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MXIM - Maxim Integrated Products Inc at Susquehanna Semi, Storage & Technology Summit

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PRESENTATION

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Okay. All right, we're back on. So welcome everyone. Again our next fireside chat is Maxim Integrated Products. Here from Maxim is Bruce Kiddoo, their CFO, coming out from the West Coast. I appreciate you coming out in the cold. Like I said I'm all out of cold weather jokes now.

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

It's okay.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

We're all just trying to stay warm here but appreciate you coming out.

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

Sure.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

To start the discussion, literally start perhaps reminding us what your guidance was in the quarter and, particularly, you guys -- when you guys provided guidance in January it was better. It was considerably better than what the street had been expecting. So maybe you could talk about what drove that and what's driving the outlook here.

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

Sure. So we guided up 3% at the midpoint. Historically we've been down 1% to 2% so it was a little bit better. Part of this was just, I think, a change in our seasonality. We used to be a real strong Company in June and September. I think with the automotive business now being a 12% of revenue and a large part of our business and it's always strong in March and June. Industrial has always been strong and in March and June as well.

So I think part of this was just the change in seasonality. We guided automotive up strongly.

The other issue is normally it's usually a transition quarter for Samsung as they start getting ready for their new flagship launch in the June quarter and, usually, with the other large mobile OEM, the March quarter is usually down. You always have a good December and then it is down in March, which in the past has impacted us.

Obviously we have opportunities in a new product launch which will actually help grow that business in the March quarter. So, I think automotive and new product opportunities in mobility are really what drove up the 3% growth versus historically down 1% to 2%.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

I see. And so far so good as the quarters progress so far? Anything different versus your expectations?

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

No surprises. The standard answer.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

We all like no surprises.

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

Sure.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Now one of the things obviously mentioned on, and I'm sure you haven't gotten a question on Samsung and the Samsung business in quite some time but it's been a bit of a roller coaster from the last conference call. Do you kind of feel like that seems to be behind you now? Do you think that's the case and why so?

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

So I think we're much more diversified. Obviously in our consumer business, Samsung has gone from 28% of revenue down to 15% or less. So I think from that point of view it's just less of a concentration issue.

I do believe, when we look at Samsung, we don't have a crystal ball. Our expectation is units from the S5 to S6 are probably going to be slightly down just only on the basis that the S4 was lower than the S3, the S5 was lower than the S4. So we have no other insights but that just seems like a reasonable way to manage the Company and from an expectation point of view. Certainly to the extent that if the S6 does better then that's just upside to our internal expectations and how we think about the business. So that would be great news.

But from our point of view, content is flat from the -- relatively flat from the S5 to the S6. We have -- our business at the other large OEM has been growing in tablets. It's going to grow in wearables. Our business in China is growing. So I do think we are very much a more diversified company on the consumer side and consumer's becoming a smaller as a total part of our portfolio with auto, industrial, comms and data center all growing nicely.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Right. And when you say the working expectation now is S6 units down on a year-over-year basis but versus where you are shipping in the fourth quarter in that, you were shipping at fairly minimal levels into the S5 platform. So incrementally from these baseline levels, it still should improve.

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

Sure. Normal seasonality certainly the first half of the year is always stronger. You always get the S6 -- the new phone ramps in March and then you're always going to have a good channel fill in June. The real question is how successful is the product, what's the sell-through in the September quarter?

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Now when I look at the consumer business in general, I know one of your goals has been to diversify that business. And you have to some extent, you say with the other customer you got some content in wearables, you've got some content in tablets. As you look forward, what's the strategy for the consumer business? Is it more about continuing to diversify? Is it about increasing your content at different -- where are you focusing your R&D and your sales efforts in that consumer business?

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

Sure. I think when we look at our consumer business, it is continuing to diversify. It's shifting to more of a application-specific standard product versus the semicustom products that were developed purely for the top two guys. Certainly those are going to be folks that we sell to but at the same time we want to take advantage of where we do something really well, where we have a sustainable advantage, whether that's in power management, whether that's in the optical sensors and environmental and chemical sensors, whether that's in audio and really develop those products and sell those into multiple customers into multiple platforms.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

And as you develop some more of those standards solutions as opposed to semicustom, and I suppose China would be probably the biggest market for that at this point, is that more along the lines of some of the existing products that you may be selling to Samsung than the other customer of extending those out, making those into more standard offerings you can offer to China? Or is it into some different categories perhaps we haven't seen so far?

