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ISIL - Q2 2014 Intersil Corp Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Intersil's second-quarter earnings call. My name is Sarah and I will be your operator for today.

At this time, all participants are in a listen-only mode, and later we will conduct a question-and-answer session. (Operator Instructions).

I would now like to turn the conference over to Shannon Pleasant from Intersil.

Shannon Pleasant - Intersil Corp - VP IR

Thank you and good afternoon. Thank you for joining us today. I'm here with Necip Sayiner, Intersil's President and Chief Executive Officer, and Rick Crowley, Intersil's Chief Financial Officer. We will discuss our quarterly financial performance and provide a summary of our outlook. After our prepared comments, we will have a question-and-answer session.

Our earnings press release and the accompanying financial tables are available on the Investor Relations section of our website at IR.Intersil.com. This call is also being webcasted and a replay will be available through August 13.

Please note that the comments made during this conference call may contain forward-looking statements subject to risks and uncertainties that could cause our actual results to vary. These risk factors are discussed in detail in our filings with the Securities and Exchange Commission.

Also, the non-GAAP financial measurements that are discussed today are not intended to replace the presentation of Intersil's GAAP financial results. We are providing this information because it may enable investors to perform meaningful comparisons of operating results and more clearly highlight the results of core ongoing operations. Non-GAAP financial measures referenced during today's call can be found in the reconciliation of GAAP to non-GAAP results provided in today's earnings press release.

I will now turn the call over to Intersil President and CEO, Necip Sayiner.

Necip Sayiner - Intersil Corp - President, CEO, Director

Thank you, Shannon, and hello everyone. It was another quarter of improving fundamentals for Intersil. We have become a stronger competitor, evidenced by the increasing design wins, new products launched, continued gross margin improvement, and a strong cash position.



In Q2, we grew the business again year-over-year for the fourth consecutive quarter. Even more importantly, the quality of our business is clearly improving with earnings growth significantly exceeding the consistent progress we have seen in the top line.

One year into the strategic changes we began last July, I can confirm that we are on track with the transformation of our business. We describe 2014 as a year of stable revenue with improving gross and operating margins, and we are clearly delivering on that objective. The discipline on new product investments, the focus on development execution, and the emphasis on quality of revenue are now well accepted norms at Intersil.

We believe 2015 is the year we will see the business return to meaningful topline growth. While there is still work to be done to achieve that goal, the visibility we've gained thus far gives us confidence we are on track to deliver the market share gains to enable that growth.

With that, I will turn the discussion over to Rick to review the financial results.

Rick Crowley - Intersil Corp - SVP, CFO

Thank you Necip. Second-quarter revenue of \$147.8 million was a sequential improvement of 5.5% compared to the first quarter. Year-over-year revenue was up 2% on a nominal basis or up 10% when normalizing for the additional week in the second quarter of 2013.

First, I'll summarize our GAAP results. GAAP gross margin was up meaningfully to 58.1%. As planned, second-quarter operating expenses increased sequentially to \$65.1 million. R&D expense increased to \$32.5 million and SG&A expense to \$27.1 million. Operating income improved again to \$20.7 million, or 14% of revenue. This compares to 5% in Q2 2013. The Q2 GAAP tax rate was approximately 34.5%. GAAP net income for the quarter increased to \$13.6 million, or \$0.10 per diluted share, compared to \$0.01 of earnings for the same period last year.

The following non-GAAP operating results exclude \$5.6 million in amortization of acquisition related intangibles, and \$5.6 million in stock compensation expense. Non-GAAP gross margin improved again for the fifth consecutive quarter, increasing sequentially by 170 basis points to 58.3%. This impressive increase in gross margin, probably better than any other business metric, reflects the improving quality of the business. We believe the mix towards higher margin products and the benefits from cost reduction efforts will allow us to maintain this high level, even in the back half of the year, which typically has a higher contribution from computing and consumer products.

Q2 non-GAAP operating expenses were up as forecasted as we added the anticipated new hires resulting from our rebalancing efforts. Total operating expenses increased sequentially to \$54.4 million.

