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EDITED TRANSCRIPT

ISIL - Q4 2014 Intersil Corp Earnings Call

EVENT DATE/TIME: JANUARY 28, 2015 / 9:45PM GMT

OVERVIEW:

Co. reported 4Q14 revenues of $131.1m, GAAP net income of $17.3m and GAAP EPS of $0.13. Expects 1Q15 revenues to be $131-136m, GAAP EPS to be $0.07-0.08 and non-GAAP EPS, excluding amortization and stock compensation, to be $0.14-0.16.

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Ross Miller *Credit Suisse - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Q4 2014 Intersil Corporation Earnings Conference Call. My name is Tee and I will be the operator for today. At this time, all participants are in listen-only mode. We will conduct a question-answer-session towards the end of this conference. (Operator Instructions)

I would now like to turn the conference over to your host for today, Ms. Shannon Pleasant. Please proceed.

Shannon Pleasant - *Intersil Corporation - IR*

Good afternoon and thank you for joining us today. I am here with Necip Sayiner, Intersil's President and Chief Executive Officer and Rick Crowley, Intersil's Chief Financial Officer. We will discuss our financial performance and provide a summary of our outlook. After our prepared comments, you'll 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 February 12.

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's President and CEO, Necip Sayiner.

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Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Thank you, Shannon, and hello everyone. 2014 was a solid year closing ahead of plan on a number of key metrics and positioning us well to achieve our goals in 2015. We successfully stabilized revenue while improving operating fundamentals. For example, stronger pricing discipline and cost reductions contributed to a gross margin improvement of 300 basis points.

Non-GAAP operating expenses were down 8% in 2014, reflecting the benefits of our restructuring efforts in 2013 and non-GAAP earnings per share improved an impressive 24% over 2013.

Beyond the financials, we are more competitive with a strong R&D pipeline and we are executing well. We're getting products out on time and securing the design wins that can enable sustained growth. The entire Intersil team is now ready for phase two of our turnaround.

I'll talk more about our view of the business and outlook for 2015 after Rick reviews the details of our Q4 performance.

Rick Crowley - *Intersil Corporation - SVP, CFO & Treasurer*

Thank you, Necip. Fourth quarter revenue of $131.1 million was down sequentially about 9%. We closed the year at $562.6 million, down about 2%, compared to 2013.

First, I'll summarize our GAAP results. Fourth quarter operating expenses, which include $5.6 million in amortization of acquisition related intangibles and $5 million in stock compensation expense decreased to $60.8 million.

R&D expense was $30.4 million and SG&A expense was $24.8 million. GAAP gross margin was up 120 basis points to 59.6%. Operating income was $17.4 million or 13.3% of sales.

Net income for the quarter was $17.3 million. Earnings of $0.13 per share were favorably impacted by the reinstatement of the US R&D tax credit and year-to-date catch-up for 2014, resulting in a Q4 GAAP tax rate of 3.7%.

For the full year GAAP net income increased to $54.8 million, compared to $2.9 million in 2013. GAAP earnings per share of $0.41 increased from only $0.02 per share in 2013.

The non-GAAP results, which exclude amortization and stock compensation were also very good. Non-GAAP gross margins increased to 59.8% in Q4, the seventh consecutive quarter of gross margin expansion.

The Q4 improvement was largely mix driven with the reduction in computing revenue positively impacting margin. For the full year, gross margin improved to 58.3% from 55.3% last year.

In Q1, we expect the mix will be slightly less favorable and anticipate gross margin will decline by 50 to 100 basis points sequentially. In addition to mix, the Q1 gross margin will also be impacted by the first full quarter of depreciation for our 8-inch fab.

For the full year, we expect to see further, albeit at modest, incremental margin expansion even in light of the strong growth we're expecting in consumer.

In Q4 we actively controlled expenses in the face of uncertain demand. Non-GAAP operating expenses declined by almost $2 million to $50.5 million. Non-GAAP R&D expense of $27.9 million was lower sequentially as was SG&A expense of $22.6 million. Excluding the one-time items unique to our fourth quarter including a holiday shutdown, the normalized run rate for Q4 non-GAAP operating expenses would have been about $52 million. We expect operating expenses to be between $53 million and $54 million in Q1, reflecting typical seasonal increases related to the resumption of payroll taxes and severance expenses associated with the recently announced management changes.

