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Lexmark International, Inc. Guidance Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from Shannon Cross – Cross Research.

Shannon Cross – Cross Research

My first question has to do with basically trying to get from the numbers if sort of on an apples-to-apples basis we're looking at \$0.41 to \$0.46 for fourth quarter and then you're obviously guidance up for first quarter, I'm just trying to understand what the puts and takes are? Is it op ex, is it you expect to sell a little more hardware so you'll see a bit of a mix shift of hardware in the first quarter? The first quarter tends not to be a big hardware quarter, so if you could just help us sort of understand how you think things are going to trend and change on a quarter-to-quarter basis, that would be very helpful.

Paul J. Curlander

Let me say a few things, I'll let John put in his comments as well. As we go in to the first quarter we're focused on continued weak hardware demand. So, as we take a look at lasers, we take a look at inkjets, we are expecting those units to decline. We are not sure they're going to decline at the same level as what we saw in the fourth quarter because of a number of things that we are doing but we still expect a decline so perhaps a slight improvement there in terms of those units.

But, as we look on a year-by-year basis, we're still considering the currency situation and the relative strength of the dollar. So, we're going to continue to see that impact certainly through hardware revenue. As we take a look at supplies, the issue we have is that as we went through the fourth quarter we did a significant amount of price increases in our international geographies.

As a result we've had a lot of disruption in the channel, we've had a lot of buy ahead, we're sitting on a lot of channel inventory in both laser and inkjet supplies so we're expecting some pretty significant shrinkage in those supplies. Also, as we saw some of the disruption in the channel we did see weaker than expected in user demand in supplies. We're expecting some of that to continue in the first quarter. It's a little hard to gage as we see some of these prices impact finally sink in and start to stabilize but we expect to see some of that.

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