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PRESENTATION

Ross Seymore - *Deutsche Bank - Analyst*

Let's get started with the next presentation. We're honored to have Bruce Kiddoo, the CFO of Maxim Integrated -- no more Products -- just Maxim Integrated, correct?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Maxim Integrated.

Ross Seymore - *Deutsche Bank - Analyst*

Right. Exactly. Up here on stage -- no presentation, just go straight into Q&A. If you have any questions just please get a microphone over to you before you ask -- not that it's been a particularly worrisome thing to warn people about. You guys are being too shy on the second day in Las Vegas.

Anyway, Bruce, at dinner last night we talked a little bit about the current demand environment and just in a general sense -- obviously not updating anything on guidance. China has come up in pretty much every meeting that we've had.

Talk a little bit about the potential impact of slowing in China on Maxim and how you see things going from either an end-market perspective or from a disti versus OEMs perspective?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

So first of all thanks everybody, for like the last meeting on a two-day conference so I figured this is everybody who lives in Las Vegas or California is actually in the room right now so I appreciate that.

I think from a demand point of view, there is uncertainty out there right now, right? I think we all know that August in our business is generally a slow month for bookings -- over the summertime, especially, in the industrial markets. And then we also all sort of wait to get through September and see how things recover or not.

I think that the biggest issue with the uncertainty today is, A, I don't think we actually -- certainly I don't know what's actually happening in China. You know it's not something that we have unique insights in. As far as the size of our business about probably 8% per 9% of our distribution business -- or 8% or 9% of total revenue which goes through distribution is for China so that's the only kind of direct business that we can talk about.

Obviously we have a great automotive business, European luxury is kind of the lead of that. They sell into China -- we have a Samsung business that sells into China. So it's very hard to gauge overall demand for that.

I think probably the best news and what we'll talk about is -- while I don't really know what's happening from an end demand point of view. I don't really -- it doesn't really matter at this point in time because of our self-help program, right? We're taking significant cost out of the model -- $180 million over the next couple of years. So regardless of the environment we're going to be able to drive profitability. We're going to be able to drive cash flow, which is good in any environment.

I would say the other side of the demand is we are all talking about uncertainty -- the automotive side of our business continues to do very, very well. This is a business is growing 20%, 30% a year. It's actually kind of going to be up in the September quarter which is about seasonal such that I think when all is said and done and Ross puts out his Quarterly Automotive Report you will see us up over 30% year-over-year for the September quarter in automotive.

So that business continues to do very well. So I think it's a question of automotive doing well.

I think our consumer business is acting seasonally. Comm has been weak as it has been I think for a while and I think industrial is really the one market and really the general-purpose analog side of industrial, which is about 20% of total revenue is really the part that we don't know, right? It's sort of the uncertain part.

Ross Seymore - *Deutsche Bank - Analyst*

So I guess why don't we go into the -- why that topline side of things thousand doesn't matter as much as it otherwise would have. Another way to ask it, Maxim has gone through a bigger transformation over the last year. First round of cost cutting because of big customer concentration in response to that. But the second round that you announced relatively recently -- I guess it would be late last year -- is a much more holistic change in how you're trying to manage the Company. Talk a little bit about what the outcome is, the goals of it, and how you came to those conclusions?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Sure. I think the two sides -- about $100 million annual savings and manufacturing costs and $80 million in savings in operating expenses. And that $80 million in savings in operating expenses is on top of $80 million that we saved last year. So it's kind of a continuation.

On the $100 million in manufacturing costs, this is really kind of two decisions that were made. The first was from a manufacturing R&D point of you view, we don't have to do all that process R&D work ourselves. We had a dedicated fab in San Jose. We can do this in collaboration either at our remaining fab in Oregon or we can do it with our foundry partners.

So I think that was a very large kind of cultural change that said we don't have to do it all ourself. That fab also did some low-level manufacturing and so at the end of the day that's going to be about $45 million to $50 million of the $100 million in savings. That's on track -- that's going to happen -- the fab, the last wafers are running through this month. You then have the kind of accounting where you always sort of have the variances roll out one quarter later. We'll get the full benefit of that in the March quarter is the simple way of understanding that.

