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SonoSite, Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you very much. (Operator instructions) And first we'll begin with Raj Denhoy from Thomas Weisel.

Raj Denhoy – Thomas Weisel

Hi, good afternoon, Kevin.

Kevin Goodwin

Hi, Raj.

Raj Denhoy – Thomas Weisel

I'm trying to reconcile some of the comments you are making about what you are seeing in the marketplace being mostly delays and not cancellations of orders, and yet you are – very conservative view on 2009, in the sense I think you are backing away from any growth at all at this point for 2009. How do you reconcile those two things? I mean, are you expecting these orders just not to come in the next 12 months, or how do we get some comfort with them actually not being cancellations but delays?

Kevin Goodwin

I can tell you, Raj – I would tell you what we know. Okay? First of all, the visibility on our international business remains very good and reasonably predictable, and so far so good although it is early. Our US enterprise business also remained solid in terms of achieving their numbers and being visible to us. The third variable, which is the US direct channel, which is heavily weighted toward US hospital, is the one where the challenges lie of the three. Now, we've seen a rise in the inventory of total deferred orders. However, about a third of those orders are presently expected to come in the next three quarters. So the net amount of delays between now and, let's say, Q3 is expected to drop unless, of course, more delayed orders are added to the inventory, so to speak. So that's what we know. So, the position we are taking is this. We see, on the one hand, very strong leading indicators of demand. And what I'm talking about is sales pipeline dynamics, leads to various late stage pipeline inventory of opportunities. We have just seen some genuine sluggishness on the issuance and purchase orders out of US hospitals. And we think that relates to the tightness of the credit markets as well as the unemployment psychology. With that said, where we fit in, I think, remains positive in terms of low price point and importance of patient safety. And so it's not all bad going back to my comment, and

about a third of today's inventory of deals are indeed expected to drop in the next three quarters. So we are carefully managing that. But at this stage, this doesn't make sense given those dynamics to try to tell you we are absolutely going to grow by X or Y. We could be flat, we could be down a little bit, but if you look at what we are doing, we are putting in growth components, new products, new markets, and we are bringing our expense structure down 5%. So candidly, in a fairly revenue situation, we could still improve our operating income. In anything above bad, we can really jam our operating income up nicely. We do expect that this demand is going to get unleashed down the road. So whether it's at the end of '09 or '10, that's something we can't tell you yet.

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