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GSI Commerce Q2 2006 Earnings Conference Call Transcript (GSI C)

Question-and-Answer Session

Operator

Thank you, sir. [Operator Instructions]. And our first question comes from the line of Shawn Milne, please proceed.

Shawn Milne - Friedman, Billings, Ramsey & Co.

Thanks, and good afternoon. Good quarter, guys. A couple of questions, first on the '06 guidance and then the follow up just on longer-term expectations. If I look at what you have raised in net merchandise sales for the year, the change if I count in the upside in the quarter, it looks like you've raise NMS by about \$150-\$175 million it looks like that would be obviously the change with Toys 'R' Us, is that a conservative expectation for Toys 'R' Us, can you walk us through that? And then I a follow up you know, you're talking a lot about investment and capacity down the road, Michael Conn, if you could tell us, out of the \$40 million, how much is associated with the decision to purchase the call center versus lease and would you expect CapEx to be at that same kind of level on those seven or can it decline a little bit against expectations of \$50 million plus in EBITDA, thanks.

Michael Rubin

Sure Shawn, I'll take the first part of the question regarding the guidance. I think your math is right that the incremental guidance in our numbers is here somewhere \$175 million, and if you took Toys 'R' Us out of our guidance we would be up a little bit against the previous guides that we gave at the end of Q1. So I think our approach is certainly everyone saw that the published numbers of Toys 'R' Us that it was a much bigger number than that, last year, but we want to get some history under our belt. This is a big business it's our — going to be our first how this is in running the business, so certainly I think our expectations are very bullish for the business, but we think what we are going to do is take a conservative approach toward estimating the business and that is the way that we thought about it and the way that we guide it towards the business.

Michel Conn

On the CapEx question, Shawn I guess I would say about half the increase in our CapEx guidance has been driven by the call center. Most of that is related to the purchase. There is a little of spending beyond that, but the lion's share of that -- of the increase is related to the call center is as a result of the purchase. You know, looking to '07 we know don't have any kind of a formalized plan from the standpoint of what we are thinking at this time. I wouldn't be looking for any kind of material decrease in CapEx for the next year. I think that we have talked about plans to open a new fulfillment center, so that will certainly drive capital spending, we'll continue to be investing from a technology standpoint.

So I think around current levels, it's reasonable thinking. You know, could be up a little bit, it could be down a little bit, that's certainly what I would be thinking about for next year.

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