The other large change that we made and really was made several years ago was when we decided that our next generation manufacturing process for us -- 90 nanometer -- was going to be 100% outsourced. So when we made that decision, we knew at some points we would have to probably rationalize our fab capacity. The summer we started shipping our first 90 nanometer product so that transition has started and as a result there will be a slow decline in our utilization of our San Antonio fab.

And so what we decided was if we were going to sell that with a 10- , 15-year supply commitment on the backside of that deal, it was better to do it now while we still had decent loading in that fab. So that the person who bought it would have a cash flow and would be able to have some times to qualify on their own customers and to fully load that fab and obviously we get the benefits of that from a lower wafer cost as they do that.

So that was the two things. One, from a manufacturing -- we don't have to do all the process R&D ourself. And then from deciding to do our next generation manufacturing all outsourced, we just ended up that we didn't need that -- a second fab. So, those were the two things that drove that $100 million in savings.

Ross Seymore - *Deutsche Bank - Analyst*

So you talked about, I think before all these, you had a 61% to 64% range in gross margin. You guys, despite a lot of different changes -- consumer growing to a really large part of your business and then falling off, you stayed pretty close to that range over the years. That range now goes to kind of a 65% level, if I recall?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Yes.

Ross Seymore - *Deutsche Bank - Analyst*

Talk about the benefits, the timing to get there and with depreciation falling off as another result of what you are choosing to do on the fab side of things, I would think that the combination would actually add more to gross margin -- not that 65 is a bad number but why isn't it actually a little higher?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Sure. We've been over the last year or so probably on the low end of our range -- $60 million, $61 million -- so that $100 million gets you basically another 4 points of gross margin so that's where you get to kind of the mid-60s at the gross margin.

You're right -- if you look at today -- kind of a normalized depreciation for us is about $160 million a year. And that's strip out kind of the amortization of intangibles and accelerated depreciation as a result of the San Jose fab. You are basically -- like in the June quarter it was $38 million. So we're right at about $160 million a year from that point of view.

Our CapEx is running at $50 million to $75 million. So, stated differently, depreciation in the P&L is at 7% whereas our kind of forecasted CapEx going forward is at 2% so that is clearly going to provide a tailwind to gross margin.

Now this fab restructuring is going to take about $10 million in quarterly depreciation. So that's going to take you from $40 million to $30 million on a quarterly basis so that's already baked into the numbers. But then going from $30 million to $15 million that's going to be an additional tail -- because of kind of the asset lives that we have that will be probably out in 2017.

Ross Seymore - *Deutsche Bank - Analyst*

Calendar or fiscal?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Yes. How that rolls off, right -- let's just say calendar, because is not going to start right away in July 2016. So you will have that additional tailwind on gross margin. I think that's far enough out -- let's us get to the mid-60s and then that will be kind of incremental opportunity on top of that.

Ross Seymore - *Deutsche Bank - Analyst*

With the fab closures that you are talking about remind the audience how many fabs you have now or facilities? And I think there's even a backend one involved. And how many you are going to end up with on the other side? Are there any sacrifices you need to make about the flexibility of design and process and -- some of the companies that have fabs will tell you that's a distinct advantage because of the flexibility they have there. Do you have to make any sacrifices to get the cost benefits we just discussed?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Sure. So today we have four fabs and, like you said, one of them is sort of a lump fab or a backend process. When we are all said and done we will have one remaining up in Oregon and that's an old fab that runs 400, 600, maybe even 800 nanometer technology on six-inch and eight-inch lines so it's a very old fab that supports a lot of our industrial businesses.

What we're going to restructure and get out of -- we talked about the San Jose fab which was primarily an R&D fab. I think we're very comfortable from a process R&D to be able to work collaboratively with our foundry partners to continue to do some work up at our Oregon fab. You always lose something because we are not going to have it around the corner from our headquarters office where the engineers are so it requires a little bit more collaboration but I think we are very confident that we will be able to continue to do what we need to do.

