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EDITED TRANSCRIPT

MXIM - Maxim Integrated Products Inc at Sanford C Bernstein Technology Innovation Summit

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PRESENTATION

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Good afternoon, everyone. Thank you all for coming. My name is Stacy Rasgon. I cover the U.S. semiconductor space at Bernstein and it's my honor today to introduce Bruce Kiddoo, the CFO of Maxim Integrated Products.

I see the biggest -- as far as I understand, we don't cover the company, but the biggest controversy from my conversations of clients and it does come up, I think in the past, is related to prospects for growth particularly given customer and end market concentration around wireless and consumer. Automotive (inaudible) of the business have actually demonstrated very good growth, but overexposure in wireless has offset at least up until now.

In response, the company has been embarking on a series of structural improvements especially on manufacturing footprint optimization and R&D spend with the prospect for substantially higher operating margin going forward than we've had in the past, and recently, given a staggering amount of M&A that's been in the industry so far, it's started creating investor questions around the stock as well.

So, to address those and other topics, it's my great pleasure to introduce the CFO of Maxim, Bruce Kiddoo. Thank you so much for being here today. I appreciate it.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Thank you. I appreciate it.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

We have about 35 minutes. I will open it up at the end for Q&A from the audience so we'll have some time to ask questions there as well.

I think I wanted to start off given maybe not everybody in the audience necessarily knows Maxim. If you could maybe give us an overview of the company itself, kind of where has it been, where has it been coming from, what are the changes that are going on now, what drove those changes and where should investors expect it to be going over the next few years.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Sure. And for those who aren't aware, Maxim is an analog semiconductor company and the core value of the company is analog engineers. They are hard to come by. They're not trained in college and it's something that has been built up over 30-plus years of kind of recruiting, training, developing, retaining those engineers. And truly, that is what drives the value of the company.

Folks like me try to figure out what are the best markets to go after, what's the most efficient way to manufacture, what's the best go-to-market strategy, but it is the engineers that really kind of create the core value of the company.

From a financial point of view, when you think of Maxim at kind of a $2.4 billion company, very profitable company, and kind of low 60s gross margin, we have plans as Stacy indicated to get that to the mid 60s. From an operating margin point of view, we can take that probably -- our goal has been to get to 30% operating margin. We're clearly on the path to get there in the near term, and within the next couple of years, the ability to get to mid 30s operating margin with our restructuring plan.

The other very kind of beauty of analog and certainly of Maxim is we generate a lot of cash, right? We have very high margins and we have very low CAPEX requirements, such that free cash flow margin in the last quarter, on trailing 12-month basis, was at 29%. If you look at sort of the profitability goals that we have in place and kind of continued management of CAPEX, our target is to get kind of 30% to 35% free cash flow which of course we return to shareholders both from a dividend point of view which has gone up 7%, 8%, 9% every year since the recession and even in the recession, it was flat, and then through share buybacks which we do on a matrix basis. So, overall, we're turning about 80% of free cash to shareholders.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. I was wondering if you could a little bit about some of the strategic actions that you're taking now around the manufacturing, around the R&D, which areas are you optimizing? What areas are you focusing investments on? What areas are you defocusing investments on? What's actually changing now?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Sure. I think as a company, certainly we have what we think are kind of encouraging strong growth plans. Certainly, if you look at automotive, you look at industrial, you look at the datacenter, we're very confident that we're going to be able to grow in those businesses, that said, historically because of the consumer business which you indicated, right, which has gone down the last few years or growth has been flat.

And so, we've made the decision that we need to drive profitability kind of irregardless of what happens on the top line. And so, we announced last summer plans to restructure our manufacturing and fundamentally over -- we're going to -- we have four wafer fabs. In the end, we will only have one and all the rest will move to an outsource basis.

And I think it's important to note because analog, we have very high margins. Part of that is because we have proprietary manufacturing processes. When we talk about outsourcing, it's not necessarily to the merchant foundries, but instead it's to a digital fab that has excess capacity on an older node, and so, they run our proprietary processes in their older fabs or we sell a fab, but we'll have a long-term supply agreement on the backend of that so that we continue to get access to those products. We just shift it from a fixed cost structure to a variable cost structure.