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

So I think immediately it's just an extension of what we're selling today. All of those roadmaps of course develop over time, and so to the extent that we continue to move forward on optical sensors and you move into environmental or chemical type sensors, there will be products that will be these ASSPs that will be developed specifically for broad market acceptance, right, trying to sell those into China as an example. And so, and those may be offered at the same time or that you're offering those into the large OEMs.

So I don't think it's necessarily they are always this idea that you sell to the large guys and then you -- the next generation you try to take that same technology and sell it across a broader customer base. Now, I think it's going to be more the initial go-to-market strategy will be -- will have greater breadth upfront.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

One of the things that sort of surprised me in speaking with the Chinese OEMs, I mean ,speaking of the semiconductor suppliers is the level of innovation that seems to be going on in China now where things like wireless charging, mobile payments, the Chinese seem to be adopting those things even faster than some of the Western companies because the market is so competitive in China.

So is that your view, too? It seems a lot of folks have been surprised about the content opportunities in China given the fact that we've all been generally trained to think that it's a low-cost market.

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

No, I think absolutely they are going to push both what's required for their domestic markets and, certainly, to the extent that they want to become global brand names they are going to need to compete from a functionality point of view on a global basis.

So I think absolutely, but I do think China is going to be what you think of Samsung 15 years ago in that if you thought of Samsung and LG, they had hundreds of models and, yes, they had some high-end, they had midrange, low-end. And you were literally in hundreds of SKUs.

Obviously, Samsung, Apple went with a flagship model process there. So I think China is -- it's multiple vendors, it's multiple SKUs so there's absolutely going to be SKUs that vendors that are very high end and have that. There's going to be a lot of SKUs at many vendors that are not high-end, that are low-end and don't have the same level of functionality or performance that they are looking for. So I think it's a mixed bag.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

And right now, the Chinese OEMs are a relatively small part of your consumer business right now?

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

Yes, they are. So clearly if you look at our business, it still really dominated by the two large OEMs. We've always sold into HTC, to LG. We sell into the Amazon ecosystem as well.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Moving on to wearables and we're all -- . We all can't wait to tear down that watch and figure out exactly what you've got in there.

But in general, when you look at the wearables market, there's a different set of criteria and obviously the power consumption is much lower. How much content is really available for you guys when you look at wearables -- and not just a watch but in the wearables market in general?

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

I think today when we look at wearables, we think of it similar to the smartphone market. I mean, there's smartphones where we get $0.50, $1, $1.50 all the way up to $3 to $4 in content and I think we've indicated in looking backwards, and we're in a lot of wearables, right? We're in all the Samsung gear in those type products. We're in the Garmin products, we're in the Fitbit and things like that and in general we been probably on the lower end of that range.

But we've certainly indicated for our higher end wearable we have the same kind of opportunity to get similar content that we get in the high-end smartphone.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

And the [Konik] categories, too. I think in the Gear watch you have the heart rate sensor in that.

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

Actually we don't have that in the Gear watch. So we have more power management. So if you think about just the opportunities in general in wearables, certainly you're going to have a low-power microcontroller. You're certainly going to have power management for that processor. You're going to have analog, you're going to have sensors. Those are the primary opportunities for a company like Maxim.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Okay, maybe moving on a bit to some of the other segments. They are a big part of your business and the investment -- we spend probably a disproportionate amount of time on the consumer business because of the swing factor. But what are the big trends we should be paying attention to as we look at industrial, automotive, those broad segments? I guess, and the reason why we pay attention to consumer is because we can focus on two or three things but the benefit of the business is you've got more than two or three things to pay attention to, right?

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

Sure. I mean, I think the good news is I think from certainly from a business point of view, from an investor point of view, there's been a lot of attention paid to our automotive business, our industrial business. Those are businesses that are doing very well.

Automotive obviously is 12% of revenue now. It grew 33% year over year in the December quarter. It was actually up 5% sequentially in the December quarter when that's normally a seasonally down quarter. So that's a business that's doing great. It has all the attributes we like, long product life cycles. It lasts about five years. You get good visibility into that business. It's broadly diversified. We sell into most of the Tier 1s who then sell into the OEMs. We're strong in Europe, we're strong in Japan, we're growing in Korea and we have good opportunities in the US.