I think you're right in that analog -- one of the reasons analog has higher margins than digital in general is we differentiate not only on design but on the manufacturing process. We all have our special sauce which allows us to optimize our products for the best performance and it also makes it very difficult or impossible to second source our products.

As we've kind of moved to an outsourced or fab-light model, initially it was Seiko Epson and then the two Taiwanese DRAM powered ship MAX chip -- we had a model where we transferred our secret sauce, our proprietary manufacturing process to those foundries with an agreement where that we are their only analog foundry customer.

With the sale of San Antonio, we'll still run our proprietary process so I don't think we won't lose any of that advantage. And I think that's the most critical aspect of this. So as people say, gee, you are going to a fab-light model you are going to lose one of the key benefits of what an analog company has -- absolutely not.

Now you do lose a little bit of control so when you want to do a hot lot, when you have a customer yield issue and you need to run some experiments of course foundries are used to working in that model -- will still be able to do those things. Will they do it? Will they drop everything to do it immediately? I think to the extent that you have a long-term supply agreement with the foundry partner, I think we'll be able to continue to get that response.

So I think, in general, you shift to a variable cost model, which is good, right? You eliminate the CapEx from your books and any future CapEx spending and the trade-off is a little bit on the control side -- I think the trade-off is worth it.

Ross Seymore - *Deutsche Bank - Analyst*

The other side of the restructuring equation for Maxim is on the OpEx spend. I think you guys have been up in the kind of 22%, 23% of sales range and there's some competition that are down at least in aggregate below 10%. Talk a little bit about how you came to the conclusion to cut that OpEx side of the equation. If you believe that it actually could impact some of the growth potential of the Company?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

I think we always knew we were spending too much. Even you look at some of our other peers -- Linear and ADI, right, they would be 17%, 18%. So I think we always felt that our R&D efficiency could get better. I think our goal had been over the last several years to keep OpEx flat and to grow into a lower percent of R&D. Revenue didn't grow and so, ultimately, a year ago when Samsung took a step down and revenue again was not going to show growth, we said, okay, we've got to cut the cost side.

So we made that effort and we started looking at businesses that, in the end, probably we weren't going to be able to differentiate -- we weren't going to be able to get sort of the margins and the stability that we liked. So we sold the touch business. We indicated that we were going to exit MEMS.

I think, as we went along, we got some momentum, we got some confidence. I would say the other big change was when we did our strategic planning process this year in the April/May time frame -- and we have a June fiscal year end, so kind of that's when we do our planning. We came to the conclusion that if there's certain markets where we have low share and it's a slow growth market, no matter how innovative we are, it's going to be very difficult to break out and gain significant share in those businesses.

So we decided, let's figure out what we do really well, let's double down our investment there. And then let's figure out where we have low share and a low growth market and let's either harvest that business or divest that business. I know that sounds very basic and what -- sort of a management 101 for a very long time but I do think when you're a very innovative company and you've been a very diversified company you are used to being able to do something very innovative and sort of gain share.

I think the recognition of kind of the slower growth in the industry says that's harder to do. So I think the one thing that's really important for people to understand is to the extent that we are reducing investments in certain businesses or divesting -- and we've seen that benefit to the P&L -- the other side is the double down where we've taken resources and we allocated them from, say, consumer power management into automotive power management, right? Or we've taken RF folks from comm infrastructure and moved those into SerDes into automotive.

So our view -- and it's a reasonable question, a question our Board asked us is, well, is -- are you comfortable you are not going to impact growth? I actually think we had been spreading our bets too thin and I think with this focus on our high-growth businesses -- whether that's automotive, whether that's cloud, whether that's industrial -- I actually think we will have a better chance at execution and a better chance at growing faster in those businesses where we are already strong as opposed to trying to grow somewhere where we really didn't have a foothold.