Overall, that should allow us to achieve about $100 million in savings that we'll achieve over a couple of years. If you think of -- from a cost structure point of view, that's probably four points of gross margin roughly. When you think about a $2.4 billion run rate, we're well on track with that.

The first part of that was to close a small development fab that we had in San Jose, California. That's done. The last wafers were out at the end of September, first week of October. We'll start seeing the full benefit of that in the March quarter. That's about $40 million to $45 million a year. The other large item is the sale of our San Antonio fab. Again, this is where we're selling it. We'll have a supply agreement such that we continue to access that manufacturing process. That will be a little bit longer in the savings because initially, we have to give that boundary partner some time to bring in their own customers, fill it up, get the benefits of utilization.

So, very confident on the $100 million. The other piece of that is the $80 million which is kind of in the operating expense line. We have already kind of taken out $80 million a year previously in the prior fiscal year. We went from $220 million a quarter in operating expenses down to $200 million. We're now going to take that $200 million a quarter down to $180 million.

And again, that's through a combination of really kind of looking at our businesses, identifying those businesses where the growth rate is slow and we have low market share and just either reducing and harvesting that business or potentially selling or divesting of that business. So, again, we're very confident in the ability to achieve these and it will really allow us to go from a low 60s to a mid 60s gross margin and a 30% operating margin company to a 35% operating margin company.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. Is there any outlook to reinvest any of those savings in areas that might require or deserve more investment?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

We absolutely are. And when we did our kind of strategic review and looked at all of our businesses, in some instances, we've already said, look. We believe we're very good in power, about half of our revenue as in power management, but maybe take some of those that were maybe in the consumer space and move them over to automotive, same thing with some of kind of the RF technology, maybe that was in comm infrastructure and move some of that into automotive as well.

So, we have made some reallocations in order to make sure we're investing in our growth businesses, that $80 million of OPEX savings is kind of the -- what's left over after the reinvestment.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

OK. How easy it is -- is in fact to move to a more outsource model? Are there any issues with like qualification processes for auto, for example, or is the fact that like maybe most of the fabs itself are sort of staying and going and you're selling the fab? Is that how you're getting around (inaudible)?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

So, I think certainly the San Antonio fab which -- where someone else is going to run it, there is no qualification process, right? Products are coming out of the same fab, the same manufacturing lines. There's no...

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Same people are there running it.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Same people are there running it. It actually is interesting in that those people have had three owners before us, because we bought it from Philips and Philips bought it from VLSI. And so, I guess if you're in a fab, you get kind of used to this.

To the extent that when we closed our San Jose fab, which is a small development fab, but it did do some production -- excuse me -- we did have to do some re-qualifications and that's worked. I mean, you have to go off and qualify the part, we're going to do with up in our Oregon fab or up at Seiko Epson, one of our partner fabs. You got to re-qual that part and then run it through a [PCN] process with your customers.

So, I think it's interesting when we think about one of the smaller restructuring actions is to shut down a small bump fab in Dallas, Texas. Actually, we're just moving that, that capability to a subcon in Asia, not technically difficult, but there's a lot of products that go through there that are going to have to go through this [PCN] process. So, this is why we've said that's probably going to take to kind of March of 2017.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Yes.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Just because of kind of the volume of re-qual activity.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it, got it. I think on the targets themselves, so, a lot of improvement potential from where we are now. If I look back over the last few years, it kind of gets you into the ballpark of where you were running like in 2010-2011. Like, is there any sort of hope or aspiration that's like once you get to these targets that there could be more?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Yes. I think when I look at 2010, I think we got to 30% op margin. It was the last time we kind of got over that 30%, and so, I think the opportunity to get to 35% operating margin. I think since I've been here, I've been here for about 8 years now and kind of the high mark was 64% gross margin and 30% op margin.

