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Wolseley plc Interim Management Statement Call Transcript

Question-and-Answer Session

Operator

Thank you. The question-and-answer session will be conducted electronically. [Operators Instructions].

We will take now our first question from Tim [inaudible]. Please go ahead.

Unidentified Analyst

Hey, guys. This is Tim [inaudible] in Dublin. My first question is in relation to the stock business. Could you give some a little more flavor to what is exactly happening there? And maybe I suppose, look into the full year '08, given that your last making at the moment, again, in terms how the seasonal development tend to plan out. Should we expect kind of a last making number for the year of '08, or should we expecting to pickup, once it goes through the repeat [ph] in the next couple of months.

Claude A S Hornsby - Group Chief Executive

Okay, we are not going to project the full year numbers. Obviously, we have got a lot of things going on. But just to give you a quick update, we have had a CEO change when [inaudible] retired we are getting horribly tired. Joe [inaudible] an internal candidate about 18 years has taken over and I have been extremely pleased with his first 100 to 120 days, and his that responsibility. Obviously, he is dealt with reduction and headcount which varies by market, but probably most importantly his ability to go in the first spot of business. We made five acquisitions in the life commercial area. We see that is being a huge growth good opportunity for us, somewhere in the range around \$30 million an annual spend with as many 2,500 distributors. So, we are certainly positioning ourselves there. Exactly what will happen in the balance of our financial year and in particularly as we get into 2008, it's very difficult to determine. It's is obviously very, very difficult to what degree that will occur, but, again, we are watching key components such as the subprime market and the impact that that will have on full closures and what impact that will have in dumping that, a lot of inventory because of that enters the marketplace. So, it's still difficult, but as we have indicated we have made major cut there at least only a third of the entire staff and we have reached a point now where we have got the one of the other thing through, continue to do position ourselves as a big market share in diverse products business.

Unidentified Analyst

Okay. Great. Thanks a lot Chip. And just also on the commercial side, Chip, I just wanted to maybe dig down a little bit more into market dynamics, because clearly, at the moment, we are still seeing a relatively strong market as was consensus view that that we will see a pale off of as we look into '08. Just sort of expecting growth to come through? are there more comments in terms of how we should be positioning ourselves into this market and how Ferguson trend can operate in a slower market?

Claude A S Hornsby - Group Chief Executive

Hey, Tim, I mean, obviously, my view we have peak for doing 2007 so that goal is certainly a much lower number than what was expected the last couple of years. It is kind of easy? easier to anticipate because most of those jobs are done a year to three years in advance. So, we can see what's coming

or what's not getting off the drawing board. So, our view is that if it will continue to work solid, but as we gets further and further into calendar year 2008, we anticipate that to begin to drop off. So, to what degree, I think, in my view, it should be solid through the balance of our financial year, I mean the first half of calendar 2008, but it becomes more challenging as you get closer to 2009.

Unidentified Analyst

And just in relation to the Ferguson margin? excuse me? because obviously the stock margin was so highly geared because of number of thermal [ph] prices obviously you mentioned Ferguson margin has come back a little better. I presume we shouldn't expect anywhere near the same degree of erosion of Ferguson, which is more robust margins. Is that a fair comment?

Claude A S Hornsby - Group Chief Executive

I have to agree with that. I mean, again, I can't predict a margin, but, again, there are organizations that are very diversified as some of the things we are trying to do with stock and their ability to shift from one sector to the other, it is certainly roughly available and a very [Technical Difficulty] as demonstrated. So, how difficult, it will get with the Ferguson a lot depends on exactly would it overall economy is outside of our sector, whether we are in a recession or not in the U.S. in 2008. I will tell you we already are in the new housing market, so without any doubt. So, whatever, the overall influence on the U.S. economy from a macro standpoint, Ferguson would have to adjust and we are doing everything we can to envision what happening next and that's what we are already beginning to envision further head cut primarily in the Ferguson organization in this next quarter.

Unidentified Analyst

Okay. Just two more questions, if that's okay. First of all, on the U.K., obviously, first quarter being quite strong and looks? both on Irish [ph] on my side, you mentioned things are softening over there. Just wondering to what degree you are expecting that softness as you look into calendar year '08? And then secondly just? I am not sure if you want to make comments on consensus numbers, but on Bloomberg consensus number, the EPS that was still looking for growth year-on-year. I just wanted to know do you have any comments on that.

Claude A S Hornsby - Group Chief Executive

Yes. It is very difficult to comment on that. I mean I guess the key thing for us we combine our U.K. and Irish businesses I mean as you aware not only that is certainly nowhere near as robust as it was a year ago. So, that's an issue for us even though the Irish business is roughly 10% of the total U.K. operation from that aspect. But, again, we are just trying to interpret the consumer settlement, what impact Nordic will have, it's been interesting to watch. It's? afternoon and walk [ph] really we would have anticipated a retail business which operates as best or would have significant influence and to date it has not. We have been pleased that's progress. So, again, we are reading everything we can market-by-market to anticipate what moves we have got to make as far in advance as we can.

Unidentified Analyst

The consensus numbers, do you have any comment?

Claude A S Hornsby - Group Chief Executive

No.

Unidentified Analyst

Okay. I? just lastly if that's okay. Do you think that the companies in Europe still? do you have any headcount reduction or are you pretty with your side business of the other side of the Atlantic?

Claude A S Hornsby - Group Chief Executive

I mean looking to the macro end of it, really what we are trying interpret is that what influence that U.S. will have on the U.K and Europe. And right now it's very difficult to read if it will or will not the challenges that are in the U.S. So, again, I think it would be? we will have to anticipate what will

happen as far as landscape if we can. Right now, we haven't seen that occur, but if you look at past history it's often been, of course, led to consider.

Unidentified Analyst

Okay. Got you. Thank you very much.

Claude A S Hornsby - Group Chief Executive

Thank you, Tim.

Operator

Thank you. You move now on to our next question from Paul Steegers from Merrill Lynch. Please go ahead.

Paul Steegers - Merrill Lynch

Hello, gentleman, it's Paul Steegers from Merrill Lynch. A few questions just starting with France really. Can you sort of say in terms of the profit for? how much of, is due to sort of one of the factors in terms of dislocation from your investment in NDC's [ph] et cetera and how much is market related? And falling on from that, just what's going on in France in terms of new housing and the RMI markets, please just a bit of the update. Thanks.

