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Spectrum Control Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first call comes from Andres Aranda – Needham and Co.

Andres Aranda – Needham and Co.

Your gross margins were up pretty nicely this quarter. I was hoping you could talk about trends in gross margins going forward and maybe share some targets that you might have for next year.

Jack Freeman

What has driven our gross margin improvement over the last few quarters has been a consistent yield improvements, particularly within what we used to call our Signal and Power Integrity components within our ceramic operation, but as well as all four of our businesses so with those production yields increasing and with a little bit better leveraging of our fixed manufacturing overhead, our gross margins have improved.

Looking ahead, we would expect to continue to strive for and achieve those same sorts of improvements. We expect to continue to be able to leverage our overhead as we're able to generate additional sales volume and we do think that there are additional material cost reductions and yield improvements that can be generated throughout all four of our businesses.

On a long term basis, our goal has been and continues to be a gross margin of around 34%. In order to achieve that, we certainly do have to generate some additional sales volume, but we think that we're continuing to position ourselves for that with the expansion of our product offerings, having strategic acquisitions like SatCon.

Again, looking ahead, we would expect to see continuous improvement in gross margin. Quarter to quarter there may be some mix impact so it may not be in a straight line but overall we would expect to see pretty consistent improvement in the gross margin and getting up to that 30% gross margin. That would be more of a short term goal and the 34% the long term goal.

Andres Aranda – Needham and Co.

Do you think the 27% range would be attainable in fiscal '09?

Jack Freeman

Right now based on a reasonable assumption of what the sales mix will be and what the total sales volume will be, yes we would see no reason for that gross margin to deteriorate and we certainly see some upside with leverage overhead and further yield improvements so that we can improve upon that. We think we will continue to build upon the 27.3% that we generated in the fourth quarter.

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