



## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

### CORPORATE PARTICIPANTS

Arthur Nadata  
Nu Horizons Electronics Corp. - President, CEO

Paul Durando  
Nu Horizons Electronics Corp - CFO

Richard Schuster  
Nu Horizons Electronics Corp. - Vice President,  
Secretary

### CONFERENCE CALL PARTICIPANTS

Rob Damron  
21st Century Equity Research

Jim Larkins  
Wasatch Advisors

Elliot Glazer  
Dupasquire & Company

Matt Sheerin  
Thomas Weisel Partners

Russ Silverstri  
Skiritai Capital

Jim Bussone  
Delphi Management

Robert Katz  
Senvest International

### PRESENTATION

Operator

Good afternoon and welcome, ladies and gentlemen to the Nu Horizons Electronics Corp. first quarter fiscal 2004 earnings conference call. At this time I would like to inform you that this conference is being

recorded and that all participants are in a listen only mode. At the request of the company, we will open the conference up for questions and answers after the presentation. For purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act, of 1995, our statements today may include certain forward looking statements that involve risks and uncertainties that could 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 assessment of the Nu Horizons industry and competitive landscape. I will now turn the call over to Mr. Richard Schuster, Vice President and Secretary of Nu Horizons, and President of our subsidiary, NIC Components corp. Please go ahead sir.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Thank you. Good afternoon, everyone, and thank you for joining us. I am Richard Schuster, Vice President and Secretary of Nu Horizons. With me today are Arthur Nadata, President and CEO; and Paul Durando, our Chief Financial Officer. I will now turn the call over to Paul for review of the financial results.

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Paul Durando - Nu Horizons Electronics Corp - CFO

Thank you, Richard. Our top line sales volume for the quarter ended May 31 declined \$72.8 million from \$75 million or the prior year quarter. However on a sequential basis, sales for the current three month period increased from \$70.9 million for the quarter ended February 28, 2003 to \$72.8 million reported here. The gross profit margin for the quarter ended May 31, 2003 was 19.3 percent, as compared to the same 19.3 percent for the prior year quarter ended May 31, 2002. More importantly, however, our profit margin was back up to 18.1 percent for the immediate prior quarter ended February 28 to 19.3 percent, which generated 875,000 margin dollars in the current quarter.

Operating expenses increased to \$15.4 million for the three months ended May 31, 2003 from \$14.3 million for the same period one year ago, an increase of 7.6





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

percent. This increase in operating expenses resulted from increase staffing levels in connection with the expansion of the company's Asian and U.S. operation capabilities over the last several fiscal quarters, as planned. We reported a net loss of \$831,000, or five cents per basic share for the current quarter ended May 31, 2003, as compared to net income for the prior year quarter ended May 31, 2002 of \$7,000 or zero cents per basic and diluted share, which was essentially a break-even result. Again, we would like to take note of the fact that our net loss was reduced sequentially from \$1,775,000 in the immediately preceding fourth quarter of fiscal 2003 to the \$831,000 loss reported here for this current quarter, a sequential improvement of more than 53 percent. Now I'll turn the call back over to Richard.

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Richard Schuster - Nu Horizons Electronics Corp.  
Vice President, Secretary

Thank you Paul. Before I turn the call over to questions, I'd just wanted to make a few additional comments. In our constant search to improve and refine our line card, we are very excited to announce a new relationship that is an authorized distributor for Linear Technology Corporation's line of semiconductor products throughout North America. Linear's broad line of analog products is complementary to our existing product offering and should provide incremental sales benefits in the very near future. Linear Technology produces a wide array of high performance analog integrated circuits in such areas as power management, mixed signals, signal conditioning and high frequency components. We continue to have dialog with other semiconductor manufactures that have potential to further strengthen our line card. Showing sequential growth in revenue and a sequential decline in our net loss was driven by market share growth, not market growth, and increased margins from increased design win revenues.

Our sales in Asia continue to increase and we anticipate additional distributor franchise agreements for them in the near future. As more production moves to mainland China, and Southeast Asia, we will be in a stronger situation to participate in this dynamic growth.

Fiscal 2004 will remain a challenging period for Nu Horizons and the industry in general. We are,

however, committed to continue our investments in sales, engineering and logistics, both in the U.S. and in Asia. Our balance sheet continues to allow us to enhance our infrastructure while competitors are diminishing their own capabilities through lay-offs and cut-backs in services. We expect a modest sequential increase in sales volume during the balance of the current fiscal year, with a return to a more aggressive growth pattern early in our next fiscal year. I would now like to turn the conference call over for questions.