Non-GAAP R&D investment increased to \$30.5 million, primarily reflecting hiring and tape-out activity. Non-GAAP SG&A expense increased to \$23.9 million due to increases in variable compensation, as well as short-term increases in certain other SG&A expense areas.

In Q3, we expect R&D expense to increase and SG&A to decrease, resulting in roughly flat operating expenses. We anticipate total operating expenses will remain stable over the next several quarters.

Q2 non-GAAP operating income improved again to \$31.8 million, resulting in non-GAAP operating margin of 21.5%. This is a significant improvement, both sequentially and year-over-year. The Q2 non-GAAP effective tax rate was approximately 19% and is expected to be about 19% for the rest of the year. Non-GAAP diluted shares outstanding were 135.7 million for the quarter.

Non-GAAP net income of \$26 million, or \$0.19 per diluted share, increased sequentially by 10%, demonstrating continued earnings leverage.

The balance sheet remains solid. Net inventory increased to \$65 million with days of inventory at 96 days. We expect inventory to be flat to slightly up during Q3. Accounts receivable balances increased with revenue as expected, and we ended the quarter with days sales outstanding of 36 days.

Cash and investments surpassed the \$200 million mark, increasing by \$4 million sequentially to \$201 million at quarter end. The cash balance moved up again as a result of \$13 million of operating cash flow during the quarter and proceeds from employee stock option exercises.

Capital expenditures were approximately \$2 million for the quarter.

We continue to return substantial portion of our free cash flow directly to shareholders through our hike yielding dividend.

In summary, Q2 was another solid quarter of execution for Intersil. We are seeing early evidence of the new Intersil emerging and our improving gross margin profile that is continuing to drive solid earnings growth. At the halfway point of the year, we remain slightly ahead of the objectives we laid out as we entered 2014, and are setting a strong foundation for 2015.

With that, I will turn it back over to Necip.

Necip Sayiner - *Intersil Corp - President, CEO, Director*

Take you Rick. Strong growth in the quarter was led again by our Industrial and Infrastructure group. Our Computing revenue was slightly better than expected, and our Consumer revenue was flat sequentially.

Beginning with consumer, it represented about 16% of Company revenue in Q2. We are making good progress in expanding our business in the mobile power market, securing notable design wins with leading brands.

Near-term, we are seeing only a very modest seasonal lift as weakness in gaming offset seasonal strength in strategic areas. As we have noted, gaming demanded significantly weaker than last year when we benefited from our customer's new platform introduction. This year, relative demand weakness is due to both a lack of a new platform ramp as well as the debundling of the motion sensor from the gaming console and shipping instead in the accessory. This accounts for more than half of the expected decline year-over-year in the Consumer business. The remainder is due to the deliberate deemphasis of lower margin and less differentiated product. As Rick discussed, this is delivering a structural margin improvement as we benefit from our focus on highly differentiated product lines that command a higher value in the marketplace.

The composition of the Consumer business continues to improve as the investment areas deliver growth in Q3 at higher margins. Development of new strategic mobile power products is in good shape. In fact, a key product that we taped out in Q1 is already in the final stages of design-in with an important tier 1 consumer customer.

Next month, we will be launching the industry's first display power and backlight LED driver integrated into a single chip. This product's market-leading efficiency enables more than an hour increase in battery life in smartphones. Already designed into new platforms at mobile customers, this device will contribute to incremental revenue in Q3 and beyond.

Turning to Computing, which represented about 20% of Company revenue in Q2, revenue was about flat sequentially and continues to be a little better than expected. Solid traction in late-fill platforms has enabled some recovery of the share loss we had reported last year.

We are expecting demand for our Computing products to remain solid and be flat to up in Q3, which is actually a year-over-year improvement. We are successful in winning new business on recently introduced products, including the ISL 6388, a six phase PWM controller compliant with Intel's VR12 and VR12.5 specifications for server and high-end desk tops.