So it's a business that the gross margins initially were below the corporate average. We have plans over the next couple of years to get those to the corporate average so it's the fastest growing business with increasing margins, with long product life cycles. It's a great business to be in and it's one that we been investing in since 2004. So it's not like it's something that we just decided to -- everybody started talking about automotive so let's start selling some products into automotive.

Now we've learned the hard way that you have to design for automotive, you have to have automotive level quality to be successful in that business. You have to have all the supply chain agreements in place, all the VMI -- this isn't something that happened overnight. It's been something that we've been investing in and, certainly, we caught a period when infotainment became very -- a key value proposition in a car.

Now moving to ADAS, it's going to move from the luxury cars down to the midrange. We were talking with a guy, the executive who runs our business, and his point of view is this is still very, very early innings from an automotive point of view.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

And how sensitive is that -- your growth in that business to actually the growth of the auto market itself? Most of the growth is coming from content. Does that shield you from any perturbations that may happen in auto sales in general?

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

Yes, I think at this point very little of our business is tied to that. If you think of units, our units it's -- what? -- 4% and if you think of and people think semi content in cars is growing -- I don't know -- 5%, some number. So you get to 9%. So most people kind of accept 10% as market growth for semiconductors in automotive and we grew 33%.

So we're doing much better than that. I think, in December, you saw some of the folks who were more older line automotive businesses talked about some inventory corrections, some slower unit growth. They talked about automotive being a little bit weaker. We did much stronger than seasonality. We guided automotive up strongly in the March quarter.

So for us, I think it's just the momentum going forward with the new content. Being in new platforms trumps the unit growth in the industry.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

What about in the communication business and that was an area that did slow down a bit at the end of last year. Could you talk about why --? What was the reason for that slowdown and what's the outlook into 2015?

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

Sure. So our communications and data center, it's about 23% of revenue. It's a nicely diversified communication business, which means about a third of it is in fiber optics. You probably have 5% in base station, 5% in servers, a little bit in cable access, some old telecom legacy business. So, very nicely diversified business.

In December probably a couple of things happen there. One, the fiber-optic business in China slowed down. I think anybody who follows fiber-optic business on a regular basis knows we're either in expedite or push out mode. Supply chain is not real crisp there and so there was an inventory correction in the December quarter. So that delayed or held back the fiber-optic business. Base stations were relatively flat. I think most people talked about a pause in the China. It's not a big part of our business. We won't give you good insights on to that but certainly to the extent that slow down.

Then the server business had a really strong September quarter where we had one of our customers who's going in and bidding for a large data center opportunity placed a very large order in the September quarter for it. So that just naturally fell off in December. So we think there was a number of issues; again just the market slowdown in China optical, a slowdown in base stations and then a Maxim-specific where we had in servers where we had a strong September and a fall-off to the normal level in December.

So all that created for all of our businesses comm and data center was the weakest in December. When we think about going forward, we guided that up for the March quarter. I do believe we have a nice diversified business. I think when I look at those businesses I think data center has the best. We do fiber optics in the data center. We're a market leader in 40 gig within the data center. We have the 100 gig technology.

We actually have opportunities taking the Volterra technology and doing power management for high-voltage applications and servers in the data center really selling to the cloud. That's probably a back half of the year and a meaningful way 2016 story but that will be a good opportunity for us. I do believe base stations will come back. We also have a good position in small cell.

I think comm data center, I think of that as sort of this mid-6%, 7% CAGR business long term. It's always a little lumpy but nice growth business, good profitability. It's a nice part, a fourth of the business, a nice part of our portfolio.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Then maybe talk about industrial and I guess the industrial business is mainly a distribution-based business for you guys. What do you see out of the distribution channel right now? That's an area where I think a lot of folks saw a pause in the September, October time frame; but it seemed to be uncharacteristically short, and as you look back on that, what was your view on what might happen at the end of the year and how that plays into 2015?

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

So, industrial is 27% of revenues so it's a big part of our business, very profitable part of our business. About two-thirds of that is core industrial catalog parts sold through distribution. The other third is vertical markets, things like smart meters and mobile payment terminals and medical.

But for the catalog products, the core industrial, that business feels normal right now. 54 days of channel inventory. We run between 50 and 55.

The December quarter was down seasonally. It probably was a little bit worse than normal seasonality, a little bit light. We've guided the March quarter in line with seasonality. I think last summer -- industrial always slows down in the summertime. We've been in this business a long time. Europe goes home, the orders stop in August. We all wait for Labor Day to see if orders are going to start picking up again.

