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Standard Microsystems Corporation F1Q10 (Qtr End 05/31/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Christopher Longiaru - Sidoti & Company.

Christopher Longiaru - Sidoti & Company

Talking about the cost reductions that you mentioned going out, what type of an impact do you think this will have? I think you said it's starting in your fiscal 2011. Is that correct?

Chris King

We expect the transfer to be done by the end of this fiscal year, and we expect to at least be able to improve gross margins by 100 basis points.

Christopher Longiaru - Sidoti & Company

Will that be immediate?

Chris King

Yes. It will start and we will expect to achieve the 100 basis points as we get to the end of that period because that's when we will have moved all our testers. So somewhere around the beginning of next year, calendar 2010.

Christopher Longiaru - Sidoti & Company

With the net books, how much of that business do you think will cannibalize existing business? I would think that some people would just go and buy the net books or the smart books or whatever it is in lieu of buying a laptop. I am wondering how much of that growth do you think will cannibalize some of the notebook business.

Chris King

The larger portion is not cannibalizing the notebook business, but I would say somewhere in the 20-40% range will cannibalize the notebook business. So what we're seeing a new set of customers emerging in North America, but primarily in Asia as well, and we continue to believe a large portion of the very healthy demand is as the result of the stimulus package in China which we believe are reaching new customers.

Christopher Longiaru - Sidoti & Company

You said the inventory for PCs about two weeks. What was it running at typically before things got as bad as they got?

Chris King

We would say that before pre-crisis, they were probably running 3 to 4 weeks. During the crisis, they obviously got a lot higher, and what we saw coming into this quarter was a little bit higher than 2 weeks, and as we exited the quarter and today we see them at a really lean 2 weeks. Because of the fact that we entered the quarter at about the same inventory levels as we exited the quarter, we do believe the strong recovery we saw was the result of true demand, but of course that's off a much lower base in our fiscal Q4 where the inventory was being driven down.

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