Existing business and designs on new platforms continue to give us confidence in the soft landing we described last quarter. As Computing revenue transitions to newer business in next-generation platforms and form factors, it will become less relevant to separate it from our Consumer products. So in 2015, we will combine these into one category. We believe that the combined business will be a solid double-digit growth driver next year.

Notable again this quarter is the growth of our Industrial and Infrastructure business, or I&I for short, which was up more than 8% sequentially and grew to 64% of revenue.

The Automotive and Aerospace products, about 10% of Company revenue each, contributed to the strong growth, but every category within the I&I bucket grew sequentially in the second quarter. Automotive delivered record revenue for the Company in Q2 and continues to be a very positive



element of our growth story. We are adding new wins that are driving growth in infotainment and in power management. We are introducing new products at a rapid pace that we believe will increase our opportunity in this market.

For example, we introduced the TW 9966 for around-view applications. Based on our market-leading multichannel surveillance technology, it integrates four video decoders and a video encoder into a single chip, replacing up to five discrete components to simplify design and save board space.

Also newly launched in Q2 was the TW8836, or rear camera video, that exceeds the requirements of recent government safety regulations. And we recently launched a highly efficient bot controller that supports both of the latest 12-volt and 48-volt power systems being adopted by European automotive OEMs. With compelling products and strong wins at several market-leading customers, we are well-positioned to grow the automotive business.

In our Power and broad market product categories within I&I, which represented approximately 20% each of Company revenue in Q2, we saw strength due to both the health of the end market and improving traction in our distribution sales channel. We continue to introduce new power products to broaden our content and expand our coverage of I&I applications. For example, we introduced a new highly integrated power module able to support the latest FPGA platforms for demanding infrastructure and industrial applications. And we introduced a 40-amp module in a small footprint ideal for infrastructure and cloud computing hardware.

Our share is expanding in cloud infrastructure with strategic wins at IBM, Oracle, and others that are in the early stages of revenue today but have the ability to move the needle for us in 2015. Our newly launched products, along with others announced over the last nine months, are expanding our content, increasing design win activity, and contributing to the confidence we have in continued I&I growth and improvement in overall Company gross margins.

In Q3, we are expecting growth in our power products to be offset by declines in our aerospace product line, which is slowing off of a strong Q2. In aggregate, we expect I&I revenue to be better than seasonal and be about flat to Q2, which would represent another meaningful year-over-year improvement.

As 2015 comes into view, we feel comfortable that the design wins are in place to see continued growth in I&I that is much less dependent on end market growth.

Now for the Q3 guidance. We are anticipating revenue will be in the range of flat to up 3% sequentially. We believe gross margin will remain roughly flat at the higher Q2 level. Operating expenses are also projected to be about flat. We anticipate GAAP earnings of \$0.10 to \$0.11 per share. Earnings per share on a non-GAAP basis, excluding amortization of intangibles and stock compensation, are expected to be \$0.19 to \$0.20.

With that, we will now take your questions.

Shannon Pleasant - Intersil Corp - VP IR

Thank you Necip. We'd now like to open the call for your questions. Operator, please review the Q&A instructions for the call participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Craig Ellis, B. Riley.



Craig Ellis - *B. Riley & Co. - Analyst*

Thank you for taking the question and congratulations on the real strong margin performance. Necip, the first question is for you. You mentioned that you see potential for combined consumer and PC double-digit growth next year. Can you just identify the top two or three drivers that you see contributing to that year-on-year growth?

Necip Sayiner - *Intersil Corp - President, CEO, Director*

Thanks Craig. The growth that we are projecting comes at the heels of the new products that we have started introducing. I have alluded in prior earnings calls that we've taped out some key products early in the year, and they have come back with good functionality and are in the design-in phase with some key customers. I think we will be in a position to bring those products fully to market ahead of our plan sometime at the end of this quarter or early Q4. And we feel comfortable with the pull from the customers that we are seeing today. Many of these are standard products. Some are semi custom or custom products that we have designed for use in both what would typically be considered consumer applications or traditional computing applications targeted primarily towards tablets, ultra books, and to some degree handheld devices.

