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Amphenol Corporation Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. [Operators instructions]. First question from Mr. Brian White of Jefferies.

Brian White - Jefferies & Co.

Yes good afternoon?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Good afternoon.

Brian White - Jefferies & Co.

I am wondering if you could talk a little bit about the December quarter and what markets you expect the greatest strength and the greatest weakness sequentially?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

We... that's a very fine question, thank you very much. We usually don't forecast by market segment but in general, as I mentioned already here we believe that the military aerospace market will continue to be strong on a year... on a sequential basis. We believe that the handset market was strong in the third quarter and maybe a little bit seasonally stronger in the third quarter than usually expected. Usually we expect the fourth quarter to be somewhat at that level of strength. So maybe that is more of a flat situation. So... and the automotive market we continue to feel that we will have continued strength as we have seen it in this quarter as well. The IT market and the data communication market will just remain as I said somewhat mix and moderate in its demand. And for the broadband communication market as I said, we believe that it will taper off towards the end of the year in terms of its demand because just of the build cycle.

Brian White - Jefferies & Co.

Okay. And there has been some talk about servers seeing some softness due to financial institutions going through the sub-prime meltdown. I am wondering, if you have seen any softness in the server area?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

I wouldn't say that there is softness in a particular area that is... has a significant impact. We see fluctuations in that market throughout the year. Some ones are stronger than others, but we haven't seen a general trend that would suggest that there is softness. Certainly not with the most recent demand that we have seen.

Brian White - Jefferies & Co.

Okay, and just finally the margin profile of the acquisition is at higher or lower than Amphenol?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

The margin is about... I have some opportunity for expanding, but obviously it is very close to what Amphenol is.

Brian White - Jefferies & Co.

Okay, thank you.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Yes.

Operator

: Next question from Mr. Steven Fox with Merrill Lynch.

Steven Fox - Merrill Lynch

Hi good afternoon.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Good afternoon Steve.

Steven Fox - Merrill Lynch

: Couple of questions. First of all, Martin you called out the success you had in the wireless handset, or wireless device area. You mentioned new products. I was wondering... and platforms. I was wondering if we can get a couple of examples of what you were talking about?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Oh sure. I am happy to say that we have developed a very state-of-the-art hinge products that has... which is a sliding hinge phone, which has had very broad acceptance with the major players, and the ramp up was very, very strong for these as these models go in to go out for the holiday season. In addition, a very strong performance in the antenna side of our business, as well as our in our traditional connector side where we have strength. So it was relatively broad based but really the new products with the hinges some of the antennas, as well as scaled products that we have for SIMs as well as for the new generation of, we call it a bottom entry connectors or system connectors, which are essentially charger connectors which is getting a totally new life with a total new generation of products. We all have heard about the standardization in China that is happening, but other companies are following a total different lead, especially relative to data communication that is required out of these phones nowadays.

Steven Fox - Merrill Lynch

That's great. That's helpful. And then two other quick questions. This is the second year in a row where the summer quarter has proved to be pretty strong sequentially. Has anything changed in terms of your customers' ordering patterns, or just within your own business units that would explain it, or is it just a strong quarter?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

I think the fundamentals haven't changed. I think Europe continues to be a slower season, and we see that from a sequential performance standpoint. But what is maybe somewhat novel and that is that in the mobile phone business similar like last year, it is a little bit earlier in the season where apparently our customers want to prepare for the holiday season than, rather than having that shift in the fourth quarter. That is the only one that is really visible in terms of its sequential from Q2 to Q3, because the sequential growth was very substantial in the mobile phone segment from Q2 to Q3.

Steven Fox - Merrill Lynch

Okay and then lastly Diana, just looking at your balance sheet, the cash level is a little higher than you guys usually carry. Is there any reason for that? And should we expect a debt reduction in the next couple of quarters given where the cash is?

Diana G. Reardon - Senior Vice President and Chief Financial Officer

Sure, I think that we have actually changed our philosophy relative earlier in 2006... relative to the repatriation of cash from low tax rate areas in order to drive the tax rate down. So what we are doing now is we are building some cash in countries where we have a tax advantage from doing that, and we expect to execute future acquisitions. And so what you will see down the road is you will see that cash used to do acquisition as an example either in Asia or in Europe.

