&A is around the 4% level, what you say or?

George Mchenry

Its 3.5%, lets say that in that range.

Henry Reukauf

And then just I've heard you talking about it much parity and just about the advantages of that you and what that could mean in terms of insurance coverage and that sort of thing?

Ivan Sabel

Sure, Henry. We look at parity being primarily from the perspective of our patients and that's why we have supported the ACA because that's the group that represents our prosthetic patients.

To give you an idea of how ridiculous some of this could be, as they may take a young person who say has lost the limb because of trauma or because of cancer and impose the limit of \$2,500 as the life time cap on a prosthetic device and even a simple prosthetic device below knee could easily be double that. So, coming right out of the gate they can post the severe restriction on them.

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