Claude A S Hornsby - Group Chief Executive

Hello, Steve? Paul, it's Chip. I will answer some of those. But I guess to begin with, this is? you are well aware we have made the major restructuring there about a year or so ago, very pleased with the progress we have seen with Philip Dean [ph] and his team. However, we are going through enormous amount of changes you can imagine that occurs that you consolidate to this as PBM were both set under a single roof. And in some situations, it's just? we have experienced in the past two steps forward, one back. So, the restructuring is certainly an issue that we anticipated? going into this. The overall market conditions are still very relatively solid, although, we are seeing slow downs and the new residential market there. Probably the area that we are again trying to anticipate the most from our French aspect is to put impact one way or the other so I think you will have, obviously, they have had some challenges there with unions and et cetera. But, overall, we still feel like we have got a great opportunity in France and we will expect kind of Philip's leadership and the team that he has put together to continue to proceed forward. I will let Steve get into the details on the associated cost.

Stephen P Webster - Chief Financial Officer

Yes, in terms of the identified cost for there are ?4 million in this quarter and obviously when you do get this destruction strictly from the acceleration of the new national distribution center there, you can never quite tell to be honest how what effect that had on sales and customer service, and that's the unquantifiable bit. And there is no doubt there was some quantifiable effect that was strong. Now in terms of different market segments the housing sector in France has weakened recently whereas the RMI sectors held up pretty well.

Paul Steegers - Merrill Lynch

Okay. And then so just generally in terms of France there was the profit falling Q-1, you would expect that clearly to improve that through to the remainder of the current financial year?

Stephen P Webster - Chief Financial Officer

We completed the announcement that the trends in October were better than August or September. Talk is when you think one quarter impacted by one or special things. I think the thing to do is to, how we take it in the half year and the full year rather than just in the one quarter.

Paul Steegers - Merrill Lynch

Okay. And then just 2 more questions. Firstly on the UK. Can you sort of give us the trend in organic growth through the first quarter please in the U.K.? Was it consistent 5% roughly or did it slow?

Stephen P Webster - Chief Financial Officer

It is pretty consistent first 3 months actually. What? the inconsistent bit Paul is between the different businesses, we come to the announcement that you got bounced all the business you would probably think is effective base because its front end is consumer loaded has done really, really well, and some of the nurturing business is left slow. So very inconsistent signals and trends but the rate of overall organic growth is pretty similar in the first 3 months.

Claude A S Hornsby - Group Chief Executive

And as indicated earlier Paul certainly Ireland is more challenging business environment than what we have really experienced in the last couple of years as well.

Paul Steegers - Merrill Lynch

Yes. Fair enough. And last question just on DT group, looks like you are doing quite well on the margins relative to where I am. But until the organic growth can you tell us what DT groups organic growth was in the first quarter and again in these sorts of changing trends, I am aware that the sort of around 20% of that business is housing rate and that's slowing but generally trying to get a sense of where you see organic revenue growth for DT group for the full year broadly speaking in terms of the momentum.

Stephen P Webster - Chief Financial Officer

Remember we did not have DT group until the end of September, so in that sense the organic growth trends are the business partly our own and partly not. But you are talking about high single digit organic growth throughout first quarter in the Nordic region, Paul the weaker areas right now in the Danish housing market on the Danish DIY market, but the RMI markets on the other housing markets from the Nordic region are holding up very well. We are looking for good rate for organic growth and the remainder of the essential year from that regions as a whole.

Claude A S Hornsby - Group Chief Executive

Yes, when you look at it, I mean, certainly Denmark is more challenging than a year ago, but it appears that Sweden, Norway and Finland to date anyway have been able to offset that for us.

Paul Steegers - Merrill Lynch

Okay. Thanks guys.

Stephen P Webster - Chief Financial Officer

Thank you, Paul.

Claude A S Hornsby - Group Chief Executive

Thank you, Paul.

Operator

Thank you. We take now our next question from Clyde Lewis from Citi. Please go ahead.

Clyde Lewis - Citigroup

Good morning guys. It's, I guess from Citigroup. I think I have got 3 questions if I may. First in terms of just a quick one on the U.K. can you give us an update as to how the distribution centre has sort of progressed and further in the last few months? Secondly on the IT implementation in Australia, it obviously had an impact on the sort of the plan and have you altered your sort of roll out fort [ph] obviously in light of the tougher conditions you are seeing at the moment and the last one was on acquisition pricing. I mean, it is always hard to sort of? sort of cease to exist from a limited number of deals but the prices have fallen, but doesn't look like the base has changed from the deals that you have announced today, some sort of the EV decides multiples but maybe you can comment a little bit about what you are seeing particularly in the U.S. really on that side of things.

Claude A.S. Hornsby - Chief Executive Officer

Okay. Clive, this is Chip. Let me start with the reverse order of what you just asked but on the acquisition deals, the acquisitions that we have been able to acquired as we indicated are coming

in with a higher net margin than we have in the business as well, we are acquiring them. Examples of that are the Davidson Pipe acquisition that we did, our first entrance to the New York city, very excited about that organization and how well it performs, I think it will be sort of learning opportunity for some of our other piping opportunities. I think the Ferguson Group to be able to transfer that, to other areas to other large cities, that magnitude and we anticipate that certainly the overall economy could have an impact but we introspect the New York market to be one where we see a great degree of growth and over the next tenure, there's very little been invested in less than the 15th. Another example of that is the commercial acquisition that the stock has made again not only positive to from the diversification standpoint, level of profitability acquiring Western Air out in California where we obtained a trained air conditioning line that has been beneficial and the same could be said in Europe so we are being very, very strategic and picky if you will with our acquisitions, highly scrutinizing those even heavier than we ever have in the past. So, the one good, we are buying certainly expected to be? bring benefit and add value during this year much left looking at two or three years.

Shipping is going back to the European initiative where OSG is concerned. It is certainly? we have been into the fourth month, we will finish the fourth month in November. We have experienced some of the business disruption that we expected. Quite honestly I have not got directly involved in that yet, I anticipate going down and spending great deal of time there in the month of January to see exactly what's occurred. The? so far, I think it's on plan, just need to understand we can learn from it and to answer your question we are not planning on narrowing the focus as our European initiative as it relates to SAP. That will be reporting directly into me and that initiative will be focused primarily within the Ferguson organization where we will go in and take components, giving the example Fish Corn, which is about \$150 million industrial base that we bought a couple of years ago that's got a very specific focus. We will look at Canada, we will look at Water Works etcetera so I would envision that the spin that we had indicated a few months ago will certainly, particularly in this environment will be zeroed down. I don't have details so hopefully we can give you an update on that as I get more directly involved in it's? when we give you an update in January.

