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PRESENTATION

Ross Seymore - *Deutsche Bank - Analyst*

Good afternoon, everyone. We are going to get started with the next presentation.

We are very pleased to have Maxim -- is the product word still in there or just Maxim Integrated? It's Maxim Integrated -- rebranded.

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

Integrated. Rebranded. Two years ago we rebranded.

Ross Seymore - *Deutsche Bank - Analyst*

It's still Bruce Kiddoo. So that name hasn't changed as the CFO and we are very happy to have Bruce your with us.

So Bruce, why don't we start off with just a question I have been asking pretty much every company that has a broad base business like Maxim. Maybe outside of your consumer business, which we will get into having its own dynamics, but in a broader sense how are you looking at the cyclical dynamics?

There has been concern the last quarter or so that some of the industrial and auto and those sorts of areas, they have been really strong but the word peak keeps coming up. How are you looking at where we are in the cycle?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

I think for us, and again I think you do have to look at it sort of by the end markets and when we think about the cycle most people think about the broad-based industrial sellthrough distribution. For that inventory, traditional things we all look at, inventory levels in the channel, they are flat.

They were 54 days. They were 53 a year ago. Leadtimes, no change in those.

So I think from that point of view it feels like normal seasonality. We guided our core industrial business down in September. That is normal seasonality from that point of view.

I think the concern is we grew our core industrial business 10% last year year-over-year in the fiscal year ending in June. And I think some sense is are we overshipping end demand, as an industry, and I think that's where some of these concerns come from.

We don't see it in inventory. We don't see it in leadtimes.

It could be the small customers who take product from the distributors, could have restocked and that could have contributed to the strong growth last year. But we are not -- we can't see anything obvious there from that point of view.

Automotive is just doing very well. I think that is more of a content growth story. I don't see that as inventory build up there.

Again, unlike maybe you are selling to the small customers for industrial; automotive you are selling to some very large suppliers, reasonably sophisticated supply chains. I don't think you are going to see big inventory builds they are.

So it feels to us like normal seasonality. I do think we all no matter how many years experience we have we all get excited in the March and June quarters that industrial is back. Because that's the strong seasonal time period.

We all get nervous in August when bookings slow down because Europe goes on vacation and everybody's kind of quiet. And so I think that's just how that process works.

By the time we come back in September and give our earnings guidance in October I think we will have a good feel if there really is. I think against that seasonality there is a little cycle in there, of course, I just think it is more muted. And maybe we are a little bit stronger the last year.

Maybe it gets a little bit weaker. I don't know. But I don't see any -- unless there's some kind of macro shock to the economy, I don't see any significant correction or cycle impact.

Ross Seymore - *Deutsche Bank - Analyst*

That answer has actually been pretty similar to what most of the other companies have said. The fourth quarter, from a calendar perspective not your fourth quarter, has been below seasonal by any historical metric for I think three years running now. Even last year at this conference everybody sounded pretty solid and then ended up on average guiding a little softer for the fourth quarter.

Have you guys notice any changing in seasonality, again, possibly outside of your consumer area which acts in its own patterns, where the fourth quarter is just not as strong? Or is it -- what's going on in the calendar fourth quarter if you have noticed any of that change?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

I think for us you have both industrial it is typically a weak quarter, it is typically down. Automotive it's flat to down.

I think usually September is probably the weakest quarter for automotive and then followed by December. And then you have March is a strong quarter and June is a very strong quarter as people are starting to take product for the new design wins and for the new platforms that are going to come out in the summertime.

So I think from that point of view I think it has been typical for us. Obviously as you referenced our largest customer, Samsung, normally does their inventory correction in the December quarter as well.

And so you look at us historically and we are sort of plus or minus 1%, 1%, 2% sort of the range that we are in. And for us that feels about normal. We have never had a business that is very strong in the December quarter, kind of the holiday buying season historically we haven't seen that.

