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# EDITED TRANSCRIPT

MXIM - Maxim Integrated Products Inc at Barclays Global Technology Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Blayne Curtis** *Barclays Capital, Inc - Analyst*

## PRESENTATION

**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

Welcome, thanks for joining. Very happy to have from Maxim Integrated Products, Bruce Kiddoo the CFO, welcome Bruce.

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

Thank you.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

Obviously you know the story has had an M&A angle to it, but let's just focus on what you can control. And as we look into next year maybe from a very high level you can talk about what you're most excited about from a revenue perspective and then we'll later may be drill into some of the cost measures, which you've been doing a lot of maneuvers as well.

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

When you think about revenue for the Company, we have been relatively flat for the last several years so the whole key is how do we grow revenue. Clearly automotive is the biggest growth driver for us. Last quarter grew 40% year-over-year, it's about 16% of the business now. So, it's no longer saying you are just growing off of a small base. So, we can talk about that more, but that's clearly going to continue to grow at a strong rate and we feel good about that business.

The second area that actually I'm very excited about is the whole data center. I mean people talk about comm, data center and that conversation narrative is always around sort of the comm infrastructure side. And I think everybody knows that's been a very disappointing market generally speaking for the last couple years. I think data center is going to be very interesting. Companies come and some here at this conference talk about IoT and certainly there's a lot of connected devices that's certainly more of a fragmented market. But somewhere all of that data is going to be processed, all of that data is going to be stored, it's going to be done in the data center and I think more and more I think the hyper scale providers, the large cloud-based OEMs are going to be the ones who are designing and building their own servers and Maxim has great technology for that as well.

Rounding that off I think industrial certainly is closest to kind of correlated to global GDP. I think we have some opportunities to do a little bit better there, but that's always a very 27% of our business, very steady business, very profitable business. And then finally, I think the opportunity is just to stabilize consumer. We have very modest expectations for that in calendar 2016, but to the extent that our largest customer that business sort of that rate of decline slows, we're able to grow business. The other OEMs, other markets like wearables, I do think we can stabilize that.

So, just the ability to stabilize consumer, grow auto, that's a given right, industrial and then the data center primarily in the second half of the year of calendar 2016 should provide good growth opportunity and really just allow us to kind of start growing again after a several year flat performance.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

Obviously we'll get to the consumer mobile side, there's obviously a lot of moving pieces over the next few quarters. Maybe just ex-mobile, what does your visibility look like? Obviously the industry has gone through a bit of a slowdown in second half of this year. Some of the end-markets like autos for people where are concerned, and industrial actually seasonally stronger in Q1. So, what's sort of visibility do you have and how has that visibility changed over the last several months?

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

Automotive for us -- we are growing -- when you grow 40%, this is about where we've been gaining share, it's about content growth. We look at the data around SAAR units and sort of the macro automotives narrative, that's not something that's impacting us. For us, it's about -- we've started in this business in 2004, revenue really started picking up in 2007-2008. Every year, we keep winning new business and the base doesn't go away.

Clearly the March and June quarters are the seasonally strong. March is the strongest and then June for the automotive business. And so, we feel very good about that business and as you know the visibility in this business is good. You win that business several years out. You have a very good understanding, what customers going to want. The only question is usually what are the units going to be across all the different platforms. But we sell into all the Tier 1s and they sell into multiple OEMs. So, I think we're very confident about that naturally just a Maxim specific story. I think it's really independent for the most part of industry trends.

Industrial, like you said, I think industrial has been sort of a tough year to read. We had a weak June, kind of a below-seasonal June. One of our large peers had a below-seasonal September quarter, another peer had a weak December. So, it's been hard to figure out what the overall trend line is. What I can say is I think we were seasonal in September, we're looking at seasonal in December. You're correct in that both March and June are normally up. It's one of those markets where we're not seeing bad news, but we're also not seeing great news. So, it's trending along sideways. So, I don't think it's nothing to celebrate, but there is also not great concern there.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

On the auto side, you said what you control is how much content you have in each model year. How do you see that trajectory? You've historically been more focused on infotainment and power management solutions. When you win, why do you win and where are your opportunities over the next several years and what can that growth rate be in autos?