And then from there Sudsky [ph] just comment if you will on.

Stephen Webster - Executive Director and Chief Financial Officer

Yes, the Armstrong action that we see Clive would certainly ramp up program there. We aren't getting the increased efficiency we aren't getting the increased transportation benefits that we expected and as we said before usually it does take the best part of two, three years to get these things fully up and running and fully contributing so we are probably half way through that overall program and you probably know where we are building this one in Chawley [ph] as well that will be on stream before the end of this fiscal year, so definitely further down the ramp up down.

Clyde Lewis - Citigroup

Okay. Thanks so much.

Claude A.S. Hornsby - Chief Executive Officer

Thank you, Clive.

Operator

Thank you. We are taking our next question from Michael Stockton [ph] from UBS. Please go ahead.

Unidentified Analyst - UBS

Morning, Chip. Morning Steve. I think I have got three to start with, please. Firstly just going back to the additional 5% cuts in the workforce at Ferguson. I would be interested into your assumption as that you have made as opposed to Stock. What is basing your modeling assumptions for U.S. housing to start, your actual view of non-res, I mean do you use the PCA forecast for example just to get a sense of how gloomy you have got all you think all how resilient you think that notion would

be. Secondly, just some guidance from Steve. I wonder if you could actually give me a view of what percentage Q1 in '07 are you historic rather than current was of EBIT just so essentially just we can get a feel of the dynamics we are talking about of the reduction, Q1 and then my third one again for you Steve, working capital generation. Obviously a tremendous achievement last year. Business is tougher I know the program there is on. I would assume you're looking for a big number again to come out of stock and obviously the purchasing program as probably already indicated by your interest cost in Q1.

Stephen P Webster - Chief Financial Officer

Okay. Mark, out there with this, the U.S. where Ferguson can turn. I guess to begin with before we get to the non-res or the commercial side of it, as everyone's aware that the residential business is continuing to deteriorate so we're adjusting the Ferguson businesses accordingly depending on the market. Obviously Florida, Southern California, Arizona. We anticipate, where it's even more difficult than what we've experienced to date and we'll be adjusting that. The other area is that we're anticipating? we haven't seen, is a huge fall-off to date. We are anticipating that the high end RMI market based on the overall business environment conditions could get more difficult and again that would vary from market to market particularly in the larger cities where we had these significant shareuns [ph], so those will be from adjustments. As it relates to the non-residential, the commercial business as we've indicated, it's still very solid. We've tracked not only who you indicated but also Dodge, McGrath's Hill we'll get all the information that we possibly can through a small marketing department that we have in North America under Frank Roach and we had a weekly update as to what jobs have been planned and what jobs have been released or what jobs have been postponed and then interpret that by markets from that end. So again we feel like it will continue to be solid through the balance of our financial year. But would certainly anticipate it as we get further and further into calendar year 2008 and into 2009. That will be more challenging.

Claude A.S. Hornsby - Group Chief Executive

In relation of two questions you asked Paul. The Q1 percentage obviously cautioning you first of all because this first quarter this year is [inaudible] a bunch of funny things and you want the cost taking into account but trying to give you some guidance there. The sales in Q1 last year were just 25% off the annual total. The profits in Q1 last year were under the 25% total. That's probably a near enough guidance

Stephen P Webster - Chief Financial Officer

Hans Bucor [ph].

Unidentified Analyst - UBS

Sorry. Just want to thank you.

Claude A.S. Hornsby - Group Chief Executive

Okay. And you tell us the way [inaudible] changing targets and hiked expectations for the cash flow generation this year. This continues on that cash flow generation. We comment on the cash flow operations is more than twice that of Q1 last year. In fact its getting on to 2.5 times so you can see that cash generation coming through and you can see if you look back at previous downturns, whether you've been [inaudible] in early 2000. When business gets tough, the rate of cash flow conversion accelerates actually. It's a very clear trend so it gathers that underlying trend that will come through and we would expect to make fairly good further progress on inventory levels across the group generally. And receivable force is going to be tougher obviously because the business climate is tidying up a bit all over. The good news is there's no significant deterioration on the receivables and spending and we would expect to make further progress. Payables [inaudible].

Stephen P Webster - Chief Financial Officer

And Mark the only thing that cost on there is that? When I came in this time last year we began a [inaudible] in this area. So I caution you, I mean most of the? when we made it the high focus, it took into our third and fourth quarter to really begin to see the impact. So I caution you to dump your numbers from the fourth quarter because I haven't done the math yet. There is a high priority and something we're drawing a lot of attention to, but the first quarter was the easiest to laugh at if you will.

Unidentified Analyst - UBS

Yes. Absolutely. And just one point if I may on the stock, I mean effectively what you're saying now, is we should all your costs in stock is effectively fake. So any movement right now on the sales line either is straight onto your bottom-line or straight off. Is that, basically what you're telling us now?

Claude A.S. Hornsby - Group Chief Executive

That's our plan right now, Mark based on the housing industry. I mean if we go in to a massive, massive overall recession in the U.S. we'd have to sit back and understand what impact that would have. If you had? What I'm saying is we're hunkering down; we're diversifying that business. We got pretty excited about the new leadership that we have there and more or less we've got to weather through the storm as we anticipated today.

Stephen P Webster - Chief Financial Officer

I think they just that obviously some of the costs on the latent side are variable and commissions and bonuses.

Claude A.S. Hornsby - Group Chief Executive

Yes.

Stephen P Webster - Chief Financial Officer

Even for a given head count. That includes some of the costs relating to selling distribution of variables but now its less variable than it even was in 12 trailing months [inaudible]

Claude A.S. Hornsby - Group Chief Executive

Eric we're trying to indicate as we get questioned all the time. How far can you go? And what we're trying to say is if we're not there we can see it from here.