Steven Fox - Merrill Lynch

Great, thank you.

Diana G. Reardon - Senior Vice President and Chief Financial Officer

Sure.

Operator

The next question from Shawn Harrison, Longbow Research.

Shawn Harrison - Longbow Research

Hi. I was hoping we could discuss the raw material environment both on the connector side as well as the coaxial side. On the connector portion of the business, rapid rise, run up in gold, oil based resin prices recently. Just wondering if there was any consideration of going to distribution and how... with price increases before the end of the year to help offset some of that?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Well obviously that is an area... thank you for the question... of continued attention throughout the company. Obviously gold is largely used in connector products and the plastic resins and oil based products as well. So we watch that very carefully and where opportune... we'll certainly take the actions relative to price increases. And that's just not limited to distribution but that wherever it is appropriate and possible. Obviously there are segments in the market where customers are very... or suppliers are very hungry for the business where our customers feel that and obviously continue to put a lot of pressure on price. So that goes the other way, but obviously the general environment on raw materials is not a trend downward but it's rising. Even if you see in aluminum, aluminum some improvement in general, the environment on raw material is still on the rise, as well as it is in wages and salaries around the world. There is inflationary pressure in general. So we shouldn't just focus on the oil and those increases are having an impact on raw material only. It has certainly on payroll expenses as well.

Shawn Harrison - Longbow Research

Is the increase in raw materials though... have your peers started to look at price increases in the market that you may be able to follow suit to something similar?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

I haven't seen any thing of significance across the connector industry that suggests that there is a broad swell of price increases coming along. But we continuously watch it very carefully and we obviously have leading positions in many of our market segments in that such obviously we would take the lead as well.

Shawn Harrison - Longbow Research

Okay. Second question, just has to deal with the good growth in automotive as well as handsets. The new program win, is that, was that with existing customers? Are you gaining market share with customers that you previously hadn't engaged with before?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Well it's actually a combination of both. We have a stronger penetration again in certain of the existing customers with these new products while we just don't have on their replacement business phasing out old products and replacing it by new products but also a broader acceptance across more platforms at these existing customers such as for example Volkswagen where you have not only Volkswagen but Skoda and Audi and others in that whole group. So there is expansion within the same group if you want. At the same time we have also wins with new customers in especially in Europe with Mercedes and Fiat that are very positive for the future of the company.

Shawn Harrison - Longbow Research

Great. Thank you very much.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Yes.

Operator

The next question from Carter Shoop, Deutsche Bank.

Carter Shoop - Deutsche Bank

Good afternoon. Wanted to talk a little bit about the complete interconnect system infrastructure. You hinted that you are starting to gain a little bit of traction there and that was one of the big selling points from making the TCS acquisition. I was hoping for you to maybe quantify some of the recent wins, some of the traction, and how that complete system offering is going to enable you guys to continue to gain share in that market?

: Martin H. Loeffler: Now that's a very good question. Very broad question. Then we would have to go into lot of details. But the general jest is that when you can at an early stage sit down with the engineering group of a customer and really talk not only about a segment of the interconnect that is being used but about the whole build-up material it has tremendous advantages for the customer, because it reduces their costs. And as such we are pursuing that with the customers very heavily without going into the details where we have these particular wins, because some of those are in discussions at that point in time. It wouldn't be opportune to talk about this publicly. But it's very broad base I can say, broad base demand, broad array of customers especially in the IT segment, and communication, data communications, as well as mobile communications market. Mobile communication, I mean mobile infrastructure.

It is clearly visible to us that there is an appetite of the customers to have a supplier, who can provide that value to them in form of an integrated solution. It truly provides value, because it reduces their costs, but certainly has a potential margin opportunity for Amphenol at the same time. Now the same is actually happening in the military side as well through our integration of the printed circuit boards, the rigid boards, rigid flex, as well as the flex print circuits together with all the components they go along into an equipment is just really a significant advantage to gain market position also in the military segment on a broader base.

