

NU HORIZONS ELECTRONICS CORPORATION

Moderator: Richard Schuster
January 6, 2005
3:15 p.m. CT

Operator: Good day and welcome to this Nu Horizons third quarter fiscal 2005 earnings results conference call. Today's call is being recorded.

For the purpose of the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995, our statements today may include certain forward-looking statements that involve risk and uncertainties that can cause actual results to differ materially. Such statements are based upon, among other things, assumptions made with information currently available to management, including management's own assessments of Nu Horizons' industry and competitive landscape.

During the presentation, your line will be in a listen-only mode. At the conclusion of today's prepared presentation, there will be a question and answer session. Instructions on how to signal for a question will be given at that time.

Now for opening remarks and introductions, I would like to turn the call over to Mr. Richard Schuster, President and Secretary of Nu Horizons and President of NIC Components subsidiary. Please go ahead, sir.

Richard Schuster: Thank you. Good afternoon everyone, and thank you for joining us. I am Richard Schuster, President of Nu Horizons.

Here with me today are Arthur Nadata, our Chairman and CEO; Paul Durando, our Chief Financial Officer; and David Bowers, President of our Nu Horizons Semiconductor Division.

Paul will open on the financial results for the third quarter of fiscal year 2005, and I will then make some comments on those results and open the floor to your questions.

Now, I will turn the call over to Paul.

Paul Durando: Thank you, Richard. Net income for the quarter ended November 30th was \$549,000, or three cents per basic share – basic and diluted share, as compared to net income of \$197,000, or one cent per basic and diluted share, for the prior year quarter.

Our top-line sales increased during the quarter from \$91.1 million in the third quarter of fiscal 2004 to \$116.3 million in the third quarter of this fiscal year, an increase of 27 percent.

Overall gross profit margin for the quarter ended November 30th, 2004, was 16.7 percent as compared to 17.3 percent for the November quarter of the prior year.

For the nine months ended November 30th, 2004, net sales increased to \$353.6 million from \$243.8 million in the comparable prior year period. Net income for the first nine months of this fiscal year was \$2,957,000, or 18 cents per basic share outstanding and 17 cents per diluted share outstanding, versus a loss of \$1,257,000, or eight cents per share, for the same period last year. Gross profit margin for the nine months ended November 30th was 16.6 percent as compared to 18.1 percent for the comparable period last year.

Now I will turn the call back over to Richard.

Richard Schuster: Thank you, Paul. Before I turn the call over to questions, I just wanted to make a few additional comments. The results of our third quarter showed several positive trends. First, we recorded our fifth profitable quarter in a row. We significantly reduced our inventory, market share continued to grow, and sales were spread out over almost all our product segments. Our Asia initiatives are continuing to have a positive impact on sales and we have further strengthened our Asian sales and engineering force. While we continue to capitalize on business that is designed in the United States and produced in Asia, we are also penetrating local customers. Our demand creation design strategy is expected to help position us with these domestic Asian manufacturers who are developing their own products from scratch. We have recently added our first Asia-only franchise and will continue to pursue additional lines that fit this criteria.

It is vital that we expand our (line card) in Asia, and we believe that more of our North American suppliers will grant us this geographic franchise this year, allowing Nu Horizons to increase revenue notwithstanding any decline in the North American semiconductor market. As our North American and Asian sales and engineering teams work closer together, sales for both regions should improve.

NIC Components, our passive components subsidiary, is expanding their product range to capitalize on several growth markets. Power management applications are increasing with the emergence of lower voltage semiconductor circuits. NIC has introduced an expanded line of power inductors, low ESR capacitors, and current sensing resistors to service this end market. In addition, high frequency wireless applications such as RFID, which is radio frequency identification devices, and (YMAX), which is regional wireless networking, are potential high-volume customers for NIC's magnetics products line. NIC has also recently introduced thin-film resistor chips suitable for precision instrumentation applications such as test and measurement, medical, automotive, diagnostics and telecom.

NIC continues to penetrate the Asian market as well with over 40 percent of sales now taking place in this region. Our tightened supply chain services subsidiary continues to add new customers. The tightened platform is being introduced to companies seeking Asian logistics and infrastructure support outside their immediate marketplace.

In conclusion, the electronics industry is still challenged with over-capacity, margin pressures, and economic uncertainty. We still, however, believe there are considerable opportunities for Nu Horizons to leverage its technology, logistics, and financial strengths. Short-term, we see some weakness in the U.S. market, but our confidence in the proliferation of electronic technologies encourages our investment for future growth. We will continue to seek out new suppliers and expand our market and product offerings with existing franchises.

I will now open the conference call to questions.

Operator: Thank you. Today's question and answer session will be conducted electronically. If you would like to ask a question, you may do so by simply pressing the star key followed by the digit one on your touch-tone telephone. Do keep in mind that if you are using a speakerphone, please make sure the mute function has been turned off to allow the signal to reach our equipment. Once again, star one if you have a question.

And our first question will come from Matt Sheerin, Thomas Wiesel Partners.

Matt Sheerin: Thanks. If we can just start with the expense line. SG&A was up a bit on sequentially down revenue. Could you just talk about why that was up? Are you still investing in Asia, is that part of it?

Paul Durando: Well, it is part of it. I wasn't up significantly sequentially. It was up just a tad sequentially.

We did have a few minor investments remaining to be made in the – in that quarter. But if you look at it, it was up about \$300,000 sequentially.

Matt Sheerin: Yes.