Unidentified Analyst - UBS

And just rough final so we keep going up, just on the Ferguson obviously, you have got a business, you're taking market share, you are talking about again as you demonstrate to take off that business, comps use very little in TNL. I mean Did you actually think at this stage rather than going to accumulative 10% out whether you thought, Hey, its not justified yet but we do 15, 17, whether you do that for another hours, did you obviously chose a number that says, right now you don't want to go further. You've clearly got that options if you did that in '01 as interest of your thought process the arriving at that number again?

Claude A S Hornsby - Chief Executive Officer

Again what we've tried to indicate is what we have done so far because again they didn't, they had a pretty solid first quarter as we indicated. If I anticipate the next quarter and the adjustments we need to make going into the late winter or early spring. And then what read particularly is a non-residential of the commercial market and anticipate how much more challenging its going to get as we get into the summer.

Stephen P Webster - Chief Financial Officer

I think the other, you need to bear in mind Mark, you think about stock, you had a 25% reduction in the housing market last year it's 80% in the first quarter. As a result the way its [inaudible], just the work forced finds just over 30%. So far you can see what we are saying about Ferguson, the organic

growth decline is very modest, so there's a huge difference to scale out there and therefore you'd expect a differentiation between two approaches.

Unidentified Analyst - UBS

All right. Fine. Thank you.

Claude A S Hornsby - Chief Executive Officer

Thank you.

Operator

Thank you. Our next question comes from George Gregory from Credit Suisse. Please go ahead.

George Gregory - Credit Suisse

Good morning guys. I had three questions really. Not sure if any of these has been answered but tell me, I am just going to read them. The first question is, I believe your dividend policy is based on average 10% to 12% underlying earnings growth over four years. In light of the protracted US construction down turn and softening environment in Europe, may you have to revise this dividend guidance? And that's my first question. Second question is, it sounds as if you expect Q1 to be the low point for France in terms of trading profit, perhaps putting this into context for the full year, do you still expect full year trading profit to be down year on year, just to give us a sense of where we should be aligning our numbers. And my final question really is whether you have any comment on the 7% margin target by 2011? Thanks.

Claude A S Hornsby - Chief Executive Officer

Okay. George this is Chip. So let me start again in reverse order what you've asked. The 7% margin target is still an expectation that we have and we are driving through, that's our objective. Even with all the changes into this, the distractions that we have had from the business environment, we are not altering from that, the only thing more prepped[ph] is that if we go into a two-year or three-year global recession, certainly we'll have to recalculate but right now we're anticipating a very challenging year in '08 in the U.S. '09 is still a question mark but would envision as we get into the end of '09 that we begin to see some improvements. What influence that would have on Europe is still to be determined, along those lines. As it relates to France, we really don't get into making projections for the year, certainly we had a shooting star in August and September encouraged with what we saw in October, and we just have to interpret and see exactly what happens in France as we get further and further. It's just very difficult on a quarter basis to sit back and say, what you're going to do on an annualized basis and we wouldn't give those projections anyway. And last where our dividends concerned, I am going to turn it over to Steve, he certainly has been heavily involved in discussions that we have had with the shareholders on that.

Stephen P Webster - Chief Financial Officer

Yes. I am on different policy George, it has been very consistent as you say the policy is the graying line, with the only group target is in that 10% to 12% range. There are no plans to change that given policy. The dividend last year was covered 2.3 times perceivably the very strong cash flow generation that we have got last year and in the first quarter so far. And we are also in a very strong financial position. So there's no plans to nor any need for changing that dividend policy.

George Gregory - Credit Suisse

Okay. Thanks very much. So in France clearly in '08, there is a degree to which the first couple of months could have been a bit lumpy. So just to get a sense for that it could potentially be the low point but in terms of qualifying for the full year. Not really in a position to do that. Is that right?

Claude A S Hornsby - Chief Executive Officer

Well we never really give full year projections anyway. But hopefully if this has been a hiccup we will see exactly what happens. I will have the opportunity to be with [inaudible] senior management group

next week including [inaudible] and get a feel for where we are and what we anticipate particularly as we move into calendar year 2008.

George Gregory - Credit Suisse

Okay. Thanks very much. For your answers.

Claude A S Hornsby - Chief Executive Officer

Thank you George.

Operator

Thank you. Our next question comes from Nicolas Godet from Exane PNB Paribas. Please go ahead.

Nicolas Godet - Exane BNP Paribas

Good morning Gentlemen and ladies. First question, are you witnessing any pricing pressure in any country of in Europe?

Stephen P Webster - Chief Financial Officer

There's always pricing pressure from that aspect but nowhere near to the degree what we're seeing in the U.S. as you can imagine with the downturn there but we operate in competitive environments and again it would be with the initiatives that we have at both the group and the continental level on your seeing we're constantly looking for ways that we can further leverage, we'll be fine.

Nicolas Godet - Exane BNP Paribas

So you're not expecting some margin, gross margin pressure in Europe, maybe?

Stephen P Webster - Chief Financial Officer

There's always an area that draws a high degree of focus I think both Rob and to make his kind of ceos are drawing attention to that. But to be certain that we're looking for all opportunities that would influence on our gross margin but today its not position where? I'd say we're more focused on the market and the market conditions as well as our cost base.

Nicolas Godet - Exane BNP Paribas

My second question is on the U.S. maybe I missed it. Have you quantified the loss at stock?

Stephen P Webster - Chief Financial Officer

No we haven't? maybe I know where we just saying there is a loss incurred for the months of October, there was a profit for the month of August. Maybe its loss making but on the basic and every course here, reporting information our where we're just giving generic information to strangers.

Nicolas Godet - Exane BNP Paribas

Okay. Thank you. We're getting? see if we're getting financial charges and it was positively surprise by the number. Could we multiply the Q1 number by four to have guidance for the full year financial charges?

Stephen P Webster - Chief Financial Officer

I think you could do whatever you like to do Nicolas. It depends on what view you've taken of the macro economic conditions. All the different moving parts of the economy and so on. And I wouldn't if I were you. But obviously it's up to you what you do.

Nicolas Godet - Exane BNP Paribas

Okay. But £ 30 million of financial charges for the quarter is not something that was explained by some non-occurring item in Q1.

Stephen P Webster - Chief Financial Officer

Then £ 30 million interest charge.

Nicolas Godet - Exane BNP Paribas

Yes.