And I think now, I'd be able to get to kind of a mid 60s growth margin and kind of mid 30s op margin, I believe, is improvement. Let's be clear. If we achieve the -- kind of the growth targets that we've set for ourselves internally, we can do better. We need to -- let's get there first.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

OK.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

And then, we'll talk about increasing it.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

I guess the difference in like where you've been running, say, in 2011 versus now, is that mostly just due to the change in the mix of the business, the growth of the wireless and consumer piece or what drove that?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

No. Actually, I think, when we look at our mobility business, in general, I think most people understand that that's pretty close to the corporate average. And so, to the extent that the margin has been -- part of it was just on the OPEX.

Early on, we assumed that we'd be able to continue to grow the top line, we were continuing to invest. So, to the extent that the top line didn't grow as fast as we thought, I think we got a little heavy on the OPEX side. I think we're just adjusting and correcting that for that problem now.

I would say the other issue was to the extent that our -- from a mix point of view, the consumer businesses kind of drove higher utilization in the factories and I think as that business has come down, that's caused a utilization issue and that's going to put a little bit of pressure on the gross margin. Again, that's being addressed simply by moving to a variable model and not being -- putting the [P&L] through sort of the volatility of the consumer business.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it, got it. Could you share with us a little bit, I guess, the trajectory of your customer concentration, how that's going to change? I know it's -- that's been a concern of some investors. So it obviously always comes up. It's come down since. What's actually driving -- like, I guess, where was that in terms of percentage of revenue two years ago? Where is it today? Where is it going? What's driving the change?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Sure. I think at its peak, for a year, Samsung was 28% of revenue. I think in a quarter, it was over 30% peak revenue. Today, it's around 15%. I think a couple of things have driven that -- one, certainly, growth in our industrial business, growth in automotive which was growing, last quarter, it grew 40% year-over-year.

Clearly, part of that is the fact that Samsung, their unit volumes for their flagship phones have come down significantly.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Yes.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

And so, while our content has stayed relatively constant, the units, I think when we look at the -- like the Galaxy S3 was around 90 million to 95 million units lifetime and if you look at an S6, an S5, it's probably around 60 million units. So, you've had a significant decline from a unit point of view and that's really -- in a nutshell, that's been the headwind that we've had to deal with with Samsung.

I think in the end, we are where we are and I think the ability now to kind of diversify our consumer business, understand that we probably, wasn't healthy to get a customer up to that size. And so, kind of keeping your customer concentration at the highest level at 10% to 15% and really kind of trying to drive some diversification across the entire business, including consumer, is a healthier business model for the company.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. You've always tried to diversify away. Auto, I think, has been one of the bright points in terms of growth. It's still relatively small as a portion of the overall, but as you said, it's growing quite clearly year-over-year.

Can you talk a little bit about the areas within automotive that you've been focusing on? Like, which areas are actually driving the growth today and which areas are you investing in for growth tomorrow?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Sure. Automotive is about 16% of revenue. Last quarter, it did grow 40%. That was actually a little unusually high just because we were actually up 9% sequentially in a quarter which is usually flat to down. So, the seasonal comp was very positive for us.

But it has been growing over 30% year-over-year over the last year and we expect that to have continued, strong growth. Obviously, it's not going to continue to grow at these levels, but I think at a multiyear glide path down to maybe 15% long term growth which is still above kind of the market at 8% to 10% for semiconductors and automotive.

Where we've done really well from a technology point of view is power management, and again, kind of half of the company is power management. So, it makes sense that we do very well in power management and automotive. The ability to kind of transmit video throughout a car, initially, you can think of that was for infotainment and now, you can think about it from a safety point of view and driver assistance.

And so, from an end market point of view, infotainment clearly has been the highest growth opportunity for us. What we've done, of course, is there's a lot of processors in a car. They need power management. And they're sending a lot of video around the car. That's all been for infotainment. When you think about the next leg, it is about kind of driver assistance, safety.

Once again, you're going to have a lot of processors to process the information from all the various sensors. That's going to require power management. In addition to radar, kind of vision sensing will be a part of that safety, again, the ability to transmit that signal across. And then, the other piece of it, very broadly diversified.