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### QUESTION AND ANSWER

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Operator

Thank you. The question and answer session will begin at this time. If you are using a speaker phone, please pick up the handset before pressing any numbers. Should you have a question, please press star 1 on push button telephone. If you wish to withdraw your questions, please press star 2. Your questions will be taken in the order that they are received. Please stand by for your first question. Our first question comes from Rob Damron, from 21<sup>st</sup> Century Equity Research. Please state your question.

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Rob Damron - 21st Century Equity Research

Hi guys. Just a question about your Asian business; talk about the expansion, where are we at in this expansion plan, how much longer do you see it going before you actually have the footprint you need, and is this the SG&A level should expect going forward, or is there incremental investment from here?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

OK, good question. Well as far as the footprint, and bricks and mortar [unintelligible] by the way. We are pretty well set. We have seven hard offices right now in Asia. We are just about opening on Taiwan, which really will be our seventh. We have, you know, people in all locations. We will be, however,





Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

moving our warehousing, we will be expanding our warehousing in Singapore, from about 8,000 to 14,000 feet of warehousing and probably five to six thousand feet of office. That should be by the end of the calendar year. Other than that, it is really upgrading, not upgrading but adding some people there. We have added our first two full time engineers in mainland China in certain locations where we are getting certain franchises. So I think most of the infrastructure on bricks and mortar, will be in place by the end of the year. Those numbers are in our budget. We write, we are on budget in Asia, both in sales and basically we are pretty much at a break-even on a operational basis, which is much earlier than we had anticipated. And what is also interesting about Asia is when we had first started there about two years ago, most of our revenue was generated from our design wins going from North America over to Asia. Where today that is probably close to 50 percent of our sales, and almost 50 percent of our sales is generating new business from some of the large contract manufactures and medium size contract manufactures there. So we are happy with the way the mix is going.

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Rob Damron - 21st Century Equity Research

That is great. In terms of what percent of your suppliers, or what number of your suppliers, have actually franchised you in Asia?

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Arthur Nadata - Nu Horizons Electronics Corp. - President, CEO

We have five full franchises: two exclusive, one contract on the table, which is not in the five, and all of our 25 suppliers have given us permission though to track and book our design wins. So we have five real pure [unintelligible] franchise, one on the table and that there will be two exclusive in that package.

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Rob Damron - 21st Century Equity Research

OK, and then just one other question, switching gears a little bit, just on the gross margin, that was a nice trend on a sequential basis. Would you say that is

more of a mix shift, to more of demand creation services?

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Arthur Nadata - Nu Horizons Electronics Corp. - President, CEO

Absolutely.

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Rob Damron - 21st Century Equity Research

--during the quarter, or are you also seeing a little bit better pricing environment, maybe you could talk about that a little bit as well.

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Arthur Nadata - Nu Horizons Electronics Corp. - President, CEO

No that came strictly from design win revenue, where we really track our design, you know orders have to be at a certain margin for us to keep investing and to work the registration program, so that came strictly from our design win revenue growth.

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Richard Schuster - Nu Horizons Electronics Corp. - Vice President, Secretary

Or, just to through a number in there to support Arthur's' comments. Our design win sales were up 18 percent quarter-over-quarter sequentially.

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Rob Damron - 21st Century Equity Research

OK, that is great. Could you--

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Richard Schuster - Nu Horizons Electronics Corp. - Vice President, Secretary

By the way, just to quantify a number on your first question when you asked about the stability of SG&A, to quantify what we still need to do in Asia, meaning Tawain and some expansion warehouse





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

facility, I would say you probably will not see more than \$200,000 to \$250,000, tops, a quarter and maybe not that much, spread out over the next several quarters, and that would be the extent of SG&A increase.

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Rob Damron - 21st Century Equity Research

So incremental \$200,000 to \$250,000 per quarter incremental.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Yes, but I don't think it will all be in this coming quarter, it will spread out over the three. So basically what we are saying that most of our SG&A is in place, even in Asia.

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Rob Damron - 21st Century Equity Research

OK, and just the last question of the pricing question. Are you seeing stability in pricing or where are we from that standpoint?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

You know you have certain pockets where there has been some stability, but overall we thought that it would be more flattened out by now, but it's still pretty aggressive pricing going on, especially in commodities. You know the proprietary stuff, as I said, you know that stuff is maintaining.