Stephen P Webster - Chief Financial Officer

Yes. And we have some business to seasonal and the borrowings do weave up and down and the borrowings are usually impacted by the rates of organic growth and so there are lots of moving parts. And if you look back at the trend of the interest charge over the previous year you will probably get the same trend as broadly but it would be too simplistic to just multiply by four.

Nicolas Godet - Exane BNP Paribas

Okay, okay. Last question. You mentioned that your cash flow will improve thanks to inventory reduction et cetera, et cetera, when you have a recovery in your market do you think the first year of recovery you won't have a nice cast because you would be able to take steps that's right, inventory criteria as you said so.

Claude A.S. Hornsby - Group Chief Executive Officer

Well, I mean obviously there will be more pressure as you are going into a substantial growth mode but our plan right now is to do the things to create a better baseline for us to be able to build off our base on what we have available today, the systems that we have today and certainly we anticipate as we invest more with the SAP projects that we have that will give some benefits in that. Quite honestly I would like to be in that situation and having that discussion with you, it probably weighs off before we get into a recovery in the market particularly in the U.S.

Nicolas Godet - Exane BNP Paribas

I understand that? what I want to say that you are not keeping active in terms of the consular by the slowdown of your underlying markets but it's just that the time line which means if you are focused recovery into the '09 we should not expect a recovery of cash flow in the ninth traveling into ten. Is that correct to think like that?

Stephen P. Webster - Chief Financial Officer

Well, again there are a number of things here Nick. Generally across the group looking to drive better inventory levels, better receivables levels and better enables levels and so we can expect a move in the right direction in all those areas gradually over the next 3,4 years quite honestly. It is sensitive at any given point of time that the rates were going gross. There is no doubt as to the rates were going before it picks up. At the cash flow side of things you absorb more working capital and the quicker you grow, and if it happens to coincide you have a half year or full year. That does obviously have an impact on the half year and full year cash flow. The underlying trends here are very positive, we do think we have got further scope for improving our working capital ratios. You probably heard me say before, that in the last three or four years we probably improved our working capital sales ratios by 2% or 3% and we think we have the same capacity going forward to improve by similar amount over the next three or four years.

Nicolas Godet - Exane BNP Paribas

Okay. Thank you very much Mr. Webster.

Stephen P. Webster - Chief Financial Officer

Thank you.

Operator

Thank you. Our next question comes from John Messenger from ABN Amro. Please go ahead.

John Messinger - ABN Amro

Good morning gentlemen. The first one, just on Steve's question replied to Nikola. You said you wouldn't do it if you were asked to do it using something taking 30 by 4, can I just? would I be right Steve, in thinking that you are in the back of that is basically the cash generation point about unlocking working capital, as you would be thinking that as things stand unless interest rates move dramatically that the interest charged would be more directionally down or is that the wrong thing to be thinking?

Stephen P Webster - Chief Financial Officer

And again, remember it is a gain a course, John. You have interest rate movements one of them, we generally had interest rate increase of course over recent months whereas of course, in the US and certain parts of the world where you say interest rates are likely to come down over the next six months? I think you got to take a view on what you think is happening to interest rates. Generally you can see where deducing at that in relation to the organic cash flow generation.

John Messinger - ABN Amro

Yes.

Stephen P Webster - Chief Financial Officer

A medical suspicion of how much we spend on acquisitions and CapEx as well, so that's not a variable and the? very, very generally try and think, well, I would have thought the net effect of interest rates to begin as a whole this year will be marginally higher than last year and I would have thought, taking into account the acquisition, the CapEx plans, the average debt would be a bit higher than it was last year as well. So, all of that made you to think that the interest charge would be high. If you agree, I mean you might? your interest rates and other things but the kind of what I was getting at since we will be moving parts [ph] and then finally as I said before they, if business trends picked up particularly in Europe and slight consumer sentiments and overhang went away, the organic growth picks up, then you would find that might be a little of absorption there in terms of working capital despite the underlying improvement I talked about before.

John Messinger - ABN Amro

Okay. And the second one that flows on from that. You mentioned obviously, pulling back some of the CapEx, Chip, at least that when we look at the totality of CapEx plus acquisition spend, it's a signal here that that number is coming down as a totality or is this a case that acquisitions where you can't pick your timing to the same degree as you can on pushing the but or on the total CapEx program. Are you suggesting to spend the same but basically won't move more towards acquisition opportunities where you can bide your time on your own initiatives on CapEx?

Claude A.S. Hornsby - Group Chief Executive Officer

John, actually yes, both of them. I think we will be scrutinizing those very closely, unless so we start with the CapEx, I mean, obviously when you are in a situation that we are on in the U.S., the CapEx that we spent in the past will be lower than what we have had, say last year or the previous years, we were burnt through growth particularly at Ferguson. I am not saying we won't spend any but we scrutinize much more closely than we would traditionally do in this environment. And on the acquisition piece, I think as we have demonstrated, we bought some great acquisitions so far this year. We are very excited that we will continue to look for those opportunities, at the same our? certainly ? particularly in the U.S. want to keep some powder dry, because I think there will be some great growth opportunities for us in the U.S. as we get further and further into 2008 and some of those opportunities may be through acquisitions, some maybe through CapEx where we are going to rehire a sales force whatever isn't? and open to greenfields, just depending on what the circumstances are.

John Messinger - ABN Amro

Great. And finally, obviously you mentioned limit to any further cost, particularly I am thinking of Stock here where you have taken the head count number by a third. If I just do a quick math's of housing dropping by half basically from just over 2 million to 1 million, I am thinking that how much of Stock relies on that. It would kind of suggest that you probably need to be kind of down 40% or slightly more in terms of what you then need to take out. When you look at the cost base, the labor etcetera, Chip, in terms of if you would were to go into a stock tranche raising, basically now that you have pulled out all the surplus stuffing that really you could potentially pull out and therefore you have got to take

another leg out, it will be fundamentally looking at further branch rationalization, just to understand the nature of those kind of labor costs in a unit. You have done everything you can on the back office, you can do everything in terms of the branch personnel. What would be the next stage and just on that. I think you mentioned in the conference call a cost associated with the \$60 million of savings or you could just give us, I missed it, I didn't know if whether it's in the statement but just what it would cost you to deliver that annual \$60 million and how much of it has been taken in these first quarter numbers?

