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WMS Industries Inc. F3Q09 (Qtr End 03/31/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line Joe Greff – JP Morgan.

Joe Greff – JP Morgan

A question for you on the margins. Obviously, you did a phenomenal job in the quarter on the margins side, and if I could just look at on the product sales side, margins were up significantly. How much of that is mix? How much of that is fixed cost coming out? Maybe you can help us understand that a little bit better? And then sort of the same question on the game ops margin side of things. How much of that was related to the higher average revenue per day? How much of that was related to what you put in the press release as favorable jackpot expense?

Brian Gamache

Well, I guess on the product sales side, Joe, I'd say, 80% plus of the costs of our product is raw materials, which is obviously variable, and the balance is overhead and labor which for the most part is fixed. This quarter as you know, the number of units that we actually did declined from what we did in the prior quarter. So, we are seeing a nice improvement with the Bluebird2 product as we continue.

We are just in the infancy of the launch of that product, but the margins on that product and our ability to turn orders on that product have increased dramatically, and that more than offset the impact of lower unit volume, overhead and labor costs. Then on the gaming operations piece, there is really sort of two pieces that impacted that.

The first obviously is with doing so many plus dollars a day, and in revenue those incremental dollars for the most part are helping to generate incremental gross profit for us. That's coupled with some favorable WAP jackpot expense experience that we realized in the March quarter, which that's sort of subject to what buckles on with the jackpot sitting throughout the cycle.

Scott Schweinfurth

And to further expand on that Joe, we had about close to 50% of our gains for Bluebird2 in Q3 and we are expecting about 58% in Q4, and the ASP is significantly higher on those. So it is all bit of mix of business as well.

Joe Greff – JP Morgan

Great and Scott, you touched on this earlier about the D&A coming down despite the CapEx. Can you just explain that? Again, I don't know if you have really talked about it but is essentially what you are doing there is elongating the useful lives of the newer games and is rationale just because of where we are in the replacement cycle?

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