I think they did and so everything was fine. So I don't think there was anything unusual back in the summertime and I don't think -- it's not robust but at the same time there's nothing real weak about it right now.

I think for Maxim, our opportunity is we've actually been putting a tremendous amount of focus on two things. One is our relationship with Avnet. They've done a very good job focused on our business, really highlighting Maxim products, and so that's worked out well and they've done a very good job growing our business with them.

The other thing that we're doing is we're putting a lot of time and effort and just if you think about catalog industrial it's this long tail, it's thousands of customers and we're making it easier for those customers to design in our products, as far as providing the online design tools, the collateral, the application support. All of those things which should make it easier for people to design in products that we've already built. So I think that's going to help us as well in the industrial side.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Right. It has been a bit unique this particular cycle. I kind of use the term the Goldilocks cycle because it really hasn't been growing very strongly since we bottomed out in, I guess, 2012 but we never got those overheated conditions which we sometimes see. It's been difficult for us as investors and analysts to model that going forward. Because we're always expecting when things are good you're always expecting the bad news is right around the corner but it doesn't seem to be the case.

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

Look, we know core industrial is the one part of the business within analog that's most highly correlated with global GDP. PMI is a great indicator of what's happening in that business. We know the supply chain has gotten much more efficient so you're not going to see the big -- in the past you had the multiplier effect as you went through these cycles, as the inventory levels correct it up and down and amplified the magnitude of the cycle.

We don't see that nearly as much anymore and so to the extent that the US GDP has been sort of chugging along doing nicely, Europe has been a little bit weaker. Those are the two big industrial countries, Japan as well.

So you haven't seen any big shock from a global economy point of view. There's been lots of fear but so I think it isn't surprising that the industrial business has just been plugging along as well.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

But is it your view that this more muted cyclicality that we've been seeing, is it a function of muted growth from a global GDP basis or is it maybe something more structural for the semiconductor industry which would suggest some degree of permanence to it?

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

No, I think it's a combination of if the business is only growing at 5% or like last year the semiconductor grew 10%. Things get overheated, inventory gets out of control when you grow 20% or you're down 20%. You look at the recession Maxim revenue was down 20% then we had two back to back years of 20% growth. We went from $2 billion to $1.6 billion to $2.4 billion.

When that happens, you get a lot of lead times extend. You start building up that channel inventory. We haven't had that really since the recession. So I think to the extent that you're seeing more muted economic cycles, you're seeing better supply chain management, and you're to seeing overall slower growth in the environment, I think the traditional semi cycle and I know this is a little bit of heresy, but I do believe that's going to be less of an opportunity and this is more of a predictable steady-state model going forward in the mid-single digit growth.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Because, as analysts, when we start saying it's different this time that's when everybody starts to worry. But in some cases, it has been different. And I guess the question, if we were to see stronger GDP growth and stronger -- could we drive more overheated conditions as you get to the second half of this year into next year? I guess your point is it could happen but perhaps the amplitude of the cyclicality would probably be less.

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

Yes, I mean look, if GDP picks up -- all of our revenue will all pick up our growth rates will pick up unquestioned. Will you start getting longer lead times? We all generally have capacity at this point in time. I don't think anybody is running at 90%, 80%, 90% utilizations. We all have a fab light sort of strategy.

So, we have the ability of flex capacity on the upside as well. So, I think from that point of view, to me, the scenario where something gets overheated or goes -- changes is if A, you have some global shock to the economy or B, you have some severe supply chain disruption. Some part, something happens in a region of the world, you have some type of natural disaster, some part now suddenly is not available. And then the entire bill of materials gets disrupted. And we've seen that in the past as well.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

The earthquake, the tsunami.

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

Right.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Go back to Maxim specifically. Will you talk about the seasonality of your business now because I think it's changed somewhat and maybe changed somewhat also, given Samsung's seasonal pattern and what that means for your business. What do you consider to be seasonality for you guys as we go through the year?

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

Sure. I think Maxim, historically, was June and September were our strong quarters and I think that was when you saw -- in 10 years ago when you had a strong compute business and the notebook business was always strong in June and September and then you had Samsung did a rolling launch so they would have a channel fill in both June and September.