Ross Seymore - *Deutsche Bank - Analyst*

So you just mentioned about the Samsung side, so why don't we dive into that a little bit. You guys back in July guided for what Samsung was going to do and once again it was for the second year in a row an issue not of Maxim's own creation but in some ways almost a winner's curse.

Just talk a little bit of the cause of the magnitude and the potential duration of that. Is that going to be something that you think is behind us in the calendar third quarter or is the addition of a traditional inventory burn by that customer in the calendar fourth quarter something that allows it to take another leg down?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

So I think the clear issue is in demand for the flagship products. We saw some weakness in the June quarter. That was for the most part overcome by strength in industrial, strength in automotive such that we came in a little bit less than 1%.

We still grew 6%, we still had record revenue but we were about 1% below our midpoint. But I think that weakness in the high-end phones, whether that's being the Galaxy platform or the Note platform, is the reason we guided our consumer business down significantly for the September quarter. I think that weakness is probably why -- it's not probably, is why we gave a wider range in the guidance that we gave for the quarter because of the risk associated with that softness in their demand.

Clearly our content has been increasing so this isn't a marketshare issue. Our content in the S5 over the S4 increased. Our content in the Note 4 the just got announced is higher than what was in the Note 3.

So I think from that point of view we are increasing our content there. It's just that that end demand is weaker.

Now when we think about the December quarter, as you said, we had last year a similar event happened. We thought that maybe they were going to take their pain in the September quarter. They still actually -- we guided flat for December, they actually came in a little bit low.

So I think we are assuming, we are planning that there is still going to be some level of inventory correction in the December quarter. That's just what they do, that's the process, that's how they think. And that's what we are assuming.

Ross Seymore - *Deutsche Bank - Analyst*

So with the stuff that you can to a certain degree control, talk about the desire at Maxim to target these SKUs and get, when you succeed, the customer concentration, but talk about some of the technology that you are putting into these phones. And then the follow-up question will be, is there things you can do to either diversify to get a little more stability in there, or anything that makes you question the sorts of concentrated bets that have apparently shorter duration?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

I think from our point of view as you said earlier, very clearly we were a victim of our own success. We did very well at Samsung. We did very well selling power management to Samsung.

I think we all acknowledge that we need to diversify our business within mobility. We need to diversify our business beyond mobility.

And I think to a certain extent you have seen consumer, which was 47% at its peak, it is now 35%. You saw Samsung that was 28% at its peak, it is now 15% we are estimating for this quarter.

So in one sense we have been able to address that. At the same time in essence revenue has stayed flat because automotive grew 45%, industrial grew 10%, comm and data center grew 30%, 20% of that from Volterra. So some inorganic but we have been able to make up that Samsung revenue as that came down.

That said, within mobility we still think it's a great market. We actually, I think most people know, our gross margins are close to the corporate average. Operating margins are good.

And so the question is how do diversify within mobility? And to your question, beyond just selling power we are now probably a leader in optical sensors, starting off with the biosensor and if you look at the Note 4 we have shifted to more of an environmental sensor as well that we've added on to the bio. So that's added.

We have had zero audio business a year ago. We now have audio amplifiers in both variants of the S5 and in their other new platforms that they just announced.

We have obviously grown audio in the other large mobility player and so I think we have been able to diversify there. And we have additional opportunities whether it's an additional sensors in MEMS and other kind of building block products going forward.

So I think we've done a good job diversifying across technology. Obviously we are diversifying across customers. I think we have indicated that we -- our business is doing well.

Apple, we continue to grow that business. And then we are growing at a much smaller-based but growing our China business as well.

So new technologies, new customers and then finally the new platforms whether that's doing well in tablets, or sort of the emerging market of wearables. So I think we are addressing all the issues around the concentration issue we had at Samsung. I think we are making very very very good progress.

In the very near term the slowdown in demand for Samsung's high-end platforms happened faster than we could diversify the rest of the business. I think long term we are on track to rebalance the Company both from a customer and a market concentration.

