

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

MXIM - Maxim Integrated Products Inc at JPMorgan Technology Forum

EVENT DATE/TIME: JANUARY 06, 2016 / 5:55PM GMT



CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Harlan Sur *JPMorgan - Analyst*

PRESENTATION

Harlan Sur - *JPMorgan - Analyst*

Okay, why don't we go ahead and get started? Good morning. Again, welcome to JPMorgan's 14th annual tech investor forum here at the Consumer Electronics Show. Again, my name is Harlan Sur, semiconductor and semiconductor capital equipment analyst.

We are pleased to have the team from Maxim Integrated with us here this morning. Joining us is Bruce Kiddoo, Chief Financial Officer, and we also have Kathy Ta, Head of Investor Relations, sitting over there.

I have asked Bruce to provide us with a brief overview of what the Maxim team is showcasing here at the Consumer Electronics Show. I will kick it off with the first few questions and hopefully you guys all in the audience have questions as well. So with that, Bruce, thanks for joining us this morning and I will turn it over to you.

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

Great, thanks, Harlan, and thanks, everybody. Good morning. So it is interesting, CES has become an automotive show. And so when we look at sort of the -- what we are demoing to customers is probably kind of equally spread between automotive, kind of classic mobility and then the kind of emerging wearable market is really the areas where we are demoing things.

On the automotive side, and it is really next-generation SerDes technology and really if you think of our automotive business, which is a large business, it is about 16% of revenue; last quarter it grew 40% year over year. That was a good quarter, right, there was some nice comps there. But it is a business that has been growing kind of 30% year over year.

And we really have three businesses there that we do very well in, it is power, it is connectivity within the car and this is really today from cameras, vision-based sensors, to a processor or a display. And that is our SerDes business. And then the third-largest business for us is lighting.

And so, when we look at sort of what we are demonstrating on the connectivity side, which is the serializer, deserializer chip, we are demonstrating kind of the next-generation technology, which supports the ADAS requirements.

Today what happens is people use kind of a current generation connectivity and they will kind of cover all the quality and quality levels through software. We are building that into the chip. So fundamentally what it says is today our connectivity has been primarily for infotainment.

But now as you have other cameras in the car, whether it is the backup camera, it is the blind spot camera, it is the 360, as those are going to be used for driver assistance and ultimately well into the future -- and we all have to remember this is automotive -- that is going to be autonomous driving as well. There will still be vision-based sensors/cameras. We will be able to have the -- we have a leading position in SerDes and what we are demonstrating to customers this week is kind of that next-generation which meets the ADAS requirements.

The other business that we have there is the exterior lighting, high brightness LED lighting, we'll be demonstrating the next-generation of that. Our biggest business, power, is always a challenge. It is really hard to demo power, right? Basically it is what is the efficiency of it, what is the power requirement? So that one generally isn't -- it is more of a spec than a demo kind of thing.

I think on the wearable side it is primarily focused on sensors. We have been a leader in biosensors doing heart rate, blood ox levels. We have talked about in sort of kind of the next-generation of sensors whether that is kind of gas sensors for carbon monoxide or air quality, temperature, body temperature, core body temperature sensors.

There's other areas as well. A lot of these are in various stages of development. So these aren't something that you're going to find next quarter in our revenue. But again I think that roadmap for sensors is very full and it is just a question finding what is that -- kind of the application for that, what is the platform for that.

I think it is very clear that as we kind of move down the path of wearables that sensors is going to be one of the key growth areas. I think people are still figuring out kind of the exact use case and the platform for all those various sensors.

And then on the mobility side, it is just sort of demoing next-generation audio DSM technology. And there will be obviously at the customer level some demos around sort of our power management capabilities. Of course a large part of the Company, 40%-50% of the Company, is power management. And so whether that is in automotive, in mobility, in the wearable side that is a clear core strength for the Company, it is something you would expect us to show off to customers in those meetings.

Harlan Sur - JPMorgan - Analyst

Great, that is a great introduction. And we will have -- I will have more questions around that. But before I get into a discussion on sort of macro demand trends, maybe you can just start off with a view on the major growth trends or segments within Maxim that will be driving the growth for the team in calendar year 2016.