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Rob Damron - 21st Century Equity Research

OK, good, thank you guys.

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Operator

Our next question comes from Jim Larkins, from Wasatch Advisors. Please state your question.

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Jim Larkins - Wasatch Advisors

Yes, a lot of my questions were just answered, but maybe I could ask you to backup a little bit and help me understand when you talk about Asia, you said initially it sounds like with a lot of design wind and now you are picking up other additional business. And can you explain to me, when you talk about franchise and exclusive relationships, what does that mean in terms of-- does that mean these guys are giving you information to allow you to track design wins?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Well, the tracking of design wins-- let's step back and take them one at a time. As far as tracking our design wins, when we get a design here in North America, and we get a registration from a supplier, and that particular customer that is building that product that we have the registration at, he shifts his manufacturing to China. And we have our own software tracking system, we track where that production is going. We identify the contract manufacturer in China. Of course we call the supplier and he acknowledges that we have the registration, they allow us to book that and protect the pricing where their other distributors will not get the same pricing that we have.

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Jim Larkins - Wasatch Advisors

Right.

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Now with the complete, that is not a total franchise. Now when you get a full franchise in Asia, of course we have the same privileges we have here in the U.S.





Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

where we can go out and quote the products to any customer we want, whether we have design wins or not, and compete on pricing and purchase the products as well, and just compete as we do in North America. So without having a franchise, we are only allowed to sell the registered products that would track by design wins. With a franchise we can sell the entire line to any customer.

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Jim Larkins - Wasatch Advisors

That is very helpful, OK. Just given that you've been in there a while and it sounds like, according plan you are doing well in Asia, what do you feel are the risks going forward? Are there inventory risks being over there, or is it mostly just execution with the right people?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Well, there is a combination of risk because the way - a lot of suppliers there have many, many distributors, they have what is called mini-independent reps, they have some reps that are distributors and reps, they're called stocking reps. The inventory privileges and protection is different over there. The purchasing cycles and purchasing procedures are different. Yes there is quite a difference and you really have to understand the processes over there to manage the line properly. And of course, the people that we have over there are very experienced. Most of them come from other distributors over there or people that understand how to manage franchise lines, but of course we control a lot of it over here domestically on purchasing and things like that. And of course one thing that we have that is a very big benefit to us is we have one computer system globally. Unlike many of our competitors that where the systems don't speak to each other, whether it is from acquisitions or what have you, we have one system that is visible to all of our branches in Asia, all of our branches in North America, and you know including Mexico and Canada, and it is one system visibility. So therefore, the tracking of the business and the real-time information is very accurate.

Jim Larkins - Wasatch Advisors

OK, great, and then you talked about gaining a little bit of market share, and that your design wins have been a big driver in your gross margins. Is there any broad categories of strength that you can talk about?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Yes, when we track market share, we track it by our suppliers in a particular area where we go up against, a supplier may have three distributors in a particular market. And we track how we are gaining market share really against them. So what happens today is really that you are taking more from your competitor when you are gaining market share. Now when it comes to design wins, and designing in product, that is gaining market share through new business, where you're not taking from a competitor. And on that side of the business we are doing very well, and that is where you see the increase in our margins and, as Paul said, the revenue increase of 18 percent in that design win revenue. And that is really the culture and the core competency of our company is we're every demand creation or demand driven by our engineering staff and our proprietary products. And that is why our supplier line card, most of our suppliers are very complementary to our technology. We try not to have a lot of overlap and a lot of competitors on our line cut. And so that really helps a lot. Today we work very well with independent engineering consultants as well, where we help them with their customer base. We do a lot of what is called reference designs, where we -- of course we have lines that complement each other, we can have suppliers actually speak to each other and recommend each other's parts in certain applications where they don't see each other as being competitors. And many other distributors can't do that. I hope I didn't get too confusing there for you.

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Jim Larkins - Wasatch Advisors

No, that is fine. And then your new RF division, any comments on that?





Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Yes, you know so far it is going well. It is fairly new for us. We have increased our supplier product areas. Matter of fact, Linear Tech. Has a very strong RF Wireless portfolio as well. Micro is introducing a lot of new products. Of course, we have we have Intersil [sp]. A lot of our current suppliers have some strong wireless application products. CEL, course, which is actually NEC Wireless, Toshiba. So we have quite a basket of wireless products and now it is a question of getting the new people to understand the focus that we put on it and how are we going to market it through engineering.