Ross Seymore - *Deutsche Bank - Analyst*

When you look at the Samsung business from generation to generation, the unit side and what the uptake is of their product that's -- again, there is nothing you guys can do about that. But if we talk generation to generation you had the PMIC power, and then you had some of the Gesture stuff and now you have the bio side of things.

Is there an issue where keeping a single socket from generation to generation is difficult because they wanted to commoditize but you have successfully stayed one step ahead of that curve? Or is it a market where you think there is definitely opportunities to keep the same or similar sockets generation to generation and get a little bit of stability across different applications as well as across different customers as you just discussed?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

I think it's interesting to note, the first significant design win at Samsung was in January 2008 in their 3G phone, which was power management. That same technology -- you are right, as far as doing the power management for the digital chips, the apps processor, the baseband, the digital chipset guys would kind of bundle those together and so they took that business. But for all the rest of the system power, for everything else the analog, the integrated analog, integrating in a fuel gauge, a battery charger, a USB port controller.

That fundamental -- we had different names over the years -- we have had that socket since 2008. So that's one that strategy of integration of being sticky, of adding value.

Now we have added to that. We have increased it as the phone has gotten more developed. So I do think there's absolutely when you have something that is innovative that solves the customers' problems it can be sticky.

Now that said, there is always pressure, there is always competition. We had to continue to be innovating.

We went forward with Gesture. We then kind of evolved that into a biosensor. That biosensor, which really does heart rate and other items, other functions that it can perform, now in the newest generation it can also do environmental.

Initially what they have announced on the Note 4 is ultraviolet. I think you will see that roadmap continue on further and further as we are looking to the phone to really interact with the user and the environment around it and you need those sensors to measure that.

So yes, I think you can absolutely -- when you add value you can get a socket you can hold onto it for many years. There's a number of building block chips that we have had in every version. I think that you will see from an audio point of view we also have that ability to have that strategic long-term roadmap.

Ross Seymore - *Deutsche Bank - Analyst*

And is there, in the desire to keep those core products like you just highlighted and then add either through different customers or different products, etc., is there enough content in there where you think you can differentiate and keep those, to me at least, exceedingly impressive gross margins? A fixed handle on something going into cell phones is not that common, a high five handle, however you describe it.

Is there a sufficient roadmap of products that are willing or able to offer that sort of profitability at a given customer? Or do you more so have to try to take those same very profitable areas to new (technical difficulty)?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

I think for Maxim and when Maxim really works is when the market and our customers require innovation. And if you think of mobility today, people talk about high-end smartphones in that market slowing down.

People are absolutely looking for ways to innovate that product. They are not just going to accept that the smartphone is going to go the way of the notebook. Where sort of innovation stopped and it became more of a commodity-type item.

People are pushing very hard and whether they are doing that by adding features and more sensors in smartphones, whether they are looking for new platforms, whether that's wearables is certainly the area where a lot of investment is happening today, I think there's going to be continued innovation. To the extent there is innovation there's companies like Maxim who do very well in that environment. And yes, if we come up with something that helps our customer be successful we will be able to make some money and able to achieve those margins that historically we have.

And I am a very very big believer that gross margin is the best indicator of the quality of your earnings. And to the extent that we have taken a very competitive business with some guys who have understand our cost structure very well and are able to get a reasonable margin, I think that's an indicator of the innovation that we have.

Ross Seymore - *Deutsche Bank - Analyst*

A last question on the consumer side and that may be this would have actually been a better one to start with, but just to level set for investors, a lot of things you are talking about you are calling mobility. How do we think of what percentage of what you breakout as consumer is mobility, or said differently, what percentage of total sales is mobility?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

So it is right at about kind of high 20%s, I think it's 28%, 29% last quarter out of 35% which we say is consumer. The other piece of consumer is TVs.

We have a digital camera business in there. We do actually have to the extent that there is a pure fitness wearable, that is not necessarily it's just purely for fitness purposes, you can think of some of the folks who make those products as well. But when we think of mobility, if you think of smartphones, tablets and wearables which are really an extension of the phone, that's kind of our definition of mobility.