Claude A.S. Hornsby - Group Chief Executive Officer

Okay. Let me start with the overall operations and then let's dig into the actual number with you but yes, we do not want to destroy that business. We have made strategic decisions across the board as to what, not only what markets we anticipate will be strong for us as we move through this cycle to have a length of? we want to interpret the length of the cycle.

John Messinger - ABN Amro

Yes.

Claude A.S. Hornsby - Group Chief Executive Officer

With your math being 40% where? we'd rather? we are pretty close to 33%. What we are saying is because we have lots of questions about it. We are not going to destroy that business. We got to be in a situation, where we do cheer the opportunity to continue to diversify and again very excited about the leadership at least provided in the direction needs, he has there with Ray Morton, with Frank Roach and others but what we are? I guess what we are saying is that don't anticipate that we will have another significant reduction there because we are planning on hunkering down. We feel that a lot of our competitors will be in even more challenging business environments because they don't have the financial work resolve in the diversification that Wolseley brings to the organization. If you and I were just sitting here talking about the Stock business. It would be very, very challenging even more sort of what we are talking about, so?

John Messinger - ABN Amro

Right.

Claude A.S. Hornsby - Group Chief Executive Officer

And again, we are looking at it beyond the cycle as I think we've? what we have indicated in the past, we've gone in, we've looked at the Detroit area, that's heavily, heavily influenced by the automobile industry. Quite honestly, even beyond this cycle, we just don't see a lot of growth being new residential construction, new sub divisions in Detroit because many of those jobs are either leaving or moving to other areas in the South, where South Carolina, Alabama, Kentucky etcetera. We've taken that outset, that location on road geography from 31 locations down to four. We built a very, very aggressive if you will RMI or showroom there in combination with Ferguson. There's still a lot of wealth in that market. We feel like we would be able to take advantage of it. If anybody, if they go in we still have a major lumber yard there that we don't have anywhere as we knew it would do. Florida, on the other hand is probably the highest levels of inventory of any in the country. I just can't imagine that looking out a couple years from now with that Florida markets are not going to return because of the migration of people south.

John Messinger - ABN Amro

Right. Yes.

Claude A.S. Hornsby - Group Chief Executive Officer

So, yes, our difference between 33% and 40% is what we are saying is that we haven't got a whole lot more to move and we are going to do what we need to, to protect that business and be certain that when we come through this cycle, we expect that thing to perform extremely well in the future.

John Messinger - ABN Amro

Got you. And finally just on the cost you are gone to \$60 million. I think you mention the number when you are talking about the slide, Chip?

Claude A.S. Hornsby - Group Chief Executive Officer

Yes. We include? we mentioned we take \$1.7 million, John there was a slide on the website if that helps you and it will show you the components Ferguson stock, but the total cost of the 3,000 headcount reduction is more 7 million.

John Messinger - ABN Amro

Gosh.

Claude A.S. Hornsby - Group Chief Executive Officer

It is just as well, got a way pounds not dollars.

John Messinger - ABN Amro

Thankfully, yes. All right. Thank you very much.

Claude A.S. Hornsby - Group Chief Executive Officer

Thank you, John.

Operator

Thank you. Our next question comes from Tobias Woerner from MS Global. Please go ahead.

Tobias Woerner - MS Global

Yes. Good morning gentlemen. Three questions if I may. Firstly, with regard to Ferguson, Chip, you probably have got the longest service, time of service within the group. So, you probably know the historical numbers. In terms of like-for-likes, what was the dimes downturn in the weak periods such as 1990, 94-95, 1999-2000, sort of just to get a feel where historically this business has come down in terms of like-for-likes, and if you don't know, not to worry maybe you can know later on. Secondly, the lumber markets, obviously housing starts have dropped significantly from 2.29 to 1.1, do you have a sense of how capacity has moved in the lumber market now in terms of the mills and in terms of fourth, because when you look to the lumber futures at the moment, they are moving up again, which would be counter actuative given where the market is moving. So, may be a little bit of update there and the last question relates to France, and I am a bit cheeky here in terms of my question but, we've struggled with this business for long time and I still fail to see why it underperformed so badly when the others are doing so well in this market, your competitors that is. Could you perceive selling this business on?

Claude A.S. Hornsby - Group Chief Executive Officer

Got you. Let me begin historic to universal or? I think your comments around France, particularly where those steps concerned, the organization we are running the longest is certainly something that is realistic from that aspect. Personally, I would have no desire at all to exit this market. I have a high degree of confidence in the management team that Rob's assembled there. I have sort of anticipated it based on my experience, as you indicated specifically in the U.S. where we had the integration between Familiar [ph] and Ferguson and literally well, two steps forward and one back may be I'm being too optimistic but again I have high degree of confidence in the leadership that we have there and just need a better understanding of exactly? and what's occurred in those two months. I mean I've certainly with the excitement and the enthusiasm I've seen going over a last and a half, I wouldn't want to jump the gun because of an August and September from that aspect. So in my view absolutely no desire at all to exit the French market.

Going to the lumber business, you are right. We've been in a philosophy prior to this downturn that anything below \$315 or \$300, 2000 board [inaudible] if the suppliers didn't make money well it's been below that for over a year. The only think I can see is that the reason its moving up is some of these

mills are beginning to say uncle and just they can't continue to produce at those levels. But Tobias, to be honest with you, the orders 250, 260 or 270 and this business environment where we have housing starts as lower they are, I just can't envision a 3 or 350, a price any higher in the near future and I think it'd be foolish on our part for us to go in and try to sit back and say we'll wait till this, till the market ends till the runner price comes back. We got to change that business model which we're doing.

The last thing is we got a lot of data that we can provide you on 1991. I can't tell you that going back, looking back, 14, 15 years ago that actually remember like-to-like sales that really wasn't something that we drew a lot of attention to back then. I can tell you that the results as it relates to US plumbing which included both for Maine and for Maine North West which are now under a single umbrella, it drop somewhere in the range of, if I can remember right, Steve's got it here.

Stephen P Webster - Chief Financial Officer

The US distribution profit as a whole Tobias. 545 since 1991 but then bounced back up the following year to increase by 3% and what is plus services margin drop 5.54 to 4.2 between 1991. Stocks margin dropped 6.4 to 9.2 and then the following year came back up to 95% as Lee [ph] demonstrates the operational gearing and that stop business which is only going to cut to deep end to the infrastructure and then have the like-to-like sales data. What can we do we got some slides on this actually we do use in investor meetings guidance and copy of that is that noting we will give you these profit figures. We also give you the cash flow conversion numbers but so they clearly have the cash flow conversion improves in a downturn.