Jim Larkins - Wasatch Advisors

Great, thanks a lot.

Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

You're welcome.

Operator

Our next question comes from Elliot Glazer, from Dupasquire & Company. Please state your question.

Elliot Glazer - Dupasquire & Company

Yes, gentlemen, in the period ending May 31, what was your book to bill ratio?

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Our book to bill was about 1.05 to 1—it was just over one, barely over one, Elliot. [crosstalk]

Elliot Glazer - Dupasquire & Company

What would be the trend, of the book to bill, subsequent to that, we have about four and a half weeks, since May 31<sup>st</sup>.

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Subsequent to that it was a negative.

Elliot Glazer - Dupasquire & Company

OK.

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

You know our book to bill has come back to parity over really the last quarter. There is still a lot of book-ship out there as you know, and you know that is going to have to do with when lead times start to really stretch out, we will see a more and more stronger backlog bookings.

Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

The other thing, Elliot is that I don't know how, I don't think you can compare book to bill now, the way it was three or four years ago. It is really not a very reliable barometer anymore. You still look at it, but sure, it is really not that reliable. They rebook, they push out, they you know it has just been a free-for-all—

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

The problem is you never know where something is going to be bought.





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

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Elliot Glazer - Dupasquire & Company

That's right—

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

You know?

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Elliot Glazer - Dupasquire & Company

Let's go into some more depth, Arthur if you take a look at your semi-conductor circuits, what areas are hot and what areas are cold? What are people buying?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Well, as I told you, what has always continued to be pretty hot is the analog space, you know certainly programmables are, you know certainly continued to fairly strong. Yes, we are new-- Sharp [sp] has been a new line for us, and we are new now in the glass space so we're getting, we are doing very well in designs with Sharp and with flat panels and glass, which has been a technology that fits right into our customs base and fits into our line card. We are seeing a lot of activity in Micros especially in Arms 7 [sp], and they have Arm 9 coming on. So some of our lines have some pretty strong technologies that we are doing a lot of design in.

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Elliot Glazer - Dupasquire & Company

Let's go the opposite extreme, what areas of semi-conductors are weak?

Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Well when you say weak, we could—

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Elliot Glazer - Dupasquire & Company

I mean below one-to-one.

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

The broad commodity where you have multiple suppliers, and you know and where you're seeing a lot of that, I would say pretty much that, and some of the memory—you're still seeing some of the memory areas that are very, very uncertain right now.

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Elliot Glazer - Dupasquire & Company

And what is the ASP trend in some of the commodity circuits and some of the memory?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

That is a tough one, I would say it is flat to unstable right now.

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Elliot Glazer - Dupasquire & Company

OK, let me switch over to Richy's area please. What are the ASP trends in prices?

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

There is still price erosion, Elliot. We have seen it slow a little bit, you know where in the past people were seeing 5 to 10 percent a quarter, we are now seeing that slow down to perhaps a couple of





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

percentage points a quarter. I think, and I keep saying we've hit bottom but apparently not. The trend is that the erosion is there. I think there is still some inventory hang-over that people are looking to dump out before date codes go completely out. And I think there are some players who are just desperate to keep market share. But the unit sales, the unit sales are up, which is a good sign.

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Elliot Glazer - Dupasquire & Company

OK, I want to run by you to points made this morning at Merrill Lynch's quarterly electronics update call, their survey of hundreds of companies in the area. They made two points. One, they were very much afraid that expectations for the second half of the year, particularly the fourth quarter, were too high. Based on your comments earlier, you're looking for modest sequential gains for the rest of the year. How would you define modest sequential gains and do you find that peoples expectations of the fourth calendar quarter are too high?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Well, you know, we're looking between now and the end of the year, between 8 and 12 percent as an increase for us. But, of course you know that is on our current business. Now you add new suppliers and you add something like that, of course that could be even stronger than that. But, that was you know, we have some new relationships here that could probably grow that number a little bit. But to be conservative, between 8 and 12 percent.

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Elliot Glazer - Dupasquire & Company

OK, the second point, and it may not be germane here, is all the people at Merrill Lynch were very concerned about deteriorating business conditions in Europe. You don't do much of any business in Europe, do you have any sense of what is happening?

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Well we have-- NIC has a facility in England, and we are actually making a small profit over there. But yes, business is very challenging in Europe. But we have a very low overhead operation, we are keeping our overhead under control, and we believe we can be at least profitable in Europe.

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Elliot Glazer - Dupasquire & Company

What do you think of Europe?