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

As a company, about 50% of our revenue is power management and it's similar in automotive. We had made the investment -- we've always been a company that's done well in mobile power right. We were a leader in notebook, we are a leader in cellphone mobile power. When you look at infotainment in automotive, so lot of the same technology that you would find in consumer devices and you see a lot of the same processor companies and we're providing the power management for that.

So, that's been actually an advantage for us. We've grown very well there. We also have a capability for transmitting video throughout a car. Initially that was mainly just for infotainment purposes, rear view monitors that has all transitioned now or starting to transition to more safety and driver assistance, right as you have a backup camera, you're going to have blind spot cameras, you're going to have a front camera, all those require uncompressed transmission of the video. We have the serializer, de-serializer business, a leading share in that and so that's been a big growth market for us. When I think kind of the new opportunities beyond infotainment, clearly ADAS or driver assistance, driver safety, if you think of what that is, it's sensors, it's a transmission of the data and then it's a processor.

Certainly to the extent that there is a processor, we're going to do the -- we have the opportunity to do the power management for that. So, exact same business that we're doing on infotainment will support us on ADAS. To the extent that there is vision-based sensors, again the same technology on Certis that worked on infotainment, will work on ADAS.

I would say the other area which is still small, but we actually have kind of a nice design win base on the battery management systems and this is for electric vehicles and hybrids, and even winning this over the years -- and this is the classic automotive business and that we've been winning the designs, we haven't really seen much revenue, because in aggregate that's still a small market, but to the extent that the hybrids and EVs continue to slowly grow, we'll have a good position there. So I do think that's another opportunity for us to continue to grow that business.

I think the final thing on automotive, we did very well in Europe, we've done well in Japan, we're growing nicely in Korea. We actually have a small business in the US and China, those are areas of focus for us. So, again nothing in automotive happens overnight, but to the extent for the last couple years we've been focused on that, and that's in a longer-term opportunity to continue to grow the automotive business.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

When you look at your consumer and mobile business, obviously you've had some peaks and troughs. And I think many people have said "Hey, why are you even in this business?" You had a strategy for a while, where there is an integration aspect. I think some of that, you've run into some issues with some cannibalization or share loss. What's the end game for this mobile business? Do you think you can sustainably grow this business, talking about stabilization, but I think with design sales every year that could change pretty quickly. What Maxim's end game in consumer, and why does it make sense to still be in this end market others have left?

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

If you think about our consumer business and really what our strategy there is; a number of years back, we were very focused on one customer and really selling power management to that customer. We were successful with that, we generated a tremendous amount of profit and cash. That said, concentration always ends up usually badly and so certainly we have been looking to reduce the concentration at that one customer and we've been looking to further diversify our consumer business.

So, really the strategy today is focused on what we do well, right. So, that's power management, that's sensors and that's audio. We sold our touch business, we've indicated we're getting out of the MEMS business. So, we're not going to try to chase businesses that we don't have large share in or which may be lower margin. We're going to do what we do well. We're going to be able to leverage R&D (inaudible) power management R&D that's from a platform point of view is applied across the Company.

We're going to look they continue to diversify across customers. Samsung has come down from 28% of revenue down to 15% of revenue. Our expectation over time is that continues to come down. We do have a very tactical relationship with the other large OEM and that is a significant business for us. But again, it's much more spread across multiple platforms with multiple parts. And then just taking our technology, our standard products or application-specific parts, whether you're selling those into China, you're selling them into all sorts of wearables. I think we're in four of the five top wearables whether that's Samsung, Apple, Garmin, Fitbit again, not a huge market today, but something over time, we believe that something that will continue to grow and leverages again power management and sensors.

So, I think that opportunity to bring the market down a little bit, kind of reduce the overall size, reduce the concentration within that market, diversify across customers' platforms, leverage R&D that we're spending across the Company, I think it makes sense. The other thing that we have done is, given the volatility that you talked about is with the sale of our San Antonio fab to TowerJazz, you've now basically moved into a fully-outsourced fab model. And so we'll have flexible manufacturing, which is obviously important in a market that has a certain level of volatility associated with that.

So, I think it will be a very strong cash flow generator very high ROIC. And we just have to get to the right size and right diversification so it doesn't whipsaw company around like it has in the past.



**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

On your last earnings call, you did talk about the March quarter and some positive seasonality there. Can you talk about the moving pieces and what's you are seeing there? And in terms of designs that are going to be giving you that tailwind, how confident are you in securing your content there?