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We're expecting R&D investments for the year to grow generally in line with revenue and anticipate getting leverage on G&A. Q4 non-GAAP operating income was $28 million, resulting in operating margin of 21.3%. For the year, operating income of $119.7 million represented a 30% improvement over 2013 and was 21.3% of 2014 revenue. This improvement even with revenue pressure in the back half of the year, clearly demonstrates the strength of the business model.

Non-GAAP net income was down slightly at $25.2 million or $0.18 per diluted share, but was above expectations. The reinstatement of the R&D tax credit for 2014 lowered the non-GAAP effective tax rate to 9.6% for the quarter, which added about $0.03 to the Q4 earnings per share. Even excluding the R&D tax credit and related catch-up, Q4 earnings per share were stronger than expected, driven by favorable gross margin and lower operating expenses.

For the full year earnings of $0.73 represented a 24% improvement compared to 2013, despite slightly lower annual revenue. For 2015, the non-GAAP effective tax rate is expected to be about 17% without the R&D tax credit and our expectations are that with revenue beginning to grow again in 2015, we'll see further earnings leverage. Non-GAAP diluted shares outstanding were 136.4 million as we exited the year and are expected to rise modestly throughout 2015.

Turning to the balance sheet, cash and investments totaled $211 million at quarter-end. We spent approximately $10 million in capital expenditures through all of 2014 and expect CapEx for all of 2015 to be about 3% of revenues. Q4 free cash flow was $14.5 million of which $15.7 million was returned to shareholders in the form of our high-yielding dividend. For all of 2014 we returned 99% of our free cash flow to shareholders and believe that our current dividend is the right vehicle to continue to deliver meaningful shareholder returns over the coming year.

Net inventory was $74 million or 127 days. We expect that inventory will remain at around these levels in absolute dollars in the near term as we bring up our 8-inch capability and prepare for product ramps. Days of inventory, however, are expected to decrease as we move through 2015.

During Q4, we were successful in reducing channel inventory in computing which had contributed to the revenue headwind in Q4. Accounts receivable balances decreased with lower sales in the quarter and days sales outstanding was 39 days.

In 2013, we outlined our goal to operate the Company at 20% non-GAAP operating margin through reduced expenses and improving gross margins. We provided this objective to help you assess our progress through 2014 while we developed the products to deliver on long-term growth. We've been able to achieve or exceed that margin goal in each of our last six quarters.

With Intersil now consistently operating at higher levels of profitability and with the benefits of product development investments beginning to materialize, we're prepared to provide a long-term success model. We believe that Intersil can ultimately deliver non-GAAP gross margin of 60% or better, R&D expenses in the 20% to 21% range, SG&A expenses in the 14% to 15% range and non-GAAP operating margin of 25%. We expect to make steady progress towards these goals hitting our gross margin target first and then operating margin.

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

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Thank you, Rick. It's good to see the demand environment resuming a more healthy profile as we enter 2015. For Intersil the new year also marks the winding down of some challenging top line headwinds that impacted 2014, including our transition out of low quality business in consumer and market share declines in computing.

We entered 2015 with many of the tougher challenges behind us and a set of very good products, strong customer traction and good business trends working to our advantage.

I believe that success model that Rick just outlined positions Intersil among the best companies in the analog sector for our size. If we make investments of 20% or more of sales in R&D and execute well on the new product pipeline, the Company will be in a position to deliver a 10%

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compounded revenue growth rate over time. This growth profile would allow Intersil to gain the necessary scale to compete long term while maintaining a very high level of profitability.

Turning to the recent results and outlook, as a reminder, this year we will be reporting consumer and computing as one category, we'll call C&C. I will provide you with the Q4 and 2014 results for the separate product areas so you can close out your models. But the 2015 outlook and future quarterly guidance will be for consumer and computing combined. Our computing business was 20% of Company revenue in Q4. Computing was down as anticipated by about 17% sequentially.

For the full year, computing was down only 1%, quite a bit better than initially expected as we entered 2014. Inventory in our channel that had built up in Q3 declined in Q4 as planned.

With no near-term catalysts for PC replacements though overall PC demand is not forecasted to be as robust this year as last. We therefore anticipate our computing revenue will remain around the Q4 exit rate until Intel's Skylake processors start ramping.