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Europe is very challenging, definitely the consumption in Europe is down. There, we do not see unit sales increasing. We see unit sales increasing in Asia, primarily and in the States to a lesser degree, and in Europe it is very flat right now.

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Elliot Glazer - Dupasquire & Company

OK, now the last question is the most difficult of all. Getting over to your fourth fiscal quarter next February 28<sup>th</sup>, if you are able to achieve this 8 percent to 12 percent sequential gains between now and then in revenues, will that be an earnings quarter, or will that be in the black?

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Yes, it will be an earnings quarter, Elliott, if the margin can be kept up.

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Elliot Glazer - Dupasquire & Company

Right.





Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

You know, it is really fairly simple math, I mean we only need to be around 80 million at 19.3, or you know, even the high 70's could do it, and then you have to be in the high 80's if you're at 18, so it is really a pretty simple equation.

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Elliot Glazer - Dupasquire & Company

Great, that is so helpful.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

The way Arthur gave us the projection and coupled with keeping the GP's where they are, it could be, it should be a profitable quarter.

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Elliot Glazer - Dupasquire & Company

Excellent, thank you very much, gentlemen.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Thank you, Elliot.

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Operator

Our next question is coming from Matt Sheerin, from Thomas Weisel Partners. Please state your question.

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Matt Sheerin - Thomas Weisel Partners

Yes, thank you and good afternoon.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Hi Matt.

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Hi Matt.

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Matt Sheerin - Thomas Weisel Partners

So maybe you can talk a little bit more, Richard on the passive business just for a second, how things are trending, and what percentages of sales are represented, and kind of what the prospects are for that business.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

OK, there are some segments of the industry that are, you know, doing fairly well: for example consumer electronics, audio visual, automotive where we are starting to get into the automotive sector, which is a little more difficult with the qualifications. The industrial medical segment is doing a little bit better, still some challenges in the communications sector. We have been very successful, as Nu Horizons, in following our designs from the U.S. into the Asian market. That is a very profitable part of our business. We also expanding our distribution globally, which will enhance our tier two and tier three customer base, and our margins have held up very well in that sector. So overall, it is positive in terms of consumption and acceptance of our product line, still price erosion however.

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Matt Sheerin - Thomas Weisel Partners

OK, great and then, Arthur, if you could talk about the Linear deal, just give us some more detail, when, sort of how long that's going to take to ramp, and your expectations there.





Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

OK, well, we've been working on it for a long time. So we are really very, very excited about this relationship. It really fills a large technology hole in our line card, and it really blends in and complements a lot of suppliers. And what is key about it is that two-- three quarters of our customer base, 75 percent of our customer base, has potential to use Linear Tech, product. So it is a very, very broad line, broad customer base, and probably 80 percent of the product is proprietary. So it is a very heavy demand creation, good margin line. So we are very pleased to have it. As far as potential revenue, we can see a \$20 million run rate within the first 12 months. Now you have to understand that a lot of the business that Linear Tech is looking for us to do is new demand creation, which normally takes six to eighteen months for design wins, from design into revenue. Now of course, there will be a lot of discretionary business in between that we will be booking, but on a pure run rate about \$20 million in the first 12 months.

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Matt Sheerin - Thomas Weisel Partners

OK, great, and then--

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

But, I'll tell you, Matt, one other thing that is really key about this -- I'm sorry, is this kind of supplier really makes the phones ring. And it makes customers call in and that really brings other products to our customers because of that initial call. So we are very excited, as you can tell by my voice about the relationship.

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Matt Sheerin - Thomas Weisel Partners

Sure. You know the gross margin was higher because the demand creation business as a percentage was higher. Do you get a sense on the fulfillment side, which sounds like it was kind of flat to maybe

even down, in terms of visibility there, how that is trending, what demand is there, so you can get a sense of managing those margins?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Well, you know the interesting part is the fulfillment business is still running about a third of our business but on the 70 percent that is proprietary and demand creation, the demand creation side is picking up that 70 percent. And that is what is driving margin. But as far as-- it seems like the fulfillment side for us stays at that 30 percent level. Obviously we're shipping more products, more units, so prices have been up and down, mostly down on commodity. I mean we just saw some new-- and a lot of these suppliers that supply committee products, and you know who they are, the Arms [sp], the Fairchild's [sp], the ST's, the TI's, National to some degree. They have a lot of these market price programs, which are pretty aggressive pricing out there. So that really does drive the revenue down.