Automotive has been growing at a 40% plus clip. I mean, how should we think about automotive this year? The team has been talking about data center as an opportunity in 2016. Does it start to unfold this year or is this more of a next year story? And any other growth trends that the team is confident about this year.

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

Yes. Yes, that was a great answer. Those are the areas. Again, automotive we talked about, 16% of the business growing at 30%-40%, really focused on the infotainment side, starting to transition into the ADAS side. A little bit under the hood with battery management systems for EVs and hybrids. That business has not been large.

But again, this is automotive -- you sort of get the wins and then suddenly five years later it is a big part of your business. And automotive is something that we have been investing in in a focused way since 2004. And so it is a very broad-based business. We have grown across all of the OEMs in multiple technologies.

We are strongest in Europe, we do very well in Japan and Korea. And the US and China are really the growth opportunities from a geographic point of view. So without question, automotive is going to be the biggest business.

The one thing that I would add to your list is I do think industrial -- it is a large business for us, 27%-28% of revenue. It is kind of always correlated to how the global economy is doing so you can't predict that one with accuracy. But that said, it is a business where I think we are doing better. I think our focus is in factory automation and that is an area which we do very well. And there seems to be a tremendous amount of effort going in.

So I think that is going to be -- it's not -- certainly is nothing close to the growth rates that we are seeing in automotive, but it is a very profitable business and it is an area which I think ex some global recession or shock I think will provide growth to us.

I think just another interesting thing just to point out on that business. When we reorganized the Company, restructured the Company back in the June quarter, one of the things we did is we kind of created a business unit that just focused on what we call core products. But think of this as

products that have been around for over 10 years, which -- and they are kind of general-purpose products and they just keep selling. This is the beauty of analog.

And it turns out that business, it is almost a third of our business, are these kind of core products, very high margin kind of wide moat, they are not going to go away. And we started to focus on how can we just sell what we have better. How do we have better programs with our distributors, how do we have better online collateral with all of those small customers who buy these products?

And I think that focus will allow that business, which has been generally flat, to sort of tick up and start adding some growth as well. And so that would be very, very profitable growth from that point of view.

The third area is what you touched on, Harlan, and is I think data center. I do think data center is going to be a very interesting way to play IoT. Without question, and we are at CES, there is probably a million kind of gadgets floating around here. Everything will be connected.

I think on the client side it is going to be a very fragmented market, it is not clear it is going to be one market like smartphones, where it is very easy to say I am going to do power management for smartphones and be very successful. I think it is going to be harder on the device side for IoT. That said, all of this data is going to go somewhere. It is going to have to be processed, it is going to have to be stored.

We know that the large hyper scale guys, the Amazon, Google, Facebook, Microsoft, they are all building their own data centers, they are designing their own servers. They are designing their own connectivity within those servers. And so from that -- within those data centers, so from that point of view we actually do have we think very good traction selling our power management products.

And this is an area which we have said it is kind of the back half of calendar 2016. So I think that has the opportunity to be a growth driver for us. This is new business for us. And so the exact quarter when it hits is hard to predict. That said, we are very confident that this is going to be a very meaningful growth driver for us once that business does start to ramp.

And then I would say the final area for growth, which will be a growth driver in 2016 again coming off of a small base is the whole wearable market. I think we have -- I think we are in four of the top five wearable, we are at Apple, we are at Samsung, we are at Garmin, we are at Fitbit. And so we have that content.

And again, what we are trying to build, because we understand it is going to be a fragmented market, is what are we really good at? We are really good at power management, we are really good at analog and sensors that are required in many of these wearable products. And in a specialized way some very kind of low-power microcontrollers with analog wrapped around it.

Harlan Sur - *JPMorgan - Analyst*

Yes, okay, thanks for that insight. Something very near-term, I mean the team -- not you but the Company that you divested it to put out a press release. So Maxim sold its smart metering business to a company and Asia, I believe it was \$105 million.

I have been getting a lot of questions from investors, first of all, how big was the smart metering business revenue wise? And I know that the gross and operating margin profitability were well below corporate average. So I can kind of see the rationale there.