With higher market share and ASPs in that generation, we would expect computing revenue to improve as platforms ramp in late 2015 and 2016, but we don't have precise timing at this point.

The consumer business was about 15% of revenue in Q4 and was down about 4% sequentially. For the full year, consumer declined by 26% reflecting the weakness in gaming, but also the deliberate deemphasize of low-margin products we pursued throughout 2014. We believe this transition is behind us and the revenue and consumer has now reached a trough.

Looking ahead to Q1 for the combined consumer and computing business, we expect revenue to be about flat which is better than seasonal. For the full year, we continue to believe C&C can deliver 10% growth ramping steadily throughout 2015.

While we are not at liberty to discuss specific platforms prior to their release, I can provide some color on the design wins that support the revenue growth projections. You will find our buck-boost regulators in several high-end platforms that leading China smart phone makers will bring to market during the first half of this year.

Our differentiation in power efficiency directly addresses the increasing complexity of power management in higher-end mobile devices. You will also find our display ICs adopted by several leading tablet and large screen smart phone platforms worldwide. And these programs are expected to ramp at various times throughout 2015. The significant set of advantages we bring in terms of integration and efficiency has made our solution a leading choice for extending battery life.

And finally, while the designs for Skylake generation are still being decided, the tally so far suggests we are gaining ground in terms of market share that will start adding incremental revenue sometime during the second half of this year. That are of course variables we do not control such as the precise timing of these platform ramps and the overall demand environment for these products. However, the breadth of the wins and the unit volume expectations of all of these platforms combined lead us to believe that the aggressive 10% growth call for C&C in 2015 is within reach. More importantly, it also positions us well for continued growth in this part of our business into 2016.

Obviously, the mobile market is very competitive and we have stated consistently that we are being strategic on how we address this opportunity. We are focused on system challenges in high-end platforms where our differentiation is strongest and more sustainable. This allows us to benefit from investments more quickly as we capitalize on the short lifecycles in this market. Mobile will remain an important part of our revenue profile as we also steadily invest in the long lifecycle industrial and infrastructure products, the bread and butter of the Company.

I&I represented 65% of Company revenue in Q4 and was down sequentially about 7%. I&I was up close to 6% for the full year driven by 12% and 10% growth in our automotive and power products respectively. The mil/aero business grew 7% and the analog products, which now includes security, were flat. For the full year, power products represented 19% of Company revenue, mil/aero represented 11% and automotive was 10% of revenue.

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In 2015, we expect the I&I business will be able to grow about in line with the industry in the mid-single digits, reflecting increasing traction with existing products. The biggest growth drivers for I&I will come from our investment areas in power and automotive products which are anticipated to again deliver double-digit growth.

We expect our mil/aero business to remain at low single-digit grower and our analog products are expected to decline slightly at the low-single digit rate over time. We will begin to see the benefits of our R&D investments accelerate I&I growth in 2016 and beyond, reflecting strong adoption of our solutions in infrastructure and cloud computing. Increasing demand for telemetry and energy efficiency, where we have unique capabilities have resulted in design wins at virtually all of the top infrastructure players, including, Ericsson, Cisco, Alcatel-Lucent, ZTE, Huawei, Juniper, IBM, Lenovo, Oracle and others. We're serving this market with our digital controllers, power modules, drivers and regulators.

We're also gaining share in automotive as power related content in the car continues to increase. Design wins secured over the last three years and increasing traction in a variety of applications, including battery management in hybrid and electric vehicles is expanding our share.

In infotainment where Intersil is an incumbent, we're the only semiconductor supplier that has a family of multi channel media decoder products addressing the explosion in demand for cost effective ways to enable advanced driver assistance. With the many opportunities I described ahead of us, we're expecting to start the year slightly better than seasonal and see steady progress throughout 2015. For Q1, we're anticipating revenue will be in the range of $131 million to $136 million. We expect C&C will be flat and I&I will be up. We believe gross margin will decline 50 basis points to 100 basis points sequentially as Rick highlighted. Non-GAAP operating expenses are expected to increase from Q4 lows to $53 million to $54 million.