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Matt Sheerin - Thomas Weisel Partners

OK, and then I know someone asked about pricing in general, but your sense is that nothing out of the ordinary there. Like on the analog side for instance, are you seeing pricing pressure?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

No, not as much on the analog side. And I'll tell you what drives the pricing down too, is these large contract manufactures, they are very powerful, they buy huge quantities and you know, if you aren't able to package it with the demand creation products, then you're selling pure committee and it is very, very low margin.

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Matt Sheerin - Thomas Weisel Partners

OK, thanks a lot.





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

You're welcome.

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Operator

Once again ladies and gentlemen, as a reminder should you have a question, please press star 1 at this time. Our next question is coming from Russ Silverstri, from Skiritai Capital. Please state your question.

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Russ Silverstri - Skiritai Capital

Thank you. A couple of questions that relates, one, to inventory; with inventories down sequentially, are inventories down at the unit level down as well? And, second, looking at the inventory at the contract manufactures, what is your sense of that? And last question was relating to accounts receivable up a little bit sequentially, what do you attribute that to?

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Paul Durando - Nu Horizons Electronics Corp - CFO

Let me take a shot at some of that -- Paul Durando, CFO -- receivables, days outstanding were almost the same. They're up tich [sp], that's because sales were up a bit. So that is the reason for that, but days outstanding really haven't fluctuated much in recent times. In terms of inventory, I would say unit inventory is obviously down, but pricing is down a little bit too. So that combination brings the entire inventory down. We as a company don't live on terms, you know we don't live and die on terms. So the fact of the matter is that I think this could be a maybe a bottom for us on inventory, unless Arthur and Richard disagree. With Linear Tech coming on and business picking up modestly, we will probably see an increase in inventory, not a decrease. So ASP's are down a bit, unit inventory is down a bit, but I think you're probably seeing the bottom of it on our balance sheet on inventory.

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Inventory for us, and you know the mix is good, you know we are pretty happy with the way the inventory is sitting right now. But a lot of it is price protection where prices come down, and it is not some much unit decreases as much as price decrease.

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Russ Silverstri - Skiritai Capital

And then in terms of your sense of inventories at the contract manufacture level?

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Paul Durando - Nu Horizons Electronics Corp - CFO

Well, on the passive side, I can tell you that inventory levels have come down. I believe the last report that I saw was that average inventories, you know a year ago, were at three months, and they have come down to about 1 point, one and a half months. And I think the trend is for that inventory to come down even further.

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Russ Silverstri - Skiritai Capital

And on the active side?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Well, on the active side, inventories in the particular lines that we sell to the large CM's, we control a lot of that ourselves on the proprietary side. So we don't see inventories out of whack there. On the commodities side, where some of them may buy, may double order to protect themselves on commodities, there is still some of that going on, but I think that it is down considerably.





Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

There is a lot of, you know the date code issue has certainly reduced the overhang. Basically three years ago, two and a half, three years ago when the market started to decline, the product that was shipped in at that point for the most part is going out of date code. We you know have already addressed that issue, so our inventories are clean. But I think that there is a lot of inventory out there that will go obsolete, you know about now, in the next few months.

Russ Silverstri - Skiritai Capital

Are there any products that are experiencing shortages?

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Yes, we have a number of suppliers where some lead times have gone out. And that is really in some of the automotive and industrial space to be honest with you.

Russ Silverstri - Skiritai Capital

OK.--You wouldn't categorize it as [unintelligible]

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

I wouldn't, but some lead times have gone out, whether they're not geared up for the capacity or not, I think that is a possibility. What it is, there's still some fabs that they haven't restarted so they can only fill so much.

Russ Silverstri - Skiritai Capital

Thank you.

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

You're welcome.

Operator

Our next question comes from Jim Bussone, from Delphi Management. Please state your question.

Jim Bussone - Delphi Management

Hi guys, just a clarification: earlier in the call someone said they ere looking for 8 to 12 percent increase from here to the end of the year, but what was that an increase in?

Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

In revenue.

Jim Bussone - Delphi Management

OK, great, thank you.

Operator

Once again, ladies and gentlemen, as a reminder should you have a question, please press star 1, at this time. Our next question is coming from Robert Katz, from Senvest International. Please state your question.

Robert Katz - Senvest International

Hi, nice quarter. I missed the beginning of the call. What was the guidance for gross margins, and where do you think that tops out at?