So, we have our third biggest business is exterior lighting, right? You think of all the USB ports in the car, we have kind of the leading market share for USB ports. In Europe, we have RF tuners for DAB, direct access broadcast radio tuners. And so, that type of business, we have a battery management system business for hybrids and EVs. So, again, very broadly diversified, sell to all the tier ones.

You think of the Continental, or the Bosch, or the Harman, or the Denso across geographically dispersed with -- as the guy who runs the business likes to say, "It's a singles and doubles business," right, keep winning sockets. They last seven-plus years. So, the business doesn't go away and yet we keep getting design wins on top. And so, that's why we've been able to grow at these accelerated levels.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

What would you say the differentiating factors are in automotive? What's actually driving those design wins and that kind of growth?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Yes. I think initially certainly just our underlying capabilities in power. If you think about infotainment, a lot of this was processors which you think of someone like [Nvidia] who is very large in this -- is doing well in automotive. They started off in consumer.

So, to that extent, right, kind of our knowledge of how to drive processors in a consumer environment which is what infotainment is, certainly helped us there. The (inaudible) technology which is for the video transmission has been something that we've just had for a long time, just the capability. You think of the USB ports and the interface, Maxim has always been known for power management and interface. I mean, those are our kind of core competencies as a company.

So, I think it's just been: a) kind of focusing what we do well. The other thing is we've been doing this since 2004. And automotive is not something you just kind of step into. I know it's growing nicely. Everybody talks about automotive. This is something we've been investing in through the recession when we were losing money in this business, it's like "Is this one we cut?"

And I give our CEO tremendous credit. He said, "No. Long-term, this is going to be a business that Maxim should be very, very successful." So, we have the relationships. We've taken quality down to below 1 PPM. I mean, the target is to get to kind of 0.5 PPM.

You think of a normal product, you're probably certainly above 10 PPM, probably around 20 PPM. So, we solved the quality issue. We've solved all the supply chain issues. So, it's a business that is built on years of work. And it's like anything in analog. It's a nice, wide moat. And I think in automotive, those years of investment in the products and the quality is going to make that business that's going to on for a very long time.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. Is growth a goal for Maxim once your structural changes are complete?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

I think growth is always a goal, right? We all -- I got grey hair. I grew up in the '90s at companies that -- it was about growth. You want to grow 10%, 20%, 30% a year. I was at Broadcom when we added in the early days, $1 billion of revenue in one year, right, and that's -- you think of Maxim in the early days.

Our definition of growth has changed a little bit. It's not necessarily all top line. Obviously, the top line you want to continue to get growth, but good growth on the top line is now 5% to 10%. I mean, I think the industry is going to probably grow about 5% -- 4% or 5% long term.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

You mean the analog or the semiconductor?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

I'll say analog but I think close to the semis as well, and so, to the extent that you can get in that 5% to 10% range. But I think more importantly, as our industry matures, I think it's growth in profit and it's growth in cash flow that even if the top line is only -- growth has slowed down versus historical levels, the ability to drive margin improvements, the ability to be more efficient on the balance sheet will really allow you to drive profitability and cash in a double-digit fashion.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

You said a point on the balance sheet. What were your thoughts on capital allocation? I know you mentioned the 80% of free cash flow return. What about the prospect to use the balance sheet for broader issues? Like, where are you in general -- on capital allocation, capital structure?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Sure. I mean, obviously, the first goal always is to grow the business. We were a company that did lots of small technology tuck-in acquisitions, similar to a lot of other semiconductor companies. Today, there's not a lot of startups.

And so, from that point of view, we've been focused on returning excess capital to shareholders, through the dividend and the buyback. To the extent growth has slowed in our industry, right? There's been a move towards consolidation. I think the ability to use kind of the profitability of the company and the balance sheet, kind of the EBITDA that we generate, the stability of our business to really be a consolidator and look at those companies where we have the opportunity to add value to those companies, drive value through synergies and really kind of "one plus one equals three".