Craig Ellis - *B. Riley & Co. - Analyst*

Okay, that's helpful. And the follow-up question, tying together the points that were made on consumer and PC growth next year, along with some points I think the Company has made in the past, seeing potential to get to 60% gross margin, obviously you took a big step there with the quarter's results and the guide. But how should we think about the trajectory of gross margins from here, given the improvements that have been made thus far, but given the initiatives that are underway inside the company and the execution that you're seeing?

Rick Crowley - *Intersil Corp - SVP, CFO*

Sure Craig. Yes, obviously, we are pleased with the results and the improvement in gross margin, given where we are at the end of Q2 here. As you can tell from our guidance, we expect that to hold up as we move through the third quarter.

I think, as we look forward and beyond that, if we're looking to 2015, as we've said in the past, we see gross margin improvement and continuous improvement in gross margin as an important objective for us, as it reflects the quality of our revenue. So as some of the new products come into play and gain revenue traction across all the end markets, frankly, we believe that will help the complexion of our gross margin and move us towards that 60% level. When we might achieve that, I think it's still premature to forecast the timing of that just yet, but it's our goal to drive gross margin improvement with revenue growth going forward.

Craig Ellis - *B. Riley & Co. - Analyst*

Okay. And then the last question, back to Necip. This year was identified as a flattish year. You're talking about growth next year. Is the business an industry average grower, Necip, or how do you feel about your relative growth versus the industry as you look ahead and start to get the benefit from all the new products that are coming out the door?

Necip Sayiner - *Intersil Corp - President, CEO, Director*

I think it's a little too early to give full-year guidance for 2015. But we certainly define success to be growth at or above industry growth rate, even though we are still in the early innings of transforming the business.

I tried to give some color on the short product cycle markets in Consumer and Computing in terms of the growth that we are targeting to achieve. And I think, on the I&I side, importantly, I expect the growth that we have seen this year to continue into 2015, but less dependent on the strength of the end markets that we all enjoyed in the semi industry this year.



Craig Ellis - *B. Riley & Co. - Analyst*

Thank you.

Operator

Tore Svanberg, Stifel.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Yes, thank you. Nice quarter. First question, I know you typically don't guide for more than a quarter out, but just looking at some of the moving parts, it looks that Q4 has at least the potential of being better than seasonal. I guess seasonally it's usually a down quarter. So I was just hoping you could talk about some of the puts and takes for Q4 please.

Necip Sayiner - *Intersil Corp - President, CEO, Director*

I think we expect I&I to pretty much hold at these levels for the remainder of the year, again representing a significant year-over-year improvement and giving us a good exit rate into 2015.

Computing has been a pleasant surprise all year long. For the first time since I joined, we are guiding that to be more positive sequentially. But I do think that 4Q might still prove to be the low quarter for 2014. I'll stick with that projection for now, even though I've lost some credibility in my ability to project that business.

Consumer I think is going to be cyclical and seasonal into Q4. I don't necessarily see anything different this year in that regard with one exception. Last year, we had a big ramp up in Q3 in consumer due to gaming, and then a big seasonal -- big sequential decline into Q4. That sort of phenomenon is not going to repeat. So even if we were to look at a declining sequential Q4, I don't think the magnitude is going to be nearly what it was last year.

Tore Svanberg - *Stifel Nicolaus - Analyst*

That's very helpful. And as we look at calendar 2015, it sounds like you're going to combine PC and Consumer, at least the way your report it. Any other changes that you are anticipating as you start to report the breakdown in calendar 2015?

Necip Sayiner - *Intersil Corp - President, CEO, Director*

No, we are not. And the reason we are looking combine this is it's going to get increasingly difficult for us to delineate the two, both from our product perspective that will likely support and platforms that are currently reported in either grouping today, or coming to market of devices that may be across the traditional boundaries of consumer and computing. But combined, I think we have a reasonably good line of sight to be able to project good growth into 2015 on an annual basis over 2014.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Very good. Just one housekeeping. Rick, what should we model for CapEx for calendar 2014?