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Well margins were 19.3 for the quarter just ended. I certainly wouldn't project an increase in gross margin and hopefully not a decrease. We are hoping to see a stability in the margin. As long as the mix continues to stay to the side of the design in product, we should be able to maintain that 19 plus margin. If it starts to flip back to where it becomes more of a fulfillment, you know we have more fulfillment sales, then the margin will corrupt. So it is a bit of a game but that is the fact, we don't have a crystal ball on it.

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Robert Katz - Senvest International

And can you comment a little bit more about, I guess sales into the Asian market place? And how much overhead is needed to grow revenues there?

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Well, in terms of Asia, you know we don't believe we need much more revenue to grow the volume. We have in place eight, seven different branches and the only one we have to implement is Taiwan. We have our people in place so that, from where we are now, we can do a substantial amount of volume with the people, with the overhead we have in place. So if the time comes that we have to increase personnel over there it is because we are really hitting the ball out of the park. So short term, I don't think there is a big overhead issue.

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Robert Katz - Senvest International

All right, then is most of the growth coming from Asia, if you were talking about—

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Not at this particular time, no. Yes, if you want to look at the percentages, you can say yes sales grow 40 percent over last year. You know percentages when you're in smaller numbers, don't tell the story. But no, it is still not a big factor in our overall numbers, from a sales viewpoint.

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Robert Katz, from Senvest International

But if you are looking at growing 8 to 12 percent from here to the end of the year, how much of that is coming from Asia, how much is coming from existing customers here, who are not moving there business over?

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Well now you've asked a complicated question, in the sense that to the extent that we track business from here to there, if you're calling that domestic business even though we are selling it in Singapore I mean out in Asia, then I would say the bulk of the business would still come from here.

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Robert Katz - Senvest International

Right, OK.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

But some of that growth is business that is going to be delivered in Asia, if we can put it that way as opposed to [crosstalk]

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Robert Katz - Senvest International

So looking at it that way, right now it is costing you more to deliver, to get revenue, for the same revenue base, because you're not really [crosstalk]





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

I understand what you're saying, yes. But you have to remember that we wouldn't have that revenue at all if we didn't have Asia. [crosstalk]

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Robert Katz - Senvest International

Right. [crosstalk]

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

It is up to us to make sure that we can, you know our suppliers protect us on the margin. I mean that is critical for us, and you know we have the wherewithal to track it, and now it is up to us and our supplier relationships to protect us and make sure that they give us the margin so we can continue designing in here at North America for them.

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Paul Durando - Nu Horizons Electronics Corp - CFO

Let's put it this way: longer term, that is not what should drive the Asian volume. To begin with obviously that is what is driving our current volume, even though it is very modest. But down the line it is going to be the fact that we have franchise distributor agreements and we are doing selling there.

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Robert Katz - Senvest International

Are you able to transfer those agreements to the Asian market from the U.S. market?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Yes, I don't know if you heard the earlier question, but someone did ask us how many actual franchises

we have there. And my answer was five with another one on the table, but all of our 26 suppliers have authorized us to book our design wins that we track to Asia. And as I said also, in the beginning where all of our business was following our design wins, probably 40 percent or more of our business today is beginning to come from new opportunities there that are not coming from North America.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

You know, you are kind of faced with the chicken or the egg situation here. You know the vendors get pressure from their current distributors in Asia not to put any more distributors on. So the approach had to be that we had to put the infrastructure in place. And now we are at a point where the lobbying will seriously begin to get the manufactures to grant those franchises of distributor agreements, due to the fact that we can point to an actual infrastructure and say, we have people in place, to sell your product. In this case we picked the chicken, so to speak and we had to put it in to place before we could get the egg.

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Robert Katz - Senvest International

Right, and going forward for the next two quarters you wouldn't have to grow your op ex to grow revenues?

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

Not really because we have about 55 to 60 people in place over in Asia now in six different branches.

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Our newest branch, as I said, we are now, we just finished India now is getting up and running. As a matter of fact a number of our suppliers have already offered us full franchise in India, we will be in Bangalor and Delhi. And there is a lot of new design





Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

activity going on there, and there is manufacturing going on. They say in the next three years Korea and India are going to be very strong as far as contract manufactures opening up there because of labor costs and you know market conditions.

Richard Schuster - Nu Horizons Electronics Corp. - Vice President, Secretary

You know obviously salaries are not what they are here, so 60 people there don't cost you anywhere what 60 people cost you here.

Arthur Nadata - Nu Horizons Electronics Corp. - President, CEO

There's engineers as well.