Claude A.S. Hornsby - Group Chief Executive Officer

I am sorry Keith, if you like-to-like this was a major that I remember us having that long ago.

Tobias Woerner - MS Global

Sure. It's a long time, not to worry. Maybe I could make just one quick question. You're obviously very highly variable cost by great buyers and based business has that changed with the degree of credits hired or more leases being coming into business is there a change to that?

Claude A.S. Hornsby - Group Chief Executive Officer

Obviously when we're going through the major growth mode particular where Ferguson's concerned we are bringing in over a 1000 college graduates a year that's been geared by substantially into the several 100 whatever that number will end up being. It will have to be interpreted because of the graduates again in June, July timeframe and there is plenty of opportunity now to determine how far back we'll take it. As far as the number of leases particularly in the US most of the leases facilities that we do have are leased. They have three to five year renewal rates the leases on their with set renewal rate. So to be able to exit some of those is not extremely, possibly most of them are very small. I can't envision that in a major location that we build that we would? we want to get out but particularly all the satellites and the express net that type of thing if we need too.

Operator

Thank you. Our next question comes from Arnold Penatone [ph] from Accent P&T Caliber [ph]. Please go ahead.

Unidentified Analyst

Yes. Good morning gentlemen I Would have just two questions, first on your acquisition strategy. Could you just give us a little bit more flavor about where you would like to invest are you still looking at external group both in the US and Europe or will you look at to balancing your portfolio more in the favor of Europe in the coming years. And the second question is related to the Nordic could you just quantify your expression on as a percentage of the group sales to the residential market in Denmark. Please?

Claude A.S. Hornsby - Group Chief Executive Officer

Okay. On acquisitions again obviously a high degree of scrutiny particularly in the US because we anticipate maybe those businesses will be sold at discount compared to what they were available to a year ago or even to today. However, as we've indicated if we can find something, find operations like we have in New York and California like commercial. We are certainly taking advantage of that because it brings in new talent, new strategic opportunities for us. Same can be said in Europe, again it would be in Mainland Europe throughout Central Eastern Europe, France or the Nordic area including the U.K, but I mean, its? we've indicated that we'd like the target spending \$450 million pounds. The intends to be to do so but if the right opportunity is not there we wouldn't follow through with that format and we are obviously not buying a lot of other business in the U.S today and may be great opportunity a year from now we just have to see what happens from that end. And where the Nordic area is concern certainly there is the Danish market has been impacted from that aspect as indicated earlier. Rob, is and I'll be here the next week but Rob's, in very interest to seeing some coming at Sweden, Norway and particularly Finland.

Stephen P Webster - Chief Financial Officer

And then may be percent to them on a Demark is about half for Nordic region total. The Danish housing market was down and was weakening entering at about 10% of the Nordic view.

Unidentified Analyst

10% of the Nordic sense. Okay. So, thank you very much.

Operator

Thank you. Our next question comes from Kevin Cammack from Kapthing. Please go ahead.

Kevin Cammack - Kapthing Singer & Friedlander Capital

Good morning gents. Just I've three. I suppose three is to be the popular number today and just on Ferguson how concerning would it be to you the margins appear to be slipping now even before your sold volumes have actually I think to reverse. Just I suppose mindful of whether this is a reaction to the anticipated trend the competition is already toughening up to what extent that may? that trend might be. Set in progress already?

Claude A.S. Hornsby - Group Chief Executive Officer

Yes. I think you are very accurate. It is anticipation because the business there is still very solid. We envision getting more and more difficult as we go into '08, so that's why we have indicated that we've made X-number of adjustments and we are making that many more in the next quarter.

Kevin Cammack - Kapthing Singer & Friedlander Capital

Because at this stage Kevin margins is at a very marginally down. It is not a significant reduction. Remember, the business gets a record 7.2% last year?

Claude A.S. Hornsby - Group Chief Executive Officer

We are begin proactive versus reactive in that particular situation.

Kevin Cammack - Kapthing Singer & Friedlander Capital

It's okay. If I suppose the fun question therefore is, if having done the measures on cost people are now talking about. If the business lines stayed stable, would you still expect that margins to drop through the course of this year?

Claude A.S. Hornsby - Group Chief Executive Officer

Again, its hardly interrupted one staying at a stable sales level could be challenging in an of itself. We will also anticipate that we will have more pressure on our gross margins, as competition becomes more difficult. So, really the variable that we can impact the most is expenses and the biggest expense is labor cost.

Stephen P Webster - Chief Financial Officer

And I have to agree with Chip. I think the biggest on the certain things are probably depending on the time from our conditions going forwards happens to gross margins and then as we've been a straight end in stock in Ferguson It is high degree of variables to cost base. So, you can just cost those very quickly and very effectively. The business conditions can get really, really tough in the RMI market and the commission industrial market. You might see more pricing pressure. We are not at the moment but you might see that and that's the biggest variable I think going forward.

Claude A.S. Hornsby - Group Chief Executive Officer

And again internally within Ferguson, they are addressing that with a fighting strategy with an individual that has a tremendous amount of experience of bringing a great degree of focus but we are anticipating it would get more challenging as we move into 2008.

Kevin Cammack - Kapthing Singer & Friedlander Capital

You're not actually cutting branches in Ferguson?

Claude A.S. Hornsby - Group Chief Executive Officer

What we are constantly, on a routine basis, opening and closing and relocating from that effort. No we've not had anywhere near the level of closures that we've in stock.

Kevin Cammack - Kapthing Singer & Friedlander Capital

All right. Just secondly turning to the U. K. could I just ask to what extent do you, your incrementing a sort of defense strategy there? Have you reduce the number of rental openings planned. Have you started to address the manning levels within the U.K business presumably that would be a more expensive exercise were you to go down that route, I just want to know, in preparation terms is the U.K. a bit behind Ferguson which indeed is obviously behind Knox?

Claude A.S. Hornsby - Group Chief Executive Officer

The answer is yes. Although as we indicated in September we had reduction in staff and Steve can pull that out. We are committing? the business environment in the U.K. today is different than what Ferguson and Stock are operating into the U.S. So what happens three, six months from now in the U.K. is got to be interpreted but right now we are still not in a situation where we see the U.K. market any where near to downturn that we have experienced in the U.S.