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

I mean, we did break with tradition and give some direction on two quarters out. The reason we did that was because the December quarter was much weaker than normal and it was more about that quarter being so weak versus March being strong. And what we just wanted to indicate was we believe that December was abnormally low and we knew in situations like this, you will be able to ask questions about it and we wanted to be able to talk about it and so we said that we thought the March would sort of return to a normal revenue level and that December was just the abnormality.

When we think about what's going to drive that, certainly we talked about automotive. I think that is a business that is always strong in March, we'll continue to grow. We've assumed industrial will be seasonal. We don't have a crystal ball, but based on what we know today. We didn't assume any recovery for the comm infrastructure market. There are some folks out there talking about some strength, it's not -- the wireless side is not big enough for us to make that call.

And then like you said on the consumer side, March is the quarter that our largest customer launches their flagship phone. We know what our content is, we know what models they're launching, we understand what their expectations are for per unit volume, we know their expected timing. We've obviously discounted those factors when we gave the outlook for the March quarter, but I think when we think about that customer and we've been selling to them for many, many years, the launch quarter is probably the one-time you have some level of visibility. How well the product sells in subsequent quarters can be a surprise, good or bad, but certainly the launch quarter I think we feel some level of confidence and as you would expect, I think we kind of looked what a range of outcomes could be.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

You mentioned the sale of the fab to TowerJazz and your larger competitor has had a 300-millimeter internal effort and then well ahead of the curve on that, you've always done 300-millimeter externally. Can you talk about what percentage of your products would actually fit in 300-millimeter and the time frame of actually moving these products external and then can you talk about the economics associated with paying an external foundry versus doing it yourself? And would you even have the scale to do your own 300-millimeter fab?

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

As you said, our internal fabs are at 200-millimeter our 180-nanometer, which has been our leading edge technology is done on 300-millimeter, we do that at our Powerchip in Taiwan, which is our exclusive the foundry partner. And just folks who are new to the story, understand analog is one of the reasons we have such high gross margins is because we have proprietary manufacturing processes and it makes it very hard almost impossible for someone to spec and source our products.

The challenge of that is you can't go to a TSMC and get that proprietary manufacturing process. We went to an exclusive foundry relationship where we went to first Seiko-Epson and then to the DRAM foundries, Powerchip, Maxchip in Taiwan and signed a deal where we basically ran our analog proprietary process on their old digital lines. They were happy because they got some extended return on those assets and we are happy because we kind of moved the CapEx off our balance sheet and got a more flexible model.

So, today Powerchip, it's probably around 20% of our business is on 300-millimeter. When we look at the next-generation for us, the 90-nanometer, it's going to be all external and it's going to be all 300-millimeter. And so, I think that will move that forward. When I look at where else internally we run a 180, it is in San Antonio. And over time we will be able to move that into -- either that business is either going to eventually move to

Powerchip -- and it's primarily consumer and automotive business, it will transition to 90-nanometer and it will go off sort of 300-millimeter as well. So, it's a little early to figure out the exact percentages, but the trend will clearly go that way.

I think it was a five-part question, we can keep going. The other part on the economics and why does it makes sense to move this to our foundry partner versus doing it ourselves, it's always challenging when you're running a fab by yourself to keep that fab full, to do the mix of businesses. Certainly we've shown charts in the past that our gross margin was really tied to utilization and our fabs have been running probably for the last couple of years at around 70% utilization, some quarters it's been better, some quarters a little bit worse. The ability to move to a flexible model is much lower cost than running a fab at 70%.

Without question, if you're running the fab at 90% it's probably cheaper. But even so, if we can now move to a flexible model kind of reduce our volumes in that foundry over time and start now doing more 300-millimeter external, that will actually be a lower cost for us to the extent that we can now reduce the volumes at San Antonio and move more to our Oregon fab and increase utilization there, that will help us. The fact that we sold this fab and there will be a write down in the net book value of the fab so it reduces the depreciation and the fact that they'll be able to qualify their process, sell it to their customers that will give us a lower -- they will be able offer us at lower wafer price. So, I think they'll offer us a low wafer price than we have today, we'll be able to get better utilization in our Oregon fab and we'll be able to do more in our 300-millimeter foundry partners.

