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Checkpoint Systems, Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instruction) Our first question comes from the line of Reik Read with Robert W. Baird.

Reik Read – Robert W. Baird & Co.

Hi, good morning. Ray, you had touched on the R&D being up year-over-year but I noticed it was also almost 20% sequentially. Can you talk a little bit about why that boosted so much in the fourth quarter?

Ray Andrews

We've been focusing our R&D efforts on areas that we think have a key opportunity and that portfolio management and focus on those opportunities are what were driving increased spending.

Reik Read – Robert W. Baird & Co.

But there is no specific program that's close to coming out that would have driven that at just a normal thing?

Ray Andrews

Okay, you think as a pretty large expense nothing like that with nature although Alpha in particular has a six-month cycle with their launches, so that maybe an factor here.

Reik Read – Robert W. Baird & Co.

Okay, and then could you guys provide maybe a little bit more detail on the retail weakness on - in terms of the type of retailer and Rob I think in your comments, you talked a little bit about the hypermarkets and the pharma markets but maybe if you could expand a little bit on that and then also could you talk about how much you think is coming from just simply reduced spending versus store closures at this point.

Robert van der Merwe

Hi Reik, we're expose to very broad spectrum of retail from auto to music, power, food, hyper, drug, mass [merch] and in Europe. I would say that obviously apparel has taken a pretty hard knock probably more so than – then most others. We've seen mixed results in the other areas electronics and the like. Supermarkets are holding pretty well but here and in Europe hyper has held up well

in Europe and leading players, companies, retailers that are actually leading in their categories have continued with their expansion plans into Eastern Europe into China and places like that, so new store openings in drug here, new store openings in Eastern Europe and in China, so those players has continued unabated for the leaders. We just try and interpret your second question. We're exposed very broadly to the downturn, I mean no matter of what business we're in, I mean with the exception of contractual business or fixed dates for example, new store openings as I mentioned in the drug vertigo or in Europe where we've a very high visibility. Those programs are on track. We saw cancellation of CapEx right across the Board even for fast pay back propositions. I think retail has really frozen up somewhat in panic until later get visibility of holdings, the end of year turned out and the beginning of this year and we're working our way through that. The recurring EAS label business that links to systems and where systems are churned easily is an automatically occurring business and we've seen that held up very well. European, and particularly in North America, in Europe the systems deals are typically more deal-by-deal bids. Some of our EAS label businesses is source tagging, which is done with companies like Procter and Gamble and others and there has been quite a bit of competition there. It is a deal-by-deal business as those manufacturers have looked to get their cost down. The fully integrated tag business, we talked about is an automatic recurring business and that's held up pretty well. Service for us is relatively stable, particularly when linked to installations and there is a hike predictable, a peak predictably around that. I mentioned Alpha tests, we do convert a lot of tests with a very high level of confidence, but we've seen CapEx expenditure and all forms of expenditure, now being curtailed and effectively what happened is that even for \$100 or \$200 retail is a four step decision making process up one or two levels within their organization making that much more difficult for expenditure to occur. The OAT business is highly predictable, and within CCTV although we are somewhat dependent on new store openings, some aspect of the burglar and fire alarm business where we do 24-hour core service for them that's a repeat contractual based business and that's fairly stable.

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