Ross Seymore - *Deutsche Bank - Analyst*

Got you. Why don't we switch gears over to the automotive side of things. As you mentioned that has been a significant growth engine for Maxim over the last couple of years and it is very helpful to have that now broken out as it has risen from roughly 5% to now over 10% of total sales.

Talk a little bit about what you see going on there. And again as investors are throwing this peak word around with the US SAAR hitting finally back to the same level we were pre-downturn five or six years ago, talk a little bit about is what you are getting driven by units, SAAR units, car units or more content? And if it's the content side, which I suspect it is, what is exactly driving that at Maxim?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

I think, yes, it's 10% of our business versus the total automotive market. We are still extremely small. We are driven 100% by new content and new platforms.

We are not in any way shape or form at this point in time driven by total market sales. So this is all about new content, gaining market share. We have done very well.

I think when I joined the Company we were at about 2% of our business was automotive. Now it is 10%. It grew 44% last year year-over-year.

So it has been a very strong -- I think we started out in infotainment doing things like power management, USB port controllers for the USB ports that we all want in our cars now, doing tuners for both satellite and direct access broadcast in Europe. We have Keyless Go, the key fobs.

A big market for us actually if you shift over to driver assist is we do the SerDes technology for video distribution throughout the car. You can get $30, $40 worth of content in a car just for SerDes technology. And certainly that is becoming more and more prevalent use of this.

When it started it was just kind of the rear camera, rear displays for people who wanted to watch TV or videos in the car. That obviously got replaced with tablets. Then you had the rear camera and now you have the side cameras and then the 360 view as well.

So that video distribution throughout the car is a big growth area. We have products in battery management systems for hybrid and electric vehicles. That to be candid, a very small business at this point.

But I think the key thing is it is a very broad-based set of products that are going to a very broad set of customers and it's classic automotive. It is seven-year life cycle. You win that business, you hold it.

Every year you get new design wins. And those start shipping in the March and June timeframe, they just layer up on top.

So you see this strong growth in June every year. We've seen this for the last two years, very strong growth in June. And then it doesn't go down.

Maybe it holds, maybe you get a little seasonal down 1% or something small, some small kind of leveling off and then you just repeat that cycle every year. So it's a great market.

We feel good about it and it's one where -- the word peak doesn't come into play. I think the level of innovation that is going to take place in this market is going to go on for a very long time.

Ross Seymore - *Deutsche Bank - Analyst*

We just, I think on Monday, put out a -- every quarter we globally put out what the auto revenues do for semiconductor companies. And I think Maxim was in the last quarter by almost every metric, rolling four quarters, year-over-year, all of that. Anybody with any reasonable size revenue you were the fastest grower, so things are definitely going well there for you guys.

How does the margin structure, just roughly, work in that? Is it more like the industrial side, or is the customer concentration potential keep a little more pressure on it, how should investors think about the profitability when automotive grows?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

So I think we have indicated that our automotive business today is below the corporate average. This is primarily because we took some products that we had developed for non-automotive purposes and are selling those into automotive.

And so in order to meet the quality standards, which are very high for automotive, we are having to do incremental or additional testing to the extent that we have now been designing products from the beginning for automotive. And that ability to not testing quality but designing quality, we will have that opportunity to improve margins going forward.

So currently they are below average. And I think ultimately I think we can get them probably kind of close or at corporate average.

It is always -- you are selling into sophisticated buyers and high volumes so it's never going to be the 70%-type industrial business where you are selling through distribution to a whole series of small customers. So it's always going to be a high-volume industrial business.

Ross Seymore - *Deutsche Bank - Analyst*

Before we move on to another segment I should have said earlier, if anybody has questions just raise your hand. Please wait for the microphone to come over so those on the webcast can here. We can kind of treat this as a one-on-one.