To the extent that makes sense, that would be an opportunity as well to use the cash flow and the balance sheet of the company.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Is this something that you're actively pursuing at this point? Certainly, we've seen a lot of scale-driven -- obviously scale-driven consolidation in the industry recently. Is that something that's actively on your mind to be a participant in?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

I think every company in this industry is actively thinking about that. Certainly, from our point of view, it's something I've talked about and we've talked about as a company as an opportunity to build scale.

I think when we look at it, it has to still kind of fit within our strategy. It needs to be an analog company. It needs to be in similar kind of margin profile. We're not going to go buy a 40% gross margin digital company just because we can cut cost and make it accretive to the P&L. That's really of no interest to us.

But if it fits strategically, we can create value and we don't have to overpay, right? That's absolutely something we would look at. I think finding that right opportunity -- and so, we're talking about bigger deals now. These aren't your $50 million, $100 million tuck-in acquisitions.

They're multi-billion dollar deals and I think you have to get it right. And so, I think from that point of view, as a company, investors can count on us being very selective of that. If we do a large acquisition, it'll be one that will deliver value.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Why do you think we've seen so much more kind of large scale consolidation in the industry now versus any other time? And the analog has been fragmented forever.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Sure.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Why now?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Its growth rate have slowed. I think when you're -- when the business is growing 10%, 20% a year, there's absolutely opportunities to drive EPS growth, drive cash flow growth. I think as the growth rates have slowed, it's harder to get the scale to invest in the R&D that's required. It's tougher from a manufacturing point of view.

So, I think with that slower growth, we have to find ways to drive EPS and cash. You can do it like what we're doing, through a self-help program, right, and really do it ourselves and take care of it that way. But to the extent that other companies can't or aren't willing to do that, the other opportunity is to consolidation and creating synergies in incremental cash flow through acquisitions.

But I think it's slow growth is the short answer. I don't think our industry is any different than other industries that have gone through this. It's just -- it's a period of kind of the cycle of an industry and there's still tremendous opportunity to create value.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. Yes. I find it interesting -- I mean, M&A in semis is not new.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Right.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

But my own point of view with any of this has been exactly that a lot of historical deals seemed much more to be based on growth or buying technology and I think the big ones tended to fail miserably.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Sure.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Revenue synergies would take a long time. Many more deals recently I think are driven for scale and synergies and those are (inaudible). At the same time, part of me worries that we're starting to see some deals where the accretion is there, but the strategic fit is less.

So, it sounds like to the extent that you'd be looking to participate (inaudible) is coming down, the strategic piece, I mean, has to be there. It's more than just accretion at this point. It seems like you'd be looking for the ability not to drive -- not just to drive cost, but also to drive long term.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Absolutely. Clearly, in five to 10 years, there'll be a whole business for bankers restructuring these large acquisitions.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Probably.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

We all forgot that all the studies say that large M&A is a challenge to truly create value. But, that said, every industry goes through it. It's a cycle you go through. I think we're going to try to be -- learn from what other people did and be smart about it. But, yes, I think that not all of these acquisitions will be successful and I think you do have to think about -- you have to deliver the value. That's a given.

But at the same time, you do want to think about can you continue to drive top line growth. Maybe that's not what you're going to talk about. Maybe that's not what Wall Street will pay for in the near term, but as management, that's what you have to think about. Because that's how you're going to drive long term value.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. I want to ask one more question, then, I'm going to throw it open. But -- so, in an industry that is obviously maturing, you talked a lot about the self-help thing. You talked about the areas that you're currently focusing on (inaudible).

What are the areas beyond that that you're now investing in for the future, not just today? But if I'm looking out five years from now, like, what is -- how does Maxim look different five years than it does today? What are the areas you're investing in today and examining today that you think can actually drive opportunity for looking forward?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Sure. I think probably the biggest area that's going to go from -- let's just say nothing -- of course, it's not nothing, but something small to something potentially very large is around the datacenter. People talk about comm. I say comm in datacenter, but they really -- for a very long time, the narrative has all been around comm infrastructure and what's happening with China LTE and all that stuff.

It's very clear to me that datacenter is going to be a very large growth, right, where it's obvious, right? The nice buzzword is IOT. IOT is a whole bunch of markets, right, of connected devices. Certainly as a company, you can't attack just one of those. It's hundreds.