Carter Shoop - Deutsche Bank

Great. That is very helpful. Second question is about the acquisition outlook. You mentioned how it sounds like it's becoming a little bit more favorable. Can you talk about the recent credit crunch and how that might be enabling a few of your potential targets to actually become more excited about joining the Amphenol team?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Well there are a lot of companies that are out there of the medium size, or smaller size that we are looking that would be excited to be a part of Amphenol. And the prices they have really nothing... that was no impact from the credit crunch on those customers, on those companies. The private equity firms usually haven't really participated in these smaller companies.

As far as the larger ones are concerned, we continue to have appetite for those. It's not just that we are looking for these smaller tuck-in companies but... and bolt-on companies, but also for larger ones that may become available. But usually that is through an auction and not just through a relationship building like we have it with the smaller companies. So what we are focused on right now is these smaller companies, the pipeline is good. And obviously we are putting some of the money into Asia and in Europe not just because it helps us in the tax rate because we see a good pipeline of opportunities in those marketplaces to further add companies that are complementary and have the characteristics that we would like to see. At the same time if a bigger one comes along obviously, we would very, very much look at them with great interest.

Carter Shoop - Deutsche Bank

Great, thank you.

: Martin H. Loeffler: Thank you.

Operator

: The next question from Yuri Krapivin [Lehman Brothers].

Yuri Krapivin - Lehman Brothers

Good afternoon.

: Martin H. Loeffler: Good afternoon.

Yuri Krapivin - Lehman Brothers

Martin, question regarding the organic growth rate. Obviously you have been delivering a very solid double digit organic growth rate to this year despite uncertain macro environment, and mixed trends in certain end markets. Now how confident are you in Amphenol's ability to sustain double-digit growth in '08 I mean organic double-digit growth?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Well obviously that's something that we are working very diligently. And one work that helps us to do this is create a better platform for growth and that is something that we have done throughout this year and over the last 10 years. We have gained positions in each of the markets that we are at... that we serve. We have created a better competitive position there and competitive advantages in each of these markets through our product portfolio through creating and expanding our customer base in each of these markets. So with that in mind that gives us the flexibility. The diversity that we have in each of this market is certainly contributing to opportunity for further growth because we know from experience in all of the markets that it's in, there is not always one or two winners in that market. And with the more you are able to participate on a broad basis you can grow with one even if the other one doesn't do so well at that point in time.

So that is certainly one element that is very, very important that that is continue to work on the diversification of our customer base and the markets that we serve as a growth. And in addition the technology is advancing and as the technology of our customers is advancing they want new interconnect solutions to support their higher performing equipment. And this is where we put a lot of emphasis and this is another area where we have a lot of confidence that we have to offer to our customers more than the majority of our competitors. And there is such... we feel again confident that we can grow faster than the markets at least at the two times the rate that we always have. So I am certainly not sitting here and have a crystal ball and knowing what 2008 growth rate will be for the connector industry. There are analysts... and connector analysts who have some predictions on this. But what we believe is that we certainly can grow faster than the industry and we certainly target, and continue to target twice the rate.

Yuri Krapivin - Lehman Brothers

Okay. Thank you, Martin. And my second question relates to backplane connectors. Recently Tyco Electronics and Molex signed second source agreement in the area of backplane connectors. So, that agreement covers Tyco Electronics m-plugs [ph] product line and... I am sorry, Z-PACK line and Molex's input line. In your opinion, is it just sort of standard industry arrangement because customers are required double sourcing or is intentions here to compete more aggressively against the TCS product line?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

As you know Molex has been for a long time and it continues to be a partner with Amphenol on backplane products. On that next generation product, obviously, Molex has a product and it is our intention with second sourcing, always in this areas, specially in this area, that a customer... that a

second source supports the total product line and doesn't just have a cross license. So you can either offer this product or another offer, because which one do you really offer. We want to make sure that in our second sourcing and customers require second sourcing, we have a second source that totally supports a product line and one product line, and that's certainly something that we are continuing to pursue. That was our path strategy, a very successful strategy, gave the market leadership and that is continues to be the... our position in the future.

We feel very strongly about the position of our backplane products that is already in the marketplace, that is... performs better than any other product that is in the market today in terms of its electrical performance. And we feel very strongly that the positions that we are gaining, which I alluded to earlier you know are significantly ahead of anybody else at that point in time. And we feel very confident that we have strong market position and continued strong leadership in the backplane arena in the future.