Ross Seymore - *Deutsche Bank - Analyst*

So if we put the restructuring down, you are going to go from the four down to one fab and then the OpEx as a percentage of sales drops, almost regardless of what the revenue does to a certain degree. On that OpEx side if you had to look a couple of years out, I guess even profitability as a whole, if you are getting to the 65% target on the gross margin at some point out in time where do you think that OpEx can land when again your three primary competitors are kind of in the -- one at 10% and then the other two are kind of 17% or 18%. In an otherwise relatively slowing industry where do you think that boils down to?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Sure. And mean if you just do the simple math of $180 million a quarter and pick 600 of revenue because it's a round number -- we've been there several times. That gets you to 30% OpEx and so kind of mid-60s gross, 30% OpEx gets you to mid-30s operating margin. I think that would be a wonderful place to be.

If you then say there's opportunities to grow the topline which, obviously, we are working on -- whether it's in automotive, industrial, or cloud to stabilize the consumer we should be able to grow that topline. I think then you see incremental leverage above those mid-30s.

Ross Seymore - *Deutsche Bank - Analyst*

So, we spent a lot of time talking about the cutting side of the equation. Let's talk a little bit about the growing side of the equation. Automotive was the one that you mentioned so why don't we start there? Talk a little bit about what Maxim brings to the automotive market. Because you guys are now bigger than some of the competition that has been highlighting auto a little more loudly than you over the years and you are growing faster than most. So it's not just coming off a small base anymore -- it's real dollars. What are you guys doing in that space?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Yes, it's 14% of revenue. It's over $300 million. It's growing 20%, 30% a year. Margins are improving significantly, such that they are now just a little bit below corporate average so it's been a great market for us. We've executed very well.

We started really in a serious way in 2004 and kind of revenue started ramping a few years later after that. From a technology point of view, it's been power management -- about 50% of our automotive business is in power management. That's a Company core competency. You look at whether it's an consumer or cloud or automotive or industrial -- this is something we do very, very well. Clearly we've done well in automotive and it's both standard products across all the different functionality in a car. There's lots of processors in a car today that require power management.

So I think that's an area that's done well in infotainment, as we move towards driver assist safety -- you are going to have a lot more processors which require power management.

The second area that we've done very well is in video transmission throughout the car -- again starting off in infotainment. Even just sending a DVD back to the rear display -- that's kind of got replaced in tablets. But now you think a lot about cameras in a car. You need to seen send that video uncompressed. We do the kind of serialize or deserialize your technology. It's a good business for us and one I think again does well in infotainment. It will be equally as important on the safety side.

Then it just gets very broad-based, right? We have exterior electronics. High brightness LEDs lighting. We do satellite tuner. We do RF tuner for Europe, DAB. There's all the USB ports in a car. There's a whole host of things -- very broad-based that we've been very successful.

I think the most important thing to remember for us about our automotive business is we all know about the long product lifecycles. So what's happened for us is for seven years now we've been building up business and every year, in March and June, you get the new design wins. The business grows strongly, layering on the new design wins.

That base isn't going away. So I think that's why we've been growing 2X, 3X the industry. I think at some point that growth that base will start to fall off as these older products kind of run their life. But then we'll still probably -- our senses continue to grow in kind of the mid-teens on an ongoing basis just because of the content growth in the business, the momentum we have, the relationships that we now have with the key tier ones. So, I think it's a business that has strong momentum and we have good line of sight, so it's not something that we expect to slow down anytime soon.

Ross Seymore - *Deutsche Bank - Analyst*

Is there -- the power management side that's 50% of that market, is there any concentration from either an end-market -- from the actual OEMs car vehicle maker? Or is it any sort of concentration with the apps processor or general-purpose processor company? Or are you pretty much agnostic across all those platforms?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

From a geographic point of view, we've done best in Europe -- Europe luxury. We do well in Japan and Korea. Not as well in the US or China.

We do partner -- we have sort of a disclosed partnership with India. We do sit alongside other microprocessor companies that are within the car. So, in one sense we are agnostic, but to the extent that -- where we've had like a long-term relationship with a company like NVIDIA, first on the consumer side and now on the automotive side, we've been able to kind of leverage that partnership.