Rick Crowley - *Intersil Corp - SVP, CFO*

I think, overall, we're going to be in the low double digits, \$10 million to \$12 million perhaps, that type of range.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Great, thank you.

Operator

Chris Caso, Susquehanna.

Chris Caso - *Susquehanna Financial Group - Analyst*

Yes, thank you. Good afternoon. With respect to your comments for 2015 and the drivers from Computing and Consumer, I suspect I should assume that most of the revenue impact from those products would be weighted to the second half of the year, given seasonality. Could you talk about that?

And as a follow-on to that, with respect to some of the new products, I guess follow-on new products that you would expect in your I&I group, what should we expect there in terms of timing and revenue impact, just keeping in mind that obviously those markets take longer to develop?

Necip Sayiner - *Intersil Corp - President, CEO, Director*

I'll take the Consumer and Computing question first. There's obvious seasonality in the revenue. In terms of readiness of our products, the new products that we have designed since the new team was assembled, we are going to have those ready to go by no later than the end of this year, as previously planned, probably a little sooner. The rest really depends on the timing of the launch of the platforms we are in the design-in phase. And I am really not at Liberty to discuss the timing of those, so I'm going to have to refrain from giving a magnitude answer to your seasonality question.

On the I&I side, we've been making progress with existing products just due to the focus we have been able to provide with our direct sales force as well as the emphasis on the distribution channel. So some of the new design wins with existing products are going to start contributing to revenue in 2015, and will likely be the primary driver of growth in that year. However, the new products that we have been bringing to the market in the past six, nine months are also getting pull from the customers. I think just due to the product cycles in those end markets, I would expect the revenue from those products to be no earlier than the back half of 2015, however.

Chris Caso - *Susquehanna Financial Group - Analyst*

Okay, great. That's very helpful. Just as a follow-on, with respect to some of these new products within Consumer and Computing, can you give us some help with regard to which particular segments of the market you're targeting? And obviously there is a very diverse market from kind of flagship smartphones and entry-level tablets and such. Is there a particular area that you're emphasizing over others or should we consider this to be fairly broadly targeted among the different segments?

Necip Sayiner - *Intersil Corp - President, CEO, Director*

We are rather targeted in what we do in that broad space. Some of the products we have developed are geared towards ultra books. They tend to be more integrated products. We are targeting tablets in a variety of ways, and to some degree also smartphones and larger screen smartphones, particularly with our display products that play across smartphones, tablets, and tablets.



But the key really for us is mobile power, display power, across all these end platforms. This is where we feel our differentiation lies, and this is where we have been focusing our investments. So it does target maybe a relatively broad addressable market, but in a very targeted fashion in terms of the products we develop.

Chris Caso - *Susquehanna Financial Group - Analyst*

That's helpful. Thank you.

Operator

Ross Seymour, Deutsche Bank.

Ross Seymour - *Deutsche Bank - Analyst*

Hi guys, just a couple of questions. I guess Rick, the first one for you on the gross margin side of things. Can you go through a little bit about what drove the upside in the June quarter? I know you had better mix of I&I and that's always beneficial, but it seems like there was a bit more than that.

And I guess along those same lines, if the Consumer and PC side of things are going to grow double digits next year per Necip's comment, can the new product mix in heavy enough to keep that away from being a gross margin headwind as we get into 2015?

Rick Crowley - *Intersil Corp - SVP, CFO*

Ross, to address your first question, the vast majority of the gross margin improvement that we experienced in Q2 was driven by mix. And it was both mix, as you pointed out, between end market segments with I&I, but even within end market segments, for instance Consumer, the gross margin complexion improved as we deemphasized some of the more commodity-like products and start to see some of the revenue contribution from some of the newer products kick in there. So, we do believe that, even with faster growth in Computing and Consumer projected, that we continue to sustain gross margin improvement in 2015.