: Martin H. Loeffler: Hello.

Yuri Krapivin - Lehman Brothers

Yes thank you, Martin.

: Martin H. Loeffler: I am sorry. I... We were, I thought we were cut off, yes.

Operator

: And the next question from Mr. Will Stein, Credit Suisse.

William Stein - Credit Suisse

Thanks for taking my call. We saw a very strong top line growth this quarter. I would like to turn to the margin for a second though. I am wondering why gross margin was down sequentially and whether there was a nice 10 basis points increase in op margins. I've had some questions from investors, as to why perhaps it wasn't a little bit more given a very positive top line growth?

: Martin H. Loeffler: Go ahead Diana.

Diana G. Reardon - Senior Vice President and Chief Financial Officer

I think that the total conversion margin in the quarter, and the margin improvement in the quarter, I am talking about operating margin now which is really the way that we manage the business to maximize operating income margin. We saw it was very good and quite strong.

In terms of the mix of gross margin and SG&A in the quarter... just to start perhaps from an SG&A standpoint we certainly apply the same discipline to SG&A spending that we do to capital investing and any other use of cash. And I think there our velocity on SG&A, which includes the movement of quite a bit of the SG&A function to low cost regions has helped us to kind of move that SG&A cost down, as a percentage of sales over the last couple of years as we've had this strong top line growth. And that's something that we will continue to work on to drive those costs down.

From a margin standpoint depending upon the mix of sales by market in the quarter, depending upon from a seasonality standpoint in the summer, as an example, we have quite a number of our factories that have a lot more vacation time, and so forth. And so sometimes you will get some movement from a margin standpoint in one particular quarter, but we really... the measure from a report card standpoint that operating income can version and we are quite pleased with that in the quarter.

William Stein - Credit Suisse

Is it fair to say it's also related perhaps to the mix in the cable versus connectors? I noticed that in the cable segment sales were up about 6% sequentially I think, but op margins were flat. Was the hit... or not hit... was the let's say the lack of margin expansion there owing to gross margin?

Diana G. Reardon - Senior Vice President and Chief Financial Officer

The cable segment is really relatively small. So I don't think that had so much of an impact. But as an example, the foreign exchange translation can have an impact also on mix, because not all of our

units are at the average. And so there are many things during the quarter, mix of sales by market to foreign currency translation, and so forth that can have some slight shift in terms of the pieces. We focus our people on the operating income line, because at the end of the day, if you want that dollar of operating income from that dollar of the incremental sales and whether you spend it on the gross margin line or you spend it on the SG&A line, it still gets spent. And when we look at our operating income performance, this is very, very strong. So there is no I think issue out there relative from a margin trend standpoint that anybody needs to worry about.

William Stein - Credit Suisse

Very good, just one other with regard to the margins. Diana, you have mentioned kind of a target of 25% contribution margin on new product, which suggests that maybe you get there asymptotically over time. Is that something that is potentially out there a couple of years away, or is that a more theoretical kind of very long term target?

Diana G. Reardon - Senior Vice President and Chief Financial Officer

Yes, I think as you know we don't so much like to predict our levels in the future. I think that we... our first goal is to get the 20% return on sales. We also talked about this 25% conversion margin goal, where we want at least \$0.25 on the dollar for each dollar of incremental sales. And we continue to drive the company in that direction, that causes margin expansion as we implement all of these strategies that help us to achieve those goals, and we still continue to feel that that margin expansion in the business for all the reasons that Martin mentioned, I think in his prepared statements, we still feel that that opportunity exists in the business.

William Stein - Credit Suisse

Great, and then just a housekeeping question. Estimated tax rate for next year?

Diana G. Reardon - Senior Vice President and Chief Financial Officer

Yes, we haven't given the tax rate estimate for next year yet. In the fourth quarter we talked about a 30.5% rate that gives... brings us to about 30% for this year. I mean at this point, I wouldn't expect the rate to go up, but when we give guidance for 2008, we will certainly talk about the tax rate at that time.

William Stein - Credit Suisse

Thanks very much..

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Thank you.