But I think investors want to also know not only size but is this a part of the overall restructuring initiative and plan to get to kind of mid 60s gross margins, mid-30s operating margins or is this something incremental on top of that?

And then the third part of it that people want to know is contemplated in either the December quarter guidance or your March quarter view, was this kind of already baked in or not?



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

Sure. So, let's see. So first off, it was clearly part of the restructuring that we announced in July. At the time we said that we would be exiting certain businesses. We would look to either monetize those assets through divestiture or we would just shut them down. So from that point of view when we look at sort of the operating expense savings that we were expecting this was built into that model. So this is not incremental to that.

And in fact when we have talked about sort of the timing of those savings, the biggest issue was always on the divestitures it is hard to predict the timing of when you are able to close that deal. So it is I think a very nice data point along the way that says, we shut down and now sold our small San Jose R&D fab, we sold the San Antonio fab and now we have completed the divestiture of this business for \$105 million, again just kind of showing us the tracking along the way.

It was a business that had -- it was about \$45 million in revenue last year. It was not growing when -- it was a business that did well initially when smart meters were deployed in the US. Those deployments have slowed down. Europe never really took off, it was always expected to. I am sure at some point it will, but it has not. And really the growth had all been in China and Asia with lower complexity meters.

And so what that meant was it was -- because of the lower complexity it enabled other competitors and it ended up being a lower margin business. And it was a business that really required a strong local presence. So finding a home for it where somebody -- a company that -- and the company that bought it was [Silergy] who is an Asian company, it fits better within their business model. It allows them to continue investing where we had started to pull back on investments.

So we think for our customers, for our employees who went with the deal and for the business overall it was the right decision. It is very similar to [touch], right. Touch was a business we were in. We sold that to QUALCOMM, again it was better for the customers, our employees and for that technology that we had -- we had developed.

Harlan Sur - *JPMorgan - Analyst*

Okay, great. On the broader macro demand environment and using your industrial segment as sort of a proxy for the broad macro environment. The team has saw a relatively seasonal September quarter, you got it for a relatively -- seasonal decline in your industrial segment here in the December quarter.

Global industrial indicators, PMI trends, most recently China PMI continues to be soft, yet you have continued to kind of see more sort of seasonal trends. I am just wondering how you would characterize kind of the current kind of big picture demand environment?

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

Yes. I think it is -- as you have said we've sort of guided -- our results in September, our guide in December have been roughly seasonal, it hasn't been a -- 2015 wasn't a great year. It was sort of an inconsistent year across sort of the -- kind of the large analog companies as far as timing. We had a weak June, one of our peers had a weak September, another one had kind of a weak December. But it has been kind of going along.

There is always kind of headlines and things we hear. It always takes a while for those to translate down. I mean, the only time I have ever been able to take a macro event and saw it immediately in my bookings was in October of 2008 when the world basically ended --

Harlan Sur - *JPMorgan - Analyst*

Right.

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

-- from a semiconductor. I mean literally bookings stopped for something like a month or --. So it is very hard when we hear that the daily headlines, does that translate in. We have seen this phenomenon though, because it even occurred kind of during 2015 where people like yourself, Harlan, our investors asked, well, gee, all of the large industrial OEMs aren't doing as well, yet the component suppliers seem to be doing okay. It is hard to understand that completely.

Certainly if you look at our industrial business we have been more in factory automation. And so that is different than maybe the folks who are a little bit more levered to say oil and energy from that point of view. And certainly there is a lot going on in factory automation. So as these factories are becoming connected, as they are becoming more kind of a little bit of sort of smaller kind of microcell components in there and they are trying to push more automation in.

So there is a potential for a content story there as well. It is harder for us to see that. But I do think those investments in factory automation, what we are seeing from our customers may be one thing that has allowed Maxim and some of the other component suppliers to do a little bit better than the overall industry.

Harlan Sur - *JPMorgan - Analyst*

I think in past some of these conferences that you have attended you sort of characterized things as not great but not falling off a cliff kind of things, just kind of trending sort of flattish. Is that still kind of how you see the world?