So, it's going take a little time, we've talked about a couple of years to get the full benefit, but I think long-term it's absolutely the right decision for us.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

You obviously have to move on with your life, you can't control if someone's going buy you or not, but there was initial reaction this fab deal that's done that must be and you are not getting sold, can you just talk about whether one has anything to do with the other in terms of the agreement you now have with TowerJazz and what that limits you or doesn't limit you to do in terms of living with volumes?

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

Our view is we're going to control what we can control. Our view is just, we're going do everything we can to maximize the value of the Company and whether that's for today our organic plan and maximizing our value for our shareholders today. Whether that means that allows us to drive more profit, more cash that allows us to do acquisitions and be an acquirer or if someone chooses to look at us that makes us more valuable and captures more the value for our shareholders to the extent that consolidation happens that way. Our view is we're going to continue to manage our Company that makes the most sense for our shareholders today and create value. I think that's our job that we're paid to do and we're going to continue to do that.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

So, to that point you've done several rounds of cost cutting, you shut an R&D fab, you also just did OpEx cuts, how committed are you to this 30% op margin and then if you saw -- if 2016 turns out to be 2015 again, would you look again to cut or have you already made all of the moves you possibly done?

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

We're going to get to the 30% that's basically done. Now we need a little bit of revenue growth to get to the 35%. So, clearly we're committed to that. I stood up a year and a half at an Investor Day and said we're going to get there, revenue didn't growth expected. We first identified \$80 million in cuts a year ago October. We identified another \$180 million in July. We're executing on all of those cost reductions. We'll continue to do that if



there is a sort of an industry downturn and you need to look at other items, whether they are permanent or temporary certainly we'll continue to manage the Company for profitability and cash.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

We've been asking every company the same question, as you look into 2016, what do you see as the most disruptive either trends or technologies that will impact Maxim and/or the overall semi industry?

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

I do think and I mentioned it before -- I do think the next automotive that we're all going to talk about is data center. I do believe that -- and I think we have the offer around if you think about power management and you're selling directly to the cloud providers who are paying the energy bill. If we can significantly reduce their energy costs through greater efficiency, I do think that's going to be an area for us to do very well and we have the right IP for that market. So I do think data center's probably going to be the most interesting thing.

I think you'll start to see and we'll start to hear noise more on assisted driving and automotive, I think that all takes time right. So, that's never going to be, we'll hear about it, we will talk about it, we'll forget about it and then a couple of years later, it will be the major item that we are all discussing.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

And then just last question; obviously you can't comment on the M&A situation, but maybe just broadly can you talk about scale? Is that something that you're concerned about? You mentioned before that you think you have enough -- at this size, you're okay but you see the continued consolidation, you see now a Chinese entity buying Fairchild obviously that is discrete components, but you can see the continual movement and you're starting to see some various sub-scale companies when you compete for an auto socket, will you have to have a broader portfolio to continue to be successful?

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

I think consolidation's happening obviously because growth is slowing in the industry. We have said and I do believe as a company, we have the size and the profitability, the cash flow, the stability. I mean you look at, there's a third of our business that has products that are over 10 years old and they just keep selling very high well-above corporate gross margin business. So, analog is a business that you can stay and grow and stay profitable for a very long time. That said, there are opportunities to create value.

We have the opportunity today through our self-help program and \$180 million restructuring at some point, you do lose -- you kind of run out of those opportunities to really drive double-digit profit and cash flow growth. And so, I do think consolidation provides one of those opportunities to create value in an industry. I do think scale helps for the reasons you said, whether that's in negotiations with suppliers, with vendors whether that's cross selling products and having that full catalog in which to sell. I think that there is obviously benefits of that and so it's something we clearly have and we'll continue to look at.

That said, we're going to be smart about it. I think we've all seen the studies, we have grew up in MBA school, most M&A when you look back 10 years later, most of them kind of destroyed value. We all kind of forget that when we get into these periods of consolidation. So, we're going to try very hard to stay with what we do, kind of stick within our strategy and our financial model. And to the extent that people in this room will allow us not overpay, that means you got to start bidding up all the smaller companies please.

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**Blayne Curtis** - *Barclays Capital, Inc - Analyst*

With that, I think we're out of time, but I appreciate it Bruce.



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

Absolutely. Thank you.

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