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MSC Software Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions). Your first question comes from WooJin Ho from Merrill Lynch.

WooJin Ho – Merrill Lynch

WooJin Ho from Merrill Lynch. Bill, the engineering tool business revenue were quite a bit lower than even our reduced numbers and lower than what we had anticipated how do you go about bringing stability in this business and at what point do you see stability in this business?

Bill Weyand

Well first of all, in terms of the engineering tools business the new releases, I think, will be one of the assets (inaudible) configuration. The second is expansion of our channels partners, and third is we have introduced new marketing programs in terms of our master key deployment to our small and medium size business customers, so we anticipate without giving any forward guidance that we are making progress although looking backwards the numbers don't reflect that.

WooJin Ho – Merrill Lynch

Right. And then just to further the enterprise tools business, part of it also had to do with the confusion between the MD tools and the MD and the tools transition. Some of it may have abated as part of the VDP conference this past October. Can we ever see the combination of the tools business and the MD business growing at industry rates? We've seen your peers at DESO and Antis growing at 20 plus rates.

Bill Weyand

That is our overall objective (inaudible).

WooJin Ho – Merrill Lynch

Okay. So Sam, turning to the financials fairly quickly, what is the long term correlation of MSC's revenue growth and profitability, so for example, if revenues grew in the mid-teens what is your targeted operating margin?

Sam Auriemma

At this point we have a post of a target-operating margin. I will tell you though, that coming out of the restatement period, all the systems implementation that we did during that time, these expense structures starting to show at least on the SG & A lines a pretty favorable comparison. As soon as that stabilizes and as soon as we get to more normal top lying growth as you pointed out, somewhere closer to industry standards, we should start to take a look at where our targets out. I will tell you that structure here for an enterprise software company really doesn't look too far field in terms of overall operating margins for a company our size, so I would generally out us in the \$50 million range.

Operator

Mark Schappel – Benchmark

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