Richard Schuster - Nu Horizons Electronics Corp. - Vice President, Secretary

Although you are also going to make less margin in Asia eventually so you're not going to have the same model in Asia. It's just not going to be a 19 percent model on margins. But you're not going to need that to make your living, because your overhead margin is going to be much lower.

Robert Katz, from Senvest International

Are your FAU's going to be on a percentage revenues or fixed?

Arthur Nadata - Nu Horizons Electronics Corp. - President, CEO

I'm sorry, I didn't hear that.

Richard Schuster - Nu Horizons Electronics Corp. - Vice President, Secretary

I didn't hear that either.

Robert Katz - Senvest International

Will the sales people be fixed salary, or percent of revenues?

Arthur Nadata - Nu Horizons Electronics Corp. - President, CEO

We have a set base salary, and then we have, which is about 70 percent, and then 30 percent of the base, the other 30 is going to be incremental on commission on comp plans. So it is 70 percent base, 30 percent variable comp.

Richard Schuster - Nu Horizons Electronics Corp. - Vice President, Secretary

But that variable comp is much lower than the variable comp here.

Arthur Nadata - Nu Horizons Electronics Corp. - President, CEO

Yes it is much different than here. Yes. But also we split commission. When an engineer designs in something in North America and it gets bought in China, the location in North America gets 70 percent of the commission, with the fulfillment anywhere gets only 30 percent because we have to stay focused on where the design activity is, that's where you get the business.

Richard Schuster - Nu Horizons Electronics Corp. - Vice President, Secretary

You have to think of this as two separate types of business sales dollars. A, it comes from here, you know designers done in the states. It is a much higher margin situation and then there is a split. And that is a different model, even if you design it over





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

there you are going to get less margin if the design originates from Asia, than it is here.

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Robert Katz, from Senvest International

Right.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

So you really have to think of it as two separate types of business.

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Robert Katz, from Senvest International

Thanks a lot.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

OK.

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Operator: We do have a follow up coming from Jim Larkins, from Wasatch Advisors. Please state your question.

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Jim Larkins - Wasatch Advisors

Thank you. Two questions. So should I think of Linear as becoming a more profitable arrangement over time as you get in to more demand creation business with them?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

I think most lines, the supplier does try to reward you for your investment and our FAE's, our engineers and the time involved to getting a design to

fruition. Suppliers realize that you have to have margin to continue to make those investments. So yes margins are much higher in that.

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Jim Larkins - Wasatch Advisors

And so the \$20 million of business you can do with them in the first 12 months will largely be fulfillment business then, is that correct?

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

I would say that there will be a significant mix in there, because even though designs do take 6 to 18 months, there are still plenty of costs that you can cross out, less of a tech, a full design, and put them in place. You know Linear Tech does compete heavy with companies such as Maxim [sp] Analog Dvices, and people like that. And there are times when you can not go through a full design, but go in a just you know transfer products, because they are plug-in replacements, and that is business that you can get pretty often.

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Jim Larkins - Wasatch Advisors

OK, and should we think about-- second question, should we think about Asia as being sort of a 70 percent demand increase as well?

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

I would say over time. Our models going into that, yes, there is a lot of design going on at smaller customers. But there is also a heavy contract manufacturing base. But most of the business we do with the contractor manufactures and because our designs are ending up there and we are tracking and following it. So I can't really give you an exact percentage, whether it will be 70-30 or 60-40, but certainly even in Asia the demand creation is certainly higher margin as well. So we will continue to go with our strategy there.





## Conference Call Transcript

Q1 Fiscal 2004 Nu Horizons Electronics Conference Call  
July 2, 2003 4:15 p.m. ET

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Jim Larkins - Wasatch Advisors

OK thank you, that's it.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

You're welcome.

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Operator

Once again ladies and gentlemen, as a reminder should you have a question, please press star 1, at this time. If there are no further questions, I will now turn the call back to Mr. Schuster.

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Richard Schuster - Nu Horizons Electronics Corp. -  
Vice President, Secretary

OK, well we certainly appreciate your support, and we look forward to updating you in the near future. Thank you all for listening and staying with us. Thank you.

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Arthur Nadata - Nu Horizons Electronics Corp. -  
President, CEO

Have a happy Fourth.

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Operator

Ladies and gentlemen if you wish to access a replay for this call, you may do so by dialing 1 (800) 428-6051, or (973) 709-2089 with an area number of 297552. This concludes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.

END