Stephen P. Webster - Chief Financial Officer

I think we are trying to differentiate very much the outlook for the U.K. compared to the U.S. The conditions are certainly different, Kevin but remember we did some adjustment last year. We just have camp with the U.K. by 450 although downswing we closed 46 locations in the U.K. As Chips in relation to Ferguson but the world was we find the bench footprint. But right now where we are seeing sign that as these locations all these uncertainties game for we have to see how the U.K. are might market does develop. But we have plenty of scope for further action if we need to take it.

Kevin Cammack - Kapthing Singer & Friedlander Capital

Thank you. And just the last question. I mean you referred to the two departures is this, I mean obviously I don't want to press any sort of personal issues, as it were but is this sort of rethink that the corporate development role in the group?

Claude A.S. Hornsby - Group Chief Executive Officer

I would quite agree, we always? what we have learnt particularly over the last 12 to 18 months is it. Some of these components can be much more effective at the continental level if you will, specifically the sales and marketing of private label is a good example of that. The M&A integration and if you will, I think the key things are is that at the group level we will continue to do global sourcing which will be reporting to directly to me as well as the business change or the European issue that we have which I'll also be taking on as Rob and Frank take on more responsibility at the continental level. Key point being is that we are at different stages of development. North America has accelerated its

integration into a single operating model based on the existing business conditions. The complexity is in the U.S. is less than what you have in Europe. And Rob operates Europe with four different clusters, U.K. France, Central and Eastern Europe and the Nordic area. And it just allows us the flexibility to be able to respond accordingly to the Nordic market conditions with the most effective execution of our strategy.

Kevin Cammack - Kaphing Singer & Friedlander Capital

Okay. Fair enough.

Claude A.S. Hornsby - Group Chief Executive Officer

Thank you.

Operator

Thank you. We take now a follow up question from Paul Steegers from Merrill Lynch. Please go ahead.

Paul Steegers - Merrill Lynch

Yes. Hi again. Just two follow-up questions, can you give us a sense on bad debts running over turns?. of your total revenue and where they were in the last recession in the early '90s and have you seen any change there in the last few months. And second question is on the construction loan book, can you give us sense of a value of the loan book relative to asset value now and I guess generally in the company any risk of write down either there or on the goodwill on acquisition play sense.

Claude A.S. Hornsby - Group Chief Executive Officer

Steve is going to ahead and pull up that data and? after your question I think we will take one more and you have to complete it, so.

Stephen P. Webster- Chief Financial Officer

Yes, I mean lot of combination of detail numbers Paul but I can help you generically. And obviously when market conditions decline you just get a little bit timely receivables. These were across the group, the receivables and in terms of bay down standing as at 30th September. They are actually lower than they were in 31 July. It's not because the market conditions have got better. We are easier because we put that focus on improving the credit collection. So that was competitive year-end the day we are standing at low at. If you look at competitive parts, Stock numbers were slightly worse than they were a year ago which I think is what you would expect in a slowing housing market, pretty similar for this word. And as far as the construction loan numbers go we are talk about just below 300 million at year-end about 286 I think, it was at year-end which was down where it was a year ago which you can see reflects the fact that we are were reining back the lend in the areas in the U.S., most construction length point of view where the most severe conditions are and the construction loan numbers are pretty similar at the end of September as they were in July and we'll continue to watch that very, very closely. In terms of be able band that ratios, the U.S warms of center sales have increased slightly in stock, hardly to all in Ferguson and there's no significantly changing Europe, what I can't give you is the actual percentage over that period. But as generic piece of help the to bend that ratios used between about 0.1% and 0.5% of the sales across the group with Ferguson being at the low end of that range as all stock and as you might expect some of the developing European regions towards the higher end of that range.

Paul Steegers - Merrill Lynch

Okay. And sorry and you haven't, there haven't been any write downs of goodwill intangible assets that we should be aware in the first quarter of year. Is that--?

Stephen P Webster - Chief Financial Officer

Not in the first quarter, remember we have that impairment relation to be actually to Detroit that Chip was talking about before in the Mid-West and certainly if haven't seen based on over half year and in

the full year because each time you have to do projections in terms of the cash flow generation that is likely to come from each business area. We look at regionally in terms of global impairment. What was to go through that calculation before the half year-end relation to the half year and before the full year-end and I can't tell you what will come out of that it depends upon the expectations of the time. Each of those individual regions actually and it certainly not have the question but we might have certain global impairment and but it so we have to go through the calculation based upon the at this time. It is just impossible to say with that likely to be significant we've announced.

Paul Steegers - Merrill Lynch

Okay. Thanks

Claude A.S. Hornsby - Group Chief Executive Officer

We've got time for one more question and then we are going to need to rap this up this ladies and gentlemen. We still have a board meeting in the AGM to follow. So one more question.

Operator

Thank you very much. Our last follow up question comes George Gregory from Credit Suisse. Please go ahead.

George Gregory - Credit Suisse

Good morning. Yes. Its just one quick follow up question, again not sure that this is been answered but in terms of the first quarter margin performance in DT I think you reported 7% trading profit margin. Would you expect that to be held up for the remainder of the year? Please.

Stephen P Webster - Chief Financial Officer

Again I don't feel like we can make projections for the year but other than into the challenges that are occurring in the new residential market in Denmark. Very pleased with that acquisitions, Feartostein [ph] and his group do a great job. So, it anticipate that we will continue to make progress and I guess following easiest to compare is to how low we performed during the course of the 10 month compared to last year.

Claude A.S. Hornsby - Group Chief Executive Officer

I think the other half probably George is that remember the margins of the whole of last year was about 6.3% and so last seasonal variations to come into play. I think there will be too much of expectation to expect the margin if you are whole to be 7% would expect some margin improvement compared to the previous year.

George Gregory - Credit Suisse

Okay. Thanks very much.

Claude A.S. Hornsby - Group Chief Executive Officer

Okay. Thank you for your questions. In closing I would like to remind you that we're still able and willing to react to our markets. Any downturn will create opportunities for us. We are committed to our strategy in achieving 7% trading margin. Thank you for participating today. Good day.

Operator

Thank you. This will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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