But the one common theme of that, of our connected world is all that data has to go somewhere and that data is going to go into datacenters. And more often than not these days, it's going to go into the hyper scale guys, right, whether that's Google or AWS, or Microsoft, or Facebook. These folks are building their own datacenters. They're designing their own servers.

And for Maxim, we have a very strong position from a power management, not a surprise or in the datacenter market. We literally have no business today there and we have the design wins with key players such that a year from now I think we'll be able to have that conversation in a much more meaningful way. And I think that's going to clearly be a multiyear cycle such that five years out, both from a power management.

And the other piece we have is the kind of the optical connectivity. We have -- we're getting nice share on 40-gig, the roadmap to 100-gig, from a connectivity. So, I think that's probably the biggest area. Obviously, we have incubators. You can talk about solar, there are other things we don't talk about. But, I think datacenters, within that five-year horizon, is probably the one that's going to be the biggest upside to what we have today.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Do you have that feeling for TAM, what's the opportunity going after?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Yes. Not off the top of my head and normally I'll just ask [Kathy] (inaudible) to tell me what -- OK, so, for the microphone and for the web, yes, $500 million TAM on that. So, I think that's going to be an interesting business force.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. I'll throw it out to the audience if there's any questions that people have.

Nothing?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Nothing. You're doing well.

Unidentified Speaker

(Inaudible).

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Correct.

Unidentified Speaker

(Inaudible). What's your thoughts around (inaudible)?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Yes. So, I think from a safety -- and it's interesting because I think it's going to start off being passive in the sense that you'll have the sensors, what initially was backed up is now going to be 360. Initially, it will be warning lights. Ultimately, does it take over the car in an emergency situation and then finally, does it get to where it's actively driving the car or controlling you on an emergency situation.

The key with automotive, we're talking about like 2020. Yes. Tesla has a beta version now that -- a software that drives a car. It's going to take, I think, a long time. But without question, that's going to be a continued investment in automotives and cars. That's why people are going to buy cars.

People buy cars today because of the infotainment experience, not because of the size of it, or the horsepower of the engine. And I think as you move to safety and no matter what happen in the safety, what type of sensor it is, there's going to be processors and there are going to be power management and we're going to be a leader in that from a power management. We'll be a leader in that from a power management. We'll be a leader in, certainly, the video distribution.

And to the extent that we have other sensor technologies that today whether they're sort of on a kind of environmental or biosensor which may kind of interface with the driver and the tech on safe situations, i.e. falling asleep or blood alcohol level, those type of opportunities, we have products in those areas as well.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. We got a couple of minutes left. Is there any other questions? OK.

We've got a couple of minutes left. I'm going to give you a soap box. Why should investors buy Maxim [stock]?

Bruce Kiddoo - *Maxim Integrated Products - CFO*

It's very clear. If you think of this company from a free cash flow point of view, on an annualized basis right now, we're about $160 million in depreciation that's hitting the P&L. We're spending about $50 million in CAPEX.

So, if you just look at that, the math says it's $160 million on the P&L. It's going to go down to $50 million. Today, that still kind of hurts our EPS. If you look at it from a free cash flow point of view, the company -- like the growth in free cash flow, the strength of that 29% revenue, I think that is -- that's what -- is the leading indicator of the strength of the company and everything we're doing from a profitability point of view, from managing CAPEX.

That's going to further increase that cash flow and kind of a demonstrated commitment to returning that to shareholders. So, I think this is a great opportunity because I still think today people get focused on the P&L which of course, long term the two come in balance. Right now, there's actually a little out of balance situation and I think that's an opportunity for folks to understand that kind of free cash is leading kind of the earnings strength -- kind of the earnings indicator of the company.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

Got it. We're out of time. Thank you so much.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Thanks.

Stacy Rasgon - *Sanford C. Bernstein - Senior Research Analyst*

I really appreciate it.

Bruce Kiddoo - *Maxim Integrated Products - CFO*

Thank you.

END