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

Yes I think it's -- I would say it has been trending generally seasonal as opposed to flattish. So it was down in September, it is going to be down some in December. Normal seasonality is for it be stronger in the first half of the calendar year. And so I think in general what we have seen is sort of that seasonal trend.

Harlan Sur - *JPMorgan - Analyst*

That leads me to my next question which is the Maxim team did go out of their way on the last earnings call to provide a framework for the March quarter calling for a similar revenue level in March versus the same quarter last year. With resumed growth in consumer, obviously your largest customer is ramping its flagship platform. As you mentioned, potentially positive trends in auto and industrial.

Any commentary on the confidence level on the team's March view? I know that Tunc said on the earnings call that you guys in particular have better visibility in automotive and industrial and that kind of gave you the confidence. I'm just trying to -- I guess my question now is, knowing what you know now does the team still feel pretty confident about the March quarter sort of guide?

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

Yes. So knowing what we know now we are probably not going to update guidance (laughter) from that point of view. I think when we did that, and it was pretty unusual certainly for a chip company to give two quarters of guidance, especially in a business that there is uncertainty.

The reason we did that was not because we had some unique confidence in the March quarter; it was that we knew the December quarter was much worse than normal. We had been a kind of \$550 million to \$600 million Company. And then we guided to \$505 million. We knew that was abnormally low. And we didn't want folks, yourself, you had asked me at a conference like this, oh, you are at \$505 million, should I assume normal seasonality for the March quarter of five year averages up 2% to 4%? And the answer would clearly be, no.

So we felt -- we just wanted to get it out there that we thought that December was abnormally low and that going forward we would return to more historical patterns. And I think that -- I still believe December was abnormally low and that we'll return to historical patterns.

That said, there is always the dynamics that go into every quarter. All those things you said -- how is auto going to do? Industrial going to do? What is the timing and magnitude of the Samsung ramp? Those are all the factors which will influence our guidance that we provide shortly.

Harlan Sur - JPMorgan - Analyst

Okay, great. And then on the comm infrastructure side, Tunc I think had mentioned and indicated on the last call that the team was potentially seeing some positive trends, which some of our other companies, some of your peers are seeing as well. But we're discounting that, obviously, given the volatility of this wireless infrastructure customer base.

And so, I am curious -- it sounded like the team was somewhat positively optimistic about that things could be moving in the right direction but weren't dialing that into the outlook. I'm just wondering if things have continued to trend better in the comm infrastructure business or still too early to call?

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

Yes, I think we are going to call comm infrastructure out of our rearview mirror on that one. A, for the primary reason being it is a small business for us. We are not the guys -- I mean, if you look at our comm and data center business it is a little over 20% of revenue. Kind of the wireless infrastructure business is probably 4% or 5%. So it is a small number.

We literally don't have the insights that maybe some of the FPGA or some of the other folks who have a bigger content story there. And it also has been a business that has disappointed. That said, I do think, and as you said, I think our team internally, below Tunc and I, they do believe that there is opportunities for that business to come back if only that it has been so low.

So at some point there is going to be a reversion to the mean, there is going to be some recovery. Predicting the timing of that, I think that is always where people get in trouble. And so again, I think we will provide a better update in a week or two. But I think eventually it does recover off of a very low base. I think we agree with that; we are just not the guys to provide real-time insights.

Harlan Sur - JPMorgan - Analyst

Prudent, prudent, okay. Any questions from the audience?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Hi, you talked about auto as being a great opportunity for the Company and you mentioned the ADAS market as something that is small but you are starting to get into. Can you talk about your design wins and the timing and ramp of that as well as how impactful that may be as we look at 2016, or is it 2017, so we have a gauge for that? Thank you.

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

Yes. So I think just on timing just to be clear, when we really think of ADAS in a meaningful way it is think of 2020, 2018-2020, it is certainly not a 2016 type opportunity. That said, what we have done, and we sell into the Continental or the Bosch or all of the kind of Tier 1s, we had very good



business selling power management next to processors. We have very good business selling the SerDes connectivity technology which has been primarily in infotainment.