Paul Durando: So year over year is really not a good comparison, because that's been up already for six months.

Matt Sheerin: Yes. Although, though – yes, but (that's) a percentage because of the revenue decline, you know ...

Paul Durando: Correct.

Matt Sheerin: ... went from 14.5 to 15.2.

Paul Durando: That's correct.

Matt Sheerin: So is that kind of the level, that 17.5-17.7, is that sort of a level you're comfortable with or –

Paul Durando: Yes, that is a level we're comfortable with.

Matt Sheerin: OK. And then, Richard, you talked about kind of short-term weakness in the U.S. Is that something you're just picking up from of – what you're seeing in bookings patterns or is that something you're hearing from suppliers and customers?

Richard Schuster: Yes, I would say all of the above. Dave Bowers, would you like to comment on that as well for what – you know, what you – what you see for the immediate future?

David Bowers: I'll just amplify the same. Generally speaking, what we experience and hear from suppliers and competitors is that – is that Q3 was sequentially down in the North American market and that Q4 is likely to be – obviously the numbers aren't out yet, but Q4 will likely be down somewhat as well quarter to quarter. We are hearing that some saw some increase in bookings towards the end of Q4, but it's – I think (that's the report).

Matt Sheerin: Yes. And do you – do you have a – what's your book-to-bill at right now?

Arthur Nadata: Hello. This is Arthur (Nad).

Matt Sheerin: Hey, Arthur.

Arthur Nadata: We had – you know, November was about one to one. And – I mean, 1.25. And December was about one to one. So we had, you know, positive book-to-bill. It was tight in December. December was a low billing month.

Matt Sheerin: Yes.

Arthur Nadata: Which historically it is. But if you read, you know – basically, a lot of the forecast gurus have been dropping their estimates for, you know, the first half of next year as well.

Matt Sheerin: Yes.

Arthur Nadata: So it's pretty uncertain. You know, it's hard to clearly to put a number on it.

Matt Sheerin: OK.

Arthur Nadata: But I think we said a lot of things in the script that show you the positioning we're in and where the investments have gone.

Matt Sheerin: Yes and just lastly on the pricing in the last quarter. Dave, you talked about some—you know, and you don't do a ton of commodity products, but on the commodity side you did see pricing pressure. And maybe you can talk about what you're seeing in pricing, and then, Richard, what you're seeing on the (passive) side.

David Bowers: Yes, more of the same, Matt. A little bit of continued erosion on the commodity side, general speaking. The proprietary products we're seeing hold. And I – in fact, the reports that I read speculate on price erosion in proprietary products at some point in the future, but we don't see it at this point.

Richard Schuster: Matt, well, just going back a second. The bookings were 1.1 for the third quarter. So, you know, it was positive. And the margins are still being hammered to some degree in (passives). We do some continued price erosion in commodities such as MLCCs and tantalum. What we're doing to counter that is build up our product line, as I mentioned in the opening statement, build up our product area in magnetics, for example, and precision components, which tend to have, you know, more stability in pricing.

Matt Sheerin: Yes, OK. Great. Thank you.

Operator: As a reminder, star one if you have a question. And now we'll take a question from Rob Damron, with 21st Century Research.

Rob Damron: Yes, hi, guys. A question about your suppliers and moving to more of a global franchise. How many of your suppliers today have given you franchises into Asia, and what do you think is holding up the ones that have not yet franchised you globally?

David Bowers: So depending upon the market, Matt, there is a minimum of nine and a maximum of 14 of our – of our approximately 28 semiconductor suppliers. So we have more in India, for example, which is – which is much more of a demand-creation intensive market and pretty closely linked to the U.S. in terms of – in terms of design efforts. So there's a – there's an individual answer to each of the remaining. I can tell you that we have confidence that over the next one to two quarters there will be significant, measurable improvement in that. And, honestly, the reason for most – many of the remaining ones are large domestic and large Asian suppliers and very strong regional decision-making power. And we've worked very closely with the regional decision makers with each of those in addition to utilizing the corporate relationships and corporate power that we have to expand. And we're making good progress we think.

Rob Damron: OK and then also a question – could you (split out) your sales growth between the U.S. and Asia for Q3?

Paul Durando: Well, Asia – the sales growth or sales ((inaudible))

Rob Damron: Either way, whichever way you want to ...

Paul Durando: It was flat for both. Both – you know, year over year there was a substantial difference, Asia being 15 million a year ago in the third quarter and 25 million today. But from the second quarter to the third, basically sales were flat in both Asia and here.

Rob Damron: OK. And last question, regarding inventory. You did a nice job of bringing inventory down and generating cash this quarter. Which direction should we think that inventories may go over the next quarter or so?

David Bowers: I would not expect them to increase from where we are.

Paul Durando: But they probably wouldn't decrease substantial either.

Rob Damron: All right. So this is a level that we should expect at least for the next quarter or so.

Paul Durando: The next quarter or so, yes.

Rob Damron: All right, thank you.

Richard Schuster: Thank you.

Operator: And a final reminder, star one if you have a question or a comment. Mr. Schuster, there are no further questions. I'll turn it back over to you for closing remarks.

Richard Schuster: OK. Thank you. We appreciate all your support and we look forward to updating you in the future. Have a good day.

Operator: A replay will be available today beginning at 6:45 p.m. Eastern Time and will be available until January 13th by dialing 888-203-1112 or 719-457-0820 and using the pass code 299-454.

That will conclude today's conference. Thank you for your participation.

END