Ross Seymore - *Deutsche Bank - Analyst*

So last question on the automotive side, I know the margins were reasonably below corporate average and you just mentioned that the margins are now a little bit below the corporate average. I guess first just to clarify you are talking about gross margin there?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Yes.

Ross Seymore - *Deutsche Bank - Analyst*

Is there any reason why over time that will not be kind of equal to the corporate average?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

It's interesting -- it was probably in the low 50s initially just because of we were kind of testing in quality, meaning we had to have longer test times. We had lower yields. We've now obviously designed in quality. We've done a lot of efforts. That's really been a Company initiative for three years to improve automotive quality and I think we're making great progress so now we are probably in the upper 50s. It was always a goal for the team to get to corporate average when the corporate average was in the low 60s.

Now that it's mid-60s, I'm not quite sure if they will get there. I think it's still sort of high-volume industrial but I think to the extent that you have a business growing at even long-term mid-teens and have it in the low 60s gross margin in automotive, I think that would be a great outcome.

Ross Seymore - *Deutsche Bank - Analyst*

And are you seeing any more competition coming into that space? I know like you said you've invested for 10 or 11 years in it but power management for apps processors and cell phones and tablets got to be competitive. Different beasts when you are talking automotive but if it's attractive enough to grow a $300 million business 15% a year then you are not going to be alone forever in that?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

No. Absolutely, there is competition in that space. I think so far for sort of the markets we're in I don't know if there's new entrants. There will be.

I do think when we first got into infotainment it was still kind of new and I think the automotive and the tier 1s were willing to kind of take and use kind of catalog analog for many cases. I think as that business grew, the quality standards increased, the supply chain standards increased so I think it's going to be harder for someone to come in new. That said, you're right. It's a large business. It's a profitable business. People will make that investment to the extent that they just kind of heard all the positive news about content growth in automotive, we will see them in five years, but it's a competitive space. There's existing folks out there. We are going to have to continue to focus and invest.

It is power management, the one thing that we do very well as a company, right? We do lots of things well. One of the things we do the best from that point of view, and I think we will continue to be competitive versus our peers.

Ross Seymore - *Deutsche Bank - Analyst*

So why don't we switch gears over to a larger segment but unfortunately the last couple of years been going the opposite direction for automotive, that's your consumer segment and consumer/mobile. There was a customer concentration issue over the last couple of years that the customers are down now closer to the 10% to 15% range than the 30% range at one point in time.

Talk a little bit about your strategic goals in that segment? And what it would take if anything to get it back to actually being a positive contributor to growth?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Sure. I mean we did very well in consumer. It became a large part of our business. I think the idea of concentration -- wow, when you are doing well you make a tremendous amount of money but as people always say, they've seen this story before and they sort of know how it ends. And for us, Samsung -- even though our content remained the same the units did decline substantially -- 15%, 20% a year for several years such that it's now 14%, 15% and probably on the way down -- I think our strategy is to kind of right size consumer which is a way of saying right now it's about 32% of revenue. Let's kind of get it to a size that's manageable and, even more importantly, manage concentration because I think that's the part that really drives volatility such that you don't have any customer that's higher than this sort of 10% to 15%.

Today, we only have one there. And then to more fully diversify the business let's kind of target the other large OEMs. Let's target China, let's target wearables. All those businesses today are growing, right? They are not huge businesses but our view, and as you kind of alluded to, Ross, is in the near term next year let's just stabilize consumer. That way we can just kind of grow the Company off of the other businesses. I think that we are in a good opportunity to do that.

Samsung is a smaller part of our business. I still think probably their units go down but they are going down at a much lower rate than they were before. And I think we are being successful in all of these other markets such that is going to be a smaller part of our business. It's going to be a more diversified part of our business. It still a very profitable part of our business.