Operator

The next question from Tom Dinges of JP Morgan.

Thomas Dinges - JP Morgan

Hi, good afternoon guys.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Good afternoon.

Thomas Dinges - JP Morgan

One for you Martin. I wanted to just ask a question on top of one of your statements where you talked about the pricing environment. It's still pretty challenging. And maybe can you just characterize it in two ways. How much of the pricing environment is challenging because as you have also alluded to, lots of competitors in different areas and there does seem to be somebody always in some areas that you are in who will do something a little bit that are lower price than yourself. And how much of it is just kind of the customers themselves maybe taking advantage of some of these headlines that are out there, about things perhaps being a little bit softer next year and using that to try and get a little bit of leverage with their supply base? And then I have a quick follow up for you.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Yes, well thank you very much. Obviously that pricing question is obviously in our minds and in minds of our whole organization. The situation is simple in that way that in general in the areas where there is a high pressure on the side of our customers to reduce the costs of their equipment no matter what the environment is they will continue to come and look for somewhat less costly solutions. That's both a challenge and an opportunity. Because if they want new solutions with higher performance we can develop a product that has essentially that specification, and we can develop it to have high margins as an application specific solution. If they stay with the product for a longer period of time and competition is there obviously becomes more of a standard product and there you have some price pressure. And in those areas it is essentially in information technology in the mobile, mobile infrastructure and mobile device market where we see that kind of situation stronger than in the other areas like the industrial markets.

The automotive market as well has some pricing. They're very astute, having two competitors in play, one against the other in our opinion. But nevertheless the industrial and military and commercial aircraft markets are different from these other markets in terms of pricing situation. Just simply because they are less standard interfaces number one; and it's a different kind of competition. Competition tries to maximize their profitability in those areas more than in the other areas.

Thomas Dinges - JP Morgan

Okay. And then you also mentioned that better than 70% of headcount now is in low cost countries. You made an acquisition of a U.S. based company and you talked a bit about some of the... perhaps some larger acquisitions that you guys are open to. Is that metric there in terms of having better than 70%... is that kind of a minimum threshold that you would like to see in the size of a larger acquisition in terms of... do you really automatically want to see that they have already kind of lowered a little bit of their cost structure with that low cost headcount? Or does that really matter at all when you are looking at something larger in size than perhaps what you've been buying over the year or so?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Not a prerequisite that they are already actually, we could create a tremendous opportunity, if they are not there because we have the presence there. We know how to do business there and can get them quickly to this. And they would add to margin expansion because most of those companies that are just in high cost areas usually don't have the same margin except if they serve a regional market like this Stewart Enterprises serves a regional market at this point in time and has good margins. But there's opportunity now for international expansion for them. There is no threshold relative to this. It depends really on the mix of markets that you are involved whether they are more regional in character where customers really insist to have it locally. I mean, there are automotive customers for example, that insist that you produce in Germany. They wouldn't accept it in the Czech Republic like many of the other automobile manufacturers do. They say you have to have automation in the high cost area and be willing to somehow work with you but we want it locally and want to have the control right in the same country.

So it depends on the mix in the markets where in how many people are outside or in the low cost area on that.

Thomas Dinges - JP Morgan

Okay. Thank you.

Operator

Your next question from Mr. Jeff Walkenhorst, Banc of America.

Jeff Walkenhorst - Banc of America Securities

Hi good afternoon. Thanks for taking my question. This is the seventh quarter where Amphenol had delivered upside on EPS line which is certainly like investors like to see. I am wondering kind of what really has changed over the last year where we have seen... where has the upside come from, where you have been surprised? We know military has accelerated and strategic many happening there, and aerospace is good. But really any wins of new program but what has changed kind of to really to push the numbers somewhat higher in the last few quarters and does that mean that the bar should be set a little bit higher as you look forward?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Well I think we have a record that goes far beyond the year... a few quarters we have, ten years of substantial increase in terms of sales in terms of our operating income and operating performance in EPS, a strong record that is really goes over 3 cycles in the business up and down and up again. So I wouldn't want to limit it just to this quarter that we have outperformed. And there were no surprises. We are a very conservative company even if we are aggressive in our performance targets and how we look at things we are very conservative. We have a conservative balance sheet, we are conservative in our outlook. It is not always a very clear to predict whether from a seasonality standpoint in a given quarter, mobile phones would be stronger or not or whether certain customers in the military business grow exactly or for that piece of equipment that could have a more significant impact in terms of growth and so forth. So we like to look at this in a conservative standpoint, things that truly can be realized and delivered. And obviously it manages from a top line and the bottom line side in most aggressive way that we can, but at the same time remain prudent in both in our outlook, prudent in our investment strategy, prudent in what the company in general is doing.