Subsequent to that time notebook is now 2% of our revenue. Samsung has gone to a more global big bang launch which they do in the June quarter, and our automotive business has gone from 2% of revenue to 12% of revenue and that has significant strength, obviously, in the March quarter. So I do think now we're seeing March and June are the strong time periods. September is going to be more dependent on sell-through.

I still think the way, though, to look at that is how are those -- how is our business doing on a year-over-year basis. So automotive is generally, say, flat in the September quarter or the back half of the year. Yet it still grew 43% in the September quarter year over year. I think that's the way to look at -- kind of have to look through normal seasonality and say is the business continuing to grow on a year-over-year basis.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

But, generally, if I just look directionally then kind of March to June, June probably up sequentially and then September probably down sequentially, depending on sell-through in the consumer business. Is that the right --?

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

Yes, I think how we're thinking about the world right now is, obviously, June is up with automotive, up with industrial. It's up with the Samsung launch and then yes, September probably is down.

But at the end of the day we don't know because it depends how does the S6 do, how does other kind of wearable products sell-through? Those are big uncertainties right now.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Right. And the last two years with Samsung was down in the third quarter so who knows but --

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

Yes, hopefully for us as a management, as a company, the ideal world would be a more modest launch in June. And then see how the product does. Then to the extent it has good acceptance then you see growth in the September quarter but if there is not, the acceptance isn't as strong then you don't have the inventory situation that you've had the last two years.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Sure. And in our discussion with Samsung, it seems that's what they are trying to achieve now.

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

So that will be great.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Okay. What about moving on to margins and you guys have a 30% operating margin target. You seem tremendously committed to achieving that target.

Can you give us some more parameters around timing, magnitude? How do you get there, when you get there?

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

Sure. This was something that was last May, at our Investor Day I stood up on stage and said we're going to -- there's no reason a company like Maxim with our profitability, our business model we shouldn't be a 30% op margin company. We felt at that time we could keep spending flat and from a revenue point of view grow into that. Really because of our largest customers that didn't happen, so we've not taken actions that in total we've taken out or will take out probably $23 million, $24 million a quarter in expenses, both in combined gross margin and operating expenses.

So, you look at that and that probably gets you 4 points off of the existing base to start with. Assuming [$600] million around so just that gets you without any improvement in revenue. We are going to -- we announced the closure of a small R&D fab in San Jose. That will get you $10 million or 1.5 points of the gross margin. That will be really we'll start seeing the benefits of that in the second half of this calendar year and really hopefully be completed by the end of the calendar year. When we announced that in October we had said it was going to take 18 months to go make that happen.

In the operating expenses, we announced we're exiting our consumer MEMS business, we're exiting our touch business. We'll see those savings in September. We had previously announced savings of about $10 million a quarter. We'll see the savings in June.

The only offset to all that will be to the extent that our profit levels go up, then there's a profit-sharing accrual that goes a little bit higher that would offset that. So I think those are all -- we're committed to we're going to make this happen. And then we do need some level of revenue growth from these levels to get to 30%. We've indicated around the mid-600s is what we've -- how we penciled that out. Timing of when you achieve that, we'll let you guys make your estimates around that, as we guide out one quarter at a time.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Right, right. But around mid-600s that should -- all the pieces should be in place and should be there 2016. You'd probably be disappointed if you didn't get it in fiscal 2016, I would imagine.

Well, we've got a few minutes left. Are there any questions from the audience before I keep going? If anybody has, raise your hands or I'll just keep going with questions. If you think of something please let me know.

I'll move on to cash return to investors and it's one of the things that Maxim stands out from your peers is the level of your dividend, which is higher than most of your peers. How do you balance the cash return from dividend versus buybacks?

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

Sure. So we look at both as a payout of free cash flow. We've committed to returning 80% of free cash to shareholders. Over extended time periods we've returned over 90% of our free cash flow, so if the cash is available, we will return it. We committed to the 80% because I think that gives us some flexibility to the extent that there is, from an M&A point of view in thinking about that as far as saving some of that free cash flow.

When we look at how we return it. the first priority is always the dividend. That usually follows free cash flow. You've seen it increase 8%, 9% the last couple of years.

I think the powerful thing about Maxim is we've had the tough time with our largest customer. You look at the December quarter, revenue was down 8%, 9% year over year. Even with that, even in a tough period free cash flow in a trailing 12-month grew 13% year over year.