Ross Seymore - *Deutsche Bank - Analyst*

So if you had that 30% plus and that's let's say over time that goes to 25% -- just whatever right size means with consumer -- does two 10% customers in that segment solve the problem or does that just make it almost worse?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

I think whether you want two 10% or a couple of 8%'s or something like that, you can never know. I think even more importantly though is this idea of if you take concentration to the next level -- so not only don't you want one customer, but within that one customer you want to have a diversified portfolio of products and business so it's a more tactical relationship. I also think you want to move to a more ASSP or application-specific standard product business. I think the idea of doing very high R&D high risk bets on a high ASP socket -- I think that's a very risky model. I think we were able to do it at Samsung because of our very deep relationships there but even then to the extent that they don't do well in the market it's difficult to get that return.

So I think kind of moving more towards kind of leveraging our R&D across the market -- selling what we do well. Selling power management, selling sensors, selling audio and really kind of amortizing that risk across the market is probably a much better strategy from a consumer point of view.

Ross Seymore - *Deutsche Bank - Analyst*

Unless there's a question from the audience, the last topic I want to hit on is M&A in a general sense -- first time you've ever had these questions, I'm sure.

Talk a little bit about how Maxim approaches it. Because your name has been associated with things on both sides of the equation -- buying the Voltara side and then press rumors of being a target of one of the bigger players in the analog space. How do you guys approach M&A?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

I think first off we believe in consolidation. We think industry growth is slowing. I think it's a natural way -- if the topline is not growing and you want to get double-digit profit and cash flow growth I think kind of acquisition is one part of that strategy.

We do believe we are very profitable, stable, and have the scale to stay independent. We do believe just the self-help program we have going on and kind of improving profit margins significantly helps the Company just drive value as a standalone company.

It also helps us from an M&A point of view to the extent that we look at doing acquisitions -- obviously our cash flow EBITDA are all increasing -- gives us greater capacity to look at those deals. We do think these kind of mid-cap companies are in a tough position, right? If you are $400 million, $500 million of revenue and you are in a 5% growth industry it's tough to get operating margins above 20%. Certainly you are not going to get to 30%, 35%. It's hard to do that so these companies are kind of targets for acquisition for consolidation to the extent that there's a quality asset out there that kind of fits within our strategy. We are not going to go off and do a purely financial deal just because we can. But if it fits within our strategy the key in all of this is can you get it at a reasonable price? That's the hard part about all this. It adds a little diversification.

Certainly we have the willingness to do that and as we talked about we have the balance sheet to go do a $2 billion or plus acquisition off the balance sheet. So, that's really how we look at our business. The other side -- that's outside our control -- we can't manage it.

Our view is just we are going to maximize the value of the Company. If somebody wants to come in and take a look at us that is certainly their right. As a company and as a Board, we will evaluate that.

Ross Seymore - *Deutsche Bank - Analyst*

Do you believe right now like you said you potentially have the ability to do dry powder the $2 billion range or something like that? Do you believe we are at a stage there -- over time you said consolidation you are a believer in it, but you think the premiums are high, low, proper right now given how much consolidation we've had? How many deals in the last year or so?

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

I think it varies. I think there's some companies that are quality assets that are executing well. I think those guys are priced at a very high premium. There are some people whose -- they get an M&A premium built into them and it's always a challenge to pay a premium on a premium.

I think there's other companies out there that maybe two-thirds or three-fourths of their business is very good but they have a part of their business that's not doing well. Those guys are generally priced more reasonably for understandable reasons.

So I think that's a question of, when do you find that right opportunity when you get a quality asset that for whatever reason kind of the price moves into a reasonable range and then just being patient and being able to be ready to go execute on that deal? So that's the tricky part, right? It's finding that quality asset that -- whether it's in a market downturn or whether they stumble from an execution or a customer or a market point of view that makes that an attractive offer.

Ross Seymore - *Deutsche Bank - Analyst*

Well, Bruce, I think we are out of time so thank you very much for joining us here up on stage.

Bruce Kiddoo - *Maxim Integrated, Inc. - CFO and SVP*

Great. Thanks, everybody.