Jeff Walkenhorst - Banc of America Securities

Okay that's helpful. There's another way maybe to look at the question, we'll think about it is do you feel more confident today based on the new programs and maybe improvement at TCS, some of the acquisitions that you see out there relative to year ago?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Obviously a year ago there was really some uncertainty of what the market would do in general. In the meantime we have grown about... added to our business \$350 million. So we'll have by the end of the year which is a substantial medium size company that we have added through organic growth. What that really means is that we haven't just added revenues, we have added customers, we have added positions of build-up materials. We have added products that drive us into the future. And that gives you some confidence that you have the ability to continue to a very strong trend into the future. So establishing a stronger platform as I like to call it for growth is certainly a confidence booster as you look into the future. But we remain certainly prudent relative to what the electronic market is giving and I think as a matter of our strategy we work in good times and we right now feel that even if this is a moderate climate it's still a demand environment which is supported from positive. We like to manage our company very lean, ready for any eventuality that comes. We want to remain very agile to be able to react to whatever changes we see in the individual marketplaces or in the electronic industry as a whole.

Jeff Walkenhorst - Banc of America Securities

Okay. Thanks, one last follow you if I may. The commercial aerospace, well and military segment has been growing about 20% year-on-year I think the last two quarters. And the White House has been asking for about \$190 billion which is a big increase over President Bush has asked for earlier this year. Do you think it's possible? And I think these programs have a lot of bipartisan support, do you think it's possible that Amphenol could even see accelerating growth in 2008 for that segment?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Right now I think you know a 20% growth is a very, very healthy growth and obviously all of this spending will depend where the spending goes. Does it go into the procurement of the equipment or does it go in spending of payroll or whatever troops deployment and so forth? I mean there are so many areas where money can be spent that is not as easily predictable for us. But we see however at this point in time very strong accelerated program especially on the upgrade of ground vehicles that have bomb detecting equipment and so forth. That we are not going just to have one cop that the other being bombed then exploded in Iraq for example but they have preventive measures so there are accelerated programs right now to drive growth higher whether that kind of particular situation will continue time will see. But we will... we are very confident that growth will remain strong in that segment.

Jeff Walkenhorst - Banc of America Securities

Okay, very good. Good luck guys.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Thank you. I think we have maybe two more questions

Operator

Very good you have two questions in queue. Amit Daryanani, your line is open.

Amit Daryanani - RBC Capital Markets

Thanks a lot. Good afternoon guys.

Diana G. Reardon - Senior Vice President and Chief Financial Officer

Hi.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Good afternoon.

Amit Daryanani - RBC Capital Markets

Just a question on the handset segment, you guys are purely seeing a very good sell-through through the both season in Q3. I am just curious do you get a sense of the slowdown or the deceleration we see in Q4 and Q1 would be a little bit more pronounced this time around than the years past?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

If I would know how many phones, I am sorry for that answer but how many phones subscribers and consumers are going to use? I would love to know about as well. But right now with the new programs that we are involved in, with the broad customer base and many models that we are involved with these new products I think we are able to moderate any very significant declines through the fourth quarter and as we move into the first quarter like we have been able to do in the past. So it may be as pronounced if it comes because of really gaining position in some of these areas and of models where we have confidence that they will be sold.

Amit Daryanani - RBC Capital Markets

Fair enough. And then just a question on the Stewart acquisition. Could you just talk what the revenue growth dynamics are for that company? And also just to clarify you are buying the used in [ph] connector division of Stewart cable as well

Diana G. Reardon - Senior Vice President and Chief Financial Officer

Yes. Take the second question Martin.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

The first question is a revenue profile, as Diana has mentioned earlier is about \$35 million of annual sales.