Everything that happens in ADAS is the same thing. You are -- basically you have sensors, you are going to have -- those sensors have -- those signals have to be processed, we are going to do the power management for those processes. We are kind of a publicly disclosed partner with Nvidia. They certainly talk about a lot of their business supporting the ADAS and the front cluster type business. So I think that is going to be a big opportunity for us.

To Harlan's first question, we are demoing sort of the next generation SerDes technology, which is -- the tech guys will get mad at me, but call it ADAS certified. It sort of meets the requirements that are for ADAS above and beyond what is required for an infotainment.

From a design win point of view beyond sort of the Nvidia partnership, again this is a business which kind of goes through multiple channels so, like I said, we sell into the [Conte] who sells in the Mercedes. And it is a lot of singles and doubles. So there isn't one big win that says, oh, that is going to show it. It is just more -- you will see us every quarter -- the September quarter is supposed to be a down quarter, we grew 8%. December should be a down quarter, it is probably going to be flat from a guidance point of view.

So it is more just this kind of very broad-based business that continues to grow. And I think ADAS will be part of it, but I do believe this is something that, again from the time we all started hearing about it with the Google car to when it is really a big market, it is going to take time.

Harlan Sur - JPMorgan - Analyst

Any other questions? Why don't we -- I would like to talk about the data center opportunity. Because we think investors don't yet appreciate Maxim's opportunity in the data center. You talked about some of these in your opening remarks, major design wins with cloud data center customers that are going to be using your power management solution in some of their next generation servers that they are going to be rolling out, this is your high current, high density solution for server power supplies.

In addition to that you have got the proliferation, or we are seeing the proliferation of 40 gig, 50 gig, 100 gig Ethernet optical in the data center as well. So can you talk about these two opportunities and how big of an opportunity could this be potentially? Does it start now? Does this start second half of 2016? Help us understand the ramp profile?

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

Yes. I mean it is interesting when we used to sell into an enterprise OEM, whether that was an IBM or an HP, they were kind of one step removed from the customer. And then if you even sold into an [ODM], a Quanta or someone like that, you were kind of three steps removed. And at some point they care more about sort of the cost of your product and less about total cost of ownership.

When you are selling directly into one of these hyper scale guys who are the guys who are actually going to run the data center and their highest cost is the energy bill of running that. They will actually care about, and spend the time and energy to get the best possible kind of power management solution for their servers.

Maxim has very unique technology that we got through the Volterra acquisition several years ago. It was a thesis of that deal to kind of take that technology that was really being sold only into the enterprise OEM server makers and sell that into the cloud folks. That is working, we have those design wins.

It is clear the cloud folks do care about total cost of ownership. And so, as we have indicated, we have the design wins. The real revenue will really start ramping in the second half of calendar 2016 and then become more meaningful in calendar 2017. We do think it will be a meaningful business, right, it is going to be -- I think it is something that initially will kind of ramp in the tens of millions. But it will be something that -- will be something we'll sit up here next year and talk in detail about this.



The other piece of that, again as you said, is the connectivity side. We do very well there. We have always had an optical business. We had it more in the past kind of fiber to the home type business. We weren't that good in 10 gig, we have gained share in 40 gig and it is shocking to me because I was -- if I had been here six months ago I would have talked about 100 gig and said, people sort of like ADAS, right. People talk about it, but 100 gig, by the time you switch over to it it is going to be -- it is always a couple of years later before it really hits volume.

It is amazing to me, I think people are starting to push that as well. We have actually seen orders for that. And so I think that will be an area of opportunity. But I think just generally speaking from a theme point of view, set aside Maxim, I do think data center is going to be a very large growth area. And so when we look for what are the next kind of big growth areas I think within the comm market I think it is going to -- I think infrastructure has less drivers and I think there is tremendous drivers behind data center.

Harlan Sur - *JPMorgan - Analyst*

Great. We are just about out of time so, Bruce, thank you very much for joining us.

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

Thank you, Harlan, appreciate it.

Harlan Sur - *JPMorgan - Analyst*

Best of luck in 2016.

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

Absolutely.

Harlan Sur - *JPMorgan - Analyst*

Yes.

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

Thanks, everybody.

Harlan Sur - *JPMorgan - Analyst*

Thank you. Thanks, Kathy.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.