We anticipate GAAP earnings of $0.07 to $0.08 per share. Earnings per share on a non-GAAP basis, excluding amortization and stock compensation are expected to be $0.14 to $0.16.

2013, was a story of restructuring, refocusing and defining success. 2014 was a year of rebuilding to enable Intersil to operate from a position of strength.

In 2015 we begin to benefit from our investments as we see a return to growth on the top line. That growth will translate to meaningful earnings leverage given the strength of our margin structure. This year we will also be on the path to achieving the success model we outlined which I hope gives investors a sense of what we believe Intersil is capable of and the caliber of company that we are becoming.

With that I'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tore Svanberg, Stifel.

Tore Svanberg - *Stifel - Analyst*

Yes, thank you and congratulations on the results. So I guess my first question is on the computing side of the business. I do understand what you're saying about the no sort of new drivers in the marketplace, but there's also been some rumblings about the competitive landscape changing, maybe some competitors even exiting the market. So I was hoping you could address that topic, please.

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Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Sure. I think as one of the competitors does exit the market this provides us the opportunity in Skylake generation to gain more market share without compromising our margin structure.

So that is part of the reason we were able to garner some additional share gains I alluded to. In the near-term for Broadwell generation the competitive landscape remains intact similar to Haswell generation and I don't anticipate any meaningful share shifts until Skylake starts ramping later in 2015.

Tore Svanberg - *Stifel - Analyst*

That's very helpful. And as a follow-up, it sounds like you expect your what you define as analog business within I&I to steadily decline over the next few years? I was hoping you could explain a little bit what are some of the legacy sub-segments within that business? And is it actually -- should we view that the decline is for conservative estimate or are there some legacy sub-segments there that could potentially decline even more?

Tore Svanberg - *Stifel - Analyst*

Very good. And great job on the margins. Thank you.

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Thank you.

Operator

Joseph Zaccaria, Oppenheimer & Company.

Joseph Zaccaria - *Oppenheimer & Co. - Analyst*

Hey guys. Thanks for taking my question. Congrats on the quarter and guide. I was hoping to address the automotive segment a little bit. In the past you've talked about a $30 million design win pipeline. I was wondering if you could give any update on that number and where you see it's coming from. Thanks.

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Sure. We've been making a conscious effort to increase our interaction with our OEM customers. The product line has been doing a good job in increasing the activity we have with those customers, particularly in North America and Europe. The $38 million design win number that I alluded to last week -- last quarter, you remember correctly, and I can now update this number, maybe in percentage terms to give you a sense of the improvement for the second half of 2014 compared to second half of 2013, we've seen double-digit increase in the number of design wins we have registered.

Keep in mind, however, this tends to be a market with a long gestation period. So many of the design-ins and wins we're talking about will not start ramping until 2017 model year, which starts sometime in 2016. But we are getting and seeing good traction in this space, especially with some of the newer products both on the infotainment and power side. So that's also behind the confidence we have in our ability to grow this revenue stream in 2015 in double digits.

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Joseph Zaccaria - *Oppenheimer & Co. - Analyst*

Okay. Great. Thanks. And as a follow-up to that, if you could give a rough idea of what you see as a potential dollar content per vehicle, just a rough ballpark area that'd be helpful. Thanks.

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Well, I can tell you several dollars, but that's probably not very helpful without getting into the nitty-gritty of pricing on various products which I'd like to refrain doing. But to give you perhaps an idea on the addressable market that we are serving with our existing products today, we are probably talking somewhere between $0.5 billion to $1 billion.

Joseph Zaccaria - *Oppenheimer & Co. - Analyst*

Perfect. And then on the long term the [new target] model, what's the time horizon to get there? Is it a 2015 event or a 2016 event?

Rick Crowley - *Intersil Corporation - SVP, CFO & Treasurer*

I think that as we pointed out, we expect that we would get to different elements at different times. It's likely that we would hit the gross margin target first followed by the operating margin and then it takes some time to get to the revenue growth rate that Necip alluded to. And I think it's probably fair to say that this is a long-term model. It's not a big model for 2015. We don't expect to be hitting all these parameters in 2015.

Operator

Craig Ellis, B. Riley.