Amit Daryanani - RBC Capital Markets

Is that the '06 number by the way?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Pardon me?

Amit Daryanani - RBC Capital Markets

That's the 2006 number. Right?

Diana G. Reardon - Senior Vice President and Chief Financial Officer

Just a rough number.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

A rough annual number for...

Diana G. Reardon - Senior Vice President and Chief Financial Officer

The annual sales.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

Yes.

Amit Daryanani - RBC Capital Markets

All right. And then Martin. Just a question here up. Historically you have spoken about Amphenol achieving 1.5 to 2 times connector market growth. I think on today's call, you have spoken about getting to about two times connector market growth in 2008. So I am just wondering what's giving you the confidence to get to that high end of that run rate? Are you seeing better market share gains? Or is there some acquisitions that are pretty closer to finish line that give you confidence?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

No, I think we usually do not talk in this growth rate. We are adding in acquisitions but, obviously, if we look at 1.5 to 2 times, I right now feel that we have good organic growth. We have accelerated, to be able to accelerate our organic growth over the past, which is a good sign, because it really means that the acquisitions are complimentary. And the main driver is the organic growth. I mean, a few years ago, there was a question, can you not organically grow faster? I think we have proven very strongly that we have strong organic growth and with the positions that we have, as I mentioned earlier, we are very confident to continue to grow. Obviously we also see a pipeline of these tuck-in acquisitions that could help to achieve, or exceed the top... the two times, as I mentioned earlier.

Amit Daryanani - RBC Capital Markets

Got it. And then just Diana a quick question for you. Inventory was up about \$21 million sequentially.

Diana G. Reardon - Senior Vice President and Chief Financial Officer

Yes.

Diana G. Reardon - Senior Vice President and Chief Financial Officer

How much of that was because of the Stewart acquisition?

Diana G. Reardon - Senior Vice President and Chief Financial Officer

It would only be a few million dollars. There was in the quarter because of the way the dollar moved. It got weaker, as the quarter along, so the foreign currency impact on the balance sheet was a little bit bigger than this quarter than we have seen in the past, but even with all that the inventory growth was less than the sequential sales growth. So we think the inventory performance was not too bad in the quarter that Q4 tends to be sequentially up, so we do tend that have some advance in terms of anticipation for Q4 also.

Amit Daryanani - RBC Capital Markets

Fair enough. Thanks a lot guys.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

: Thank you.

Operator

: Your final question is from Jim Suva of Citigroup.

: Jim Suva: Citigroup: Thank you and congratulations everyone. Martin earlier you mentioned about the acquisition pipeline was very strong. And I remember a couple of quarters ago, we had talked about China has seen to be little bit more regulatory paper work, or timeline. Can you update us? Does that make it, so you're a little bit less opting for China? Or is it just more of a process to take longer, because it seems like you are definitely setting aside some cash in that area?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

: I couldn't have expressed it better than you. It's more of a process than our appetite. And clearly we are looking at opportunities in that country but not in that country obviously Asia is big. We are just opening and that has nothing to do with the acquisitions, but a third facility in India, because we see continued significant expansion. We are exploring a new low cost areas outside of China, as well not to be only dependent on this. And we are moving more and more towards west of China where the total cost and labor pool, and skilled people are more readily available than in the East of China. So there is a lot going on to in that area, and that includes obviously acquisition targets as well.

: Jim Suva: And your pipeline versus a six months or twelve months ago. Has it been stably strong or increasing, or how should we think about that from a comparative [ph]?

Martin H. Loeffler - Chairman, President and Chief Executive Officer

: You should think about that in my opinion that the discussions that are taking place with companies are firming up as opposed to being targets, so loose discussions and conviction going on. It's more of... more intense discussions that are taking place. So what I am saying the pipeline is strong means nothing else that it's more solid in terms of the discussions than 6 months ago

: Jim Suva: Great. Thank you and congratulations everyone.

Martin H. Loeffler - Chairman, President and Chief Executive Officer

: Thank you very much, and thank you all for your interest in Amphenol, and we look forward to talking with you soon. Thank you. Good bye.

Operator

Thank you for attending today's conference and have a nice day. Thank you.

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