Ross Seymour - *Deutsche Bank - Analyst*

Great. And I guess kind of along those lines as far as margins in general, I know you talked about holding OpEx at this level. I assume you meant on a dollar basis for several quarters going forward. But generally speaking, if you're going to grow faster than the market next year, how should we think about the relationship between revenue growth and OpEx dollars growth?

Rick Crowley - *Intersil Corp - SVP, CFO*

I think we'd characterize that through discussion so far this year as R&D may grow commensurate with revenue growth as far as percentage, but we intend to leverage SG&A and constrain the growth in SG&A as revenue improves, thereby hoping to achieve operating margin improvement and leverage from both improved gross margin and leverage on OpEx and the SG&A.

Ross Seymour - *Deutsche Bank - Analyst*

Great, thank you.



Operator

Richard Schafer, Oppenheimer.

Unidentified Participant

Hey guys. It's Joe calling on behalf of Rick. Thanks for taking the questions and congrats on the quarter.

I was hoping you could talk a little bit about the Automotive segment. I know that you've highlighted it is an area of growth, and you've talked about backup cameras being a pretty big chunk of the revenue for the most part. I was hoping you could talk a little bit about that mix, what it looks like moving into 2015 and what are some of the growth drivers there. Thanks.

Necip Sayiner - Intersil Corp - President, CEO, Director

As I alluded to in my prepared remarks, we have enjoyed record revenues in Automotive in Q2. And this year is going to be a really good year I think in terms of growth for the business. And we will leave the year at a pretty good exit rate into 2015.

The growth has come from both proliferation of safety features, rear camera, etc., in automobiles where we enjoy a good market share, as well as us bringing new products, new power products, to our customers. They've been enjoying good traction with some of these products, and they are generating upside revenue for us for some time. So, I would say that the growth is coming from both buckets, although the complexion of the revenue today is favoring the infotainment piece over power. Power is smaller but enjoying a higher rate of growth.

Going into 2015, we would expect that to remain more or less intact.

One additional dimension I want to add as you look at Automotive business, however, into 2015 and, importantly, 2016, you are going to see more shift towards OEMs other than aftermarket. This is going to be the result of a deliberate effort for us to engage more closely with our OEM customers in anticipation of their future needs. And so you're going to start seeing that come into focus in the next couple of years.

Unidentified Participant

Great. Thanks for the color. Also hoping you could touch on the TV market a little bit. I was wondering of the dynamics at play there, whether it's strictly a unit opportunity or there are opportunities for content games there. Just talk a little bit hopefully about the mix there. It would be helpful. Thanks.

Necip Sayiner - Intersil Corp - President, CEO, Director

I'm sorry, did you say TV, Joe?

Unidentified Participant

Yes I did.

Necip Sayiner - Intersil Corp - President, CEO, Director

That's really not a market we participate a whole lot. A couple of years ago, the Company had provided programmable gamma buffers into TVs, but that's part of the revenue that has diminished over time, and we have really very little of it at this stage to speak of. We have, however, taken

that technology and applied it to smaller form factors. So, when we talk about winning with the display power in tablets, that's really the origin of that technology to some degree.

Unidentified Participant

Okay, great. And then lastly, I was hoping you'd talk a little bit about the Compute business. I know it's been running at around 20% of sales for a while. I'm wondering if this is a level that you guys are comfortable with, or where do you see it trending longer-term, given the margin headwind? Thanks.

Necip Sayiner - *Intersil Corp - President, CEO, Director*

I'll stick with the characterization we provided last quarter. We said that we are going to be able to soft-land that Computing business given some of the incremental share gains we enjoy on Bay Trail platforms. And as we transition into the new products, the new platforms in 2015, combined with the Consumer, I think it will be part of the growth engine for our business.

Unidentified Participant

Thanks so much guys.

Operator

(Operator Instructions). Mike Lucarelli, Evercore.

Mike Lucarelli - *Evercore Partners - Analyst*

Hi guys. Thanks for taking the questions. Congratulations on the strong results and the great operating margin performance again.

I guess sticking to the operating margin, you've hit it four quarters in a row now and your guiding implies for another over 20%. Is there a timeframe we should look for an update to that number?