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

Thanks for taking the question and will echo the congrats on the nice margin performance in the quarter. Just starting off with the growth side of things, Necip looking at the 10% C&C growth for the year, just given the first quarter's guidance, how do you expect the linearity to play out to get to that target? It seems like it would require a pretty steep ramp in 2Q and then stay at a high level or do you see something that's more back-end loaded?

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

I do see a fairly consistent growth throughout the year on this dimension, Craig. There are a number of platforms that are ramping in Q1. So that is really what makes up for the seasonal decline you would normally see in this business. We expect a sizable step up in Q2 and Q3 as you pointed out in order to get to the 10% number if you're going to have to apply sequential growth numbers that are significantly above what you would under normal seasonal conditions.

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

Okay, thanks for that. And then the follow-up is for Rick. Rick, just clarifying the first quarter gross margin guidance and some of the puts and takes and then maybe dovetailing that into some of the long-term target commentary. So if PC&C is flattish quarter on quarter, and it sounds like industrial is going to be up, that would seem to have positive implications for gross margin, especially as more new product comes into the mix on the C&C side. So why would gross margins be down as much as they are? And then just looking at getting to the 60% plus target, can you just help us understand the mix between volume or new products or other factors that the Company has at play that is a very attractive level just looking for some of the key drivers to get there?

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Rick Crowley - *Intersil Corporation - SVP, CFO & Treasurer*

Sure. Well, I think as we alluded to in the prepared remarks, the uptick in Q4 was heavily mix driven and about half of the anticipated 50 basis point to 100 basis point decline in Q1 is also mix driven. As you know we've got many different products and there is always puts and takes even with I&I, so that's about half of it. And when you look at it, it's not a huge number and it's within, I think, quarterly fluctuations.

The other half of the margin decline that's anticipated is stemming from the fact that we just qualified our 8-inch fab for production [turned down depreciation]. So we've got the first full quarter of depreciation, which runs about [$0.75 million]. And since we're just beginning to ramp up there, there's a little bit of unabsorbed cost that we haven't had up to this point. So those are really the two and they are about half and half when you look at the outlook for Q1. So those are the dynamics that are affecting gross margin in our view right now.

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

And then the follow-up was just factors that push the margin -- or push the margin structure to 60%. And in the press release, it said 60% plus, so what is the plus? Is that 62%, 65%? How I high can it go, greater than or equal to 60% I should say, not 60%, correct?

Rick Crowley - *Intersil Corporation - SVP, CFO & Treasurer*

I'll only answer the first part of that. We've done a lot of work, obviously to improve our gross margins by going up 300 basis points in the past year. So the quality of the revenue and some of the headwinds that we've had in revenue growth we think, quality of revenue has improved, the headwinds have gone down that's helped our gross margin.

Going forward, we expect a better mix of margin in our consumer space. Computing is expected to be relatively flattish so that won't have an adverse effect and then the continuing layering on of industrial and infrastructure will help. So really it's probably more new products and continued richer mix of the product sales and to a lesser extent higher volumes driving expectations for improved margin.

One of the things that -- well, I referenced the 8-inch fab and that's the near-term negative. Ultimately, [the reason] when the investment was made a couple of years ago is now coming on line is to drive our overall operating cost down by bringing in some third party wafers at foundry today. So getting lower overall cost, lower -- better cash flow from that. And so, what is this near-term negative will turn into a long-term positive for gross margins and help us move it up.

From the standpoint of your question on greater than or equal to 60%, that's our goal and we don't intend to manage the business to maximize gross margin at the expense of revenue growth, right. We're going through this transition and we are at a stage where revenue growth is important. And we think at 60% or greater gross margin in growing revenue is a good combination for us to create value as opposed to try to shoot for some target above 60% when we're not even there yet. So I think it's a bit premature to talk about where that -- where it would go above 60%.

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

Thanks for all the detailed comments. Nice.

Rick Crowley - *Intersil Corporation - SVP, CFO & Treasurer*

Thank you.

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Operator

Gus Richard, Northland.

Gus Richard - *Northland Securities - Analyst*

Yes. Thank you for taking my question. Nice quarter. Just real quick, Necip, you talked a little bit about growth for your two segments this year. It sounds like given mid single digit growth for I&I and 10% growth for C&C that would sort of imply a high to mid-single digit growth rate for the year. Am I thinking about that right? And then longer term you expect 10% compound annual growth and can you talk about which side of the business is