In the industrial side of the business how are you looking at the sub-segments of growth within that? I know Maxim breaks it out a couple different ways underneath, some that are somewhat application-specific and others that are much more catalog. Can you talk about the dynamics you are seeing in that market between those two sub-segments?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

So industrial is 27% of revenue. I just want to point out as well, we used to always think about industrial as 27% and included in that automotive. We are now at a point where industrial is 27% and automotive is an incremental 10%.

So we have kind of taken that part of our business since I have been here at Maxim for seven years is always in the sort of 25% to 30%. And now we've got that at 37%, so I think we have done a good job growing those businesses. So you are exactly right.

When we think of our industrial business, 27% of revenue, probably two-thirds of that is what we would call core industrial. And that is just control and automation, instrumentation that you are selling through our distribution partners to these thousands of small customers.

I think from a growth point of view, the control and automation is doing very well. That's our largest market sub-segment within core industrial. To the extent that we are kind of moving towards a more distributed kind of factory floor where you have these micro sales and we have the ability to do the PLCs and control units with our more integrated technology and adding security, that's a business that is doing very well for us.

The other third of that business is what we call our vertical markets, application-specific markets. Those are things like smart meters, medical and financial terminals.

And so those are all markets that A, integration makes sense. It gives us a competitive advantage. B, they are secular growth drivers and we think of core industrial as kind of global GDP plus from a growth rate.

I think these vertical markets have the ability to grow probably 2X that rate. These are faster growth markets. They are a little bit lumpy as they get going but I think overall that mixture of core industrial plus vertical markets allows industrial to probably grow in a high-single-digits range.

Ross Seymore - *Deutsche Bank - Analyst*

So when you look at those two sub-segments, the two-thirds, one-third, is there any differing margins if the one-third is growing 2X GDP like you said? And it's probably something that happens at a bit of a glacial pace, but is that something where that sub-segments gross margins would change much over time as that mix gets a little more balanced?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

Certainly the core industrial is very high gross margin, as I think people know when you are selling through distribution small volumes to many customers. And so the margins are less on the vertical markets.

It is interesting, last year we grew industrial I think it was 10% or 11% and core industrial grew 10% and the verticals grew 12%. So that change in mix, like you say glacial is probably the right word for that. So because at the same time the margins on the vertical businesses are good, they are just not 70%-plus that you would see in the core.

Ross Seymore - *Deutsche Bank - Analyst*

I think we have a question on this side, please.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Not to spend too much time on the mobility segment, but from what you said does the S5 or the problems that Samsung had, does that imply that this generation of phones will have less units than the last generation? I was just thinking if that's the case how traditionally you guys have kind of always had this amazing leverage in the model as you get a design in and the units just kind of stay flat or grow a little bit. How do you rethink that side of the business if the units might actually be down generation to generation?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

From a lifetime units I think our estimate right now is they are about flat. But that said our unit content is up slightly percent wide point of view. But given that we think mobility should be one of our growth drivers, absolutely we have to overcome that issue with selling either to other customers in other technologies and so that is our strategy.

And we are accepting that kind of high-end smartphones, that growth is going to slow and has been slowing. There was a significant decline from S3 to S4 and then there has been less of a decline from S4 to S5. And as I said I think total lifetime roughly flat.

But in order to overcome that we have to start selling more content. We have to sell in the new platforms and we have to sell into new customers and I think we are doing all of those things. I think absolutely our business is at the other large mobile OEM, China, selling sensors, selling audio, all of those strategies are working.

Ross Seymore - *Deutsche Bank - Analyst*

How do you feel about your portfolio, I guess more broadly, is there more scope for inorganic growth as well, or do you kind of feel set with what you've got?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

Maxim has for analog companies actually been one of the more acquisitive. I think we have done 14 acquisition since I have been here. They generally were tuck-in where we just sort of bought technology.

So on a kind of time-to-market assessment to get that technology in-house sooner than developing it ourselves. We have said publicly we are clearly aware of the consolidation that is occurring in the industry. We do believe we are in a good position because A, consolidation is happening with the smaller companies, all these that are in this kind of $1 billion to $2 billion market cap we just don't have the scale to invest in a slower growth environment.

It has happened in many industries before us. There is nothing new to this. Obviously we have the scale and the ability to invest and grow our business as a stand-alone company.

That said to the extent that there is a high quality asset out there that fits within our strategy where we can create value and which would potentially help maintain our balanced portfolio, I think that is something we would look at. That's a pretty hard -- to get through those three wickets, it's a pretty selective process that we would go through.

Ross Seymore - *Deutsche Bank - Analyst*

On that M&A front, was Volterra competitive?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

Yes. And they are absolutely was other bidders. They publish their proxy and showed that, yes.

Ross Seymore - *Deutsche Bank - Analyst*

Does the difficulty in making it through those wickets, do those thresholds change at all if M&A becomes a little bit more active amongst your competition, where scarcity value starts to come into play and some assets you might not think are a perfect fit for you but you sure as heck don't want anybody else to have it either, whereas right now there's a broad enough playing field you really don't have to think that way?

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

I don't think they change. I think we shouldn't just go off and do a deal because everybody else is doing a deal and you don't want to get left behind.

I think that would probably be not the right thing to do. I think -- it's a good question because I'm sure people think about that and lots of bankers would like to tell you that's something we should be worried about -- but that said, no.

If the market is very open to M&A right now and investors are rewarding companies for doing it because they are all accretive to EPS because cost of capital is zero. And you are just able to cut out costs and drive EPS growth furthermore, right?

That said, we all know acquisitions over the long term, it's very much of a mixed report card of how successful they are creating value. I think you will see us being kind of very disciplined. We will do a deal that fits our strategy, we will do a deal where we know we can create value.

If it helps from a diversification point of view I think that's an added bonus. But no, we won't just go do one because we are starting to think that the music is about to stop and there is no chairs left.

Ross Seymore - *Deutsche Bank - Analyst*

Bankers everywhere are shedding a tear right now. The last topic I wanted to hit on was more of your financial targets. You guys had an Analyst Meeting earlier this year in May, went into a lot of details, set a target for what your operating margin was going to be for exiting next fiscal year, so June 2015, 30%, if I remember right?

You reiterated that goal after some of the mobility challenges, the Samsung stuff. How do you get to the same goal if that weakness hits?

Is it that you expect revenue to be pretty much the same place as a was before? Is there something changing in the cost structure? Walk us through the confidence you have in the same end target being attainable given the bump in the road that you recently hit.

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

The reason we gave that and we drew our line in the sand so to speak, was we've always had a target of 30%. We think that's the right -- we think that's where a company of Maxim's profitability and customer profile, product profile should be at and so we believe that.

I think we have been relying upon revenue growth to say we would us grow into it. And I think the signal we wanted to send very clearly to investors is, we can get there multiple ways. Certainly growing into that is the easiest way but to the extent that it requires cost reductions as well, that we recognize we need to improve our profitability at any revenue level.

And so that's why we made that statement. We know we have multiple levers. Certainly we expect to grow and yes, there has been some near-term weakness with the S5.

That doesn't really impact kind of what we are seeing in automotive. It doesn't impact what we are seeing in industrial. It doesn't impact what we have seen at other mobility customers and doesn't impact how well the next-generation Samsung smartphone sells.

So I think revenue is definitely a lever. We know we have opportunities on gross margin. We know we can fix inventory reserves.

We've already stated that. We can reduce costs there. We have plans to do that.

And we know we manage OpEx very closely. The last two years ex-Volterra, OpEx in absolute dollars has declined. So we know we have the ability to manage OpEx as well.

So again I think it's a statement that we know we have to improve profitability at any revenue level, that we can't just sit there and wait for revenue to grow. Revenue growth is slower these days and that's the commitment to go do that.

Ross Seymore - *Deutsche Bank - Analyst*

Great. Well, I think we are right on time, so we going to wrap it up there.

Bruce, thank you very much. And, audience, thanks for the great questions.

Bruce Kiddoo - *Maxim Integrated Products, Inc. - SVP & CFO*

Thanks, everybody.