So this is a company that just continues to generate very strong cash and if you look at a point now where we think we have stabilized consumer, we're going to grow auto, we're going to grow industrial, we're going to grow comm. So we can actually get growth in the top line we drive the 30% op margin.

That's going to take our free cash flow margin which, in the -- actually in the December quarter was 28% of revenue and the upper end of our target is to get to 30%. I'm very confident we're going to get to that 30% free cash flow margin, which we'll then be able to return that.

The dividend side clearly we look at what is what are our peers doing. We're comfortable being at the upper end of the peer range. We don't think you get paid to be too far outside of that range so you'll see us always probably in a 40%, 50% payout ratio of free cash is the dividend. We are always careful, we always do sensitivity analysis to make sure before we increase it what does it look like in a 20% down year to make sure the payout doesn't get over 80%, 90% and people get nervous about that.

So we're always going to be a little bit behind on the dividend, vis-a-vis free cash, just to make sure there's 100% confidence that this is something. And the perfect stress test was the recession where obviously revenue declined by 20%. Worst recession ever. We just kept our dividend flat and it was actually at the time we had free cash flow of $300 million and the dividend was [$2.40]. So it was never even close.

So I think maintaining that sort of comfort level from a dividend point of view is important. Then what's left? We have a matrix for the buyback. We have confidence in our business so we're very confident in if there's a near-term impact to the stock price, we'll use that opportunity to buy our stock.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

And what about acquisitions? Is that something you're actively looking at? Is it lower in the priority for you guys?

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

I think it's something you always look at as part of your strategy sort of looking at the environment. I do believe the opportunity to do tuck-ins is less than it has been historically. There's just not as many VC-funded semiconductor companies out there anymore.

I also believe you are seeing consolidation at the small and mid-cap level and so those companies are being bought, either doing merging amongst each other, or you are seeing large cap companies buying those mid- and small cap companies. So I do think those opportunities will exist.

I think the good news for Maxim is we're big, we're profitable, we're stable. We don't need what's driving that consolidation is slower growth and they just don't have the scale of these smaller companies. We don't have that problem. If a great asset comes on the market and we can get it at a decent price, that's something that we would take a look at. But it would have to be something that fits within our strategy. We can create value.

It would be nice if it helps our diversification strategy more. But it's something -- because they are now larger deals it's something you're going to be very selective around doing.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Rob, you had a question?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Maybe just touch on the last (inaudible). The financial accretion is one benefit, obviously (inaudible) the other is obviously the multiple (inaudible) tremendous things can happen. It gives us one last thing to point a finger at and worry about (inaudible) there has to be some contemplative benefit to that transformation on the asset.

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

Absolutely. We wouldn't do it just for diversification, but it's like number three on the list. We are believers that it has to have kind of fit within our strategy. We have a certain business model. We're not going to go buy a 40% gross margin company because it's in something different than consumer or something.

It's got to create value which today is really cost synergies. And then yes, to the extent it drives diversification, accelerates that process, absolutely agree with your point. It's something that would be of value.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Where do you see it with regard to onshore/offshore cash for you guys because that's another consideration. A lot of companies in terms of how the capital allocation decisions have been made.

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

Yes, so we have about 40%, 45% of our cash is onshore and similar as far as cash generation. So, from that point of view I think we're in good shape as far as the capital return. I think we're better than some others. And that's something that's -- there's many opportunities to manage cash onshore/offshore.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

Maybe I'll just leave a final one. What do you think that the Street is missing with regard to Maxim now? What do you think is least well understood by investors in your meetings?

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

Well, I think there's two things. And I think, clearly, we've made a move to reduce our exposure to consumer, reduce our concentration, try to diversify that business better. I think the Street would like to see probably a little bit more of that. So I think that's one thing. I think that's just a question of we have our stated strategy; how I think we've made very good progress. I think some still want to see somewhat progress before they commit.

I would say even more so is, which I think is the interesting one, is the commitment to the 30% op margin. I think people not many of your peers are modeling that from that point of view and clearly that's something that is within our control. We were expecting a certain kind of revenue level. That didn't happen. We took restructuring activities. We think we're comfortable now that we'll be able to find that intersection between revenue and spending and ultimately we'll manage that appropriately such that we do achieve that 30%.

Chris Caso - *Susquehanna Financial Group/FIG - Analyst*

That's great. All right, thank you. Thanks, everybody. Thanks for coming. Thank you.