Rick Crowley - *Intersil Corp - SVP, CFO*

Right now, the 20% operating margin continues to be our near-term target because we are really still working on stabilizing the top line and working to rebalance the investment in the business to drive the growth we've been talking about in 2015. But I think early 2015 would be a good time for us to update our model and expand the discussion around some of our targets beyond -- even beyond operating margin.

Necip Sayiner - *Intersil Corp - President, CEO, Director*

You know, when we set that target, Rick and I gave ourselves about a six-quarter runway with that model, six to eight quarters, and come early 2015, I think the clock is going to run out on that. So we're going to provide a longer-term operating model with a lot of different elements sometime in early 2015.

Mike Lucarelli - *Evercore Partners - Analyst*

Perfect, that sounds great. Could you go over your growth expectations for each segment again in the third quarter? I didn't catch it for Consumer. And then also, could you go maybe a little deeper in I&I? Are all those buckets expected to grow but Arrow?

Necip Sayiner - *Intersil Corp - President, CEO, Director*

I'll do that gladly. Computing and Consumer are both projected to be flat to up sequentially. I&I, we are projecting it to be flat. There are puts and takes in that I&I bucket though. We expect power to be up sequentially and military Arrow to be down sequentially.

Power has been improving steadily since the middle of last year, and I expect that trend to continue into Q3 solidly. The military aerospace business is driven by lumpy orders from end customers. You might recall from last quarter's call that we've come out of a relatively weak Q1, but the orders were looking pretty good, so we enjoyed a very strong Q2. Q3 is going to moderate down from that, but still should be above the Q1 levels.

Mike Lucarelli - *Evercore Partners - Analyst*

Okay. That sounds good. And then last question here, your outlook was a little light compared to what the Street had, and it's actually the first quarter you guys are guiding down year-over-year in some time. Do you think annual growth resumes in the December quarter, or is it too early to call?

Necip Sayiner - *Intersil Corp - President, CEO, Director*

There are two elements to the sub season of what we would consider sub seasonal revenue guidance we are providing. One has to do with gaming that beyond our expectations is weak, both because of us moving into accessories, but I think the end-user demand appears to be also quite soft. So when you compare it to the big launch quarter of Q3 last year, that's a tough compare. But I wouldn't characterize this as a slowing of progress improvement in the investment areas. If you were to be able to look into the product areas where we have said we are going to focus on, those continue to do well. Given the revenue that we walked away from systematically over the last several quarters, those are not product areas that fall in our strategic areas. These are areas that we're going to continue to cash cow as long as it makes sense for us and as long as it's profitable to do so. So what might appear to you a hole in terms of revenue doesn't really feel that way to me, because this is really profitless revenue that we are walking away from, evidenced by the much better gross margins.

Mike Lucarelli - *Evercore Partners - Analyst*

That makes a lot of sense. Maybe I can squeeze one more in here. On the previous call, you guys discussed some server design wins, and I think you talked a little bit about them again here.

Necip Sayiner - *Intersil Corp - President, CEO, Director*

Yes.

Mike Lucarelli - *Evercore Partners - Analyst*

Should I assume they're related to Intel's Grantley platform and maybe could you size kind of the magnitude of these opportunities?



Necip Sayiner - *Intersil Corp - President, CEO, Director*

Yes, I don't want to do that quite yet. I provided those design wins and even some customers here just to give you a sense of the progress we are making because we had lost, in prior generations, some traction with server customers. And the focus we brought to infrastructure power is helping us to regain some of that share. Currently, that revenue base is really not material, and it's not -- I mean the new revenue from those design wins is not material. And I wouldn't expect it to be so until maybe the second quarter of 2015.

Mike Lucarelli - *Evercore Partners - Analyst*

Sounds good guys, and congrats on the results.

Operator

Great. It looks like there are no further questions in queue, so I'll turn it back to Shannon.

Shannon Pleasant - *Intersil Corp - VP IR*

Thank you Sarah. And thank you very much for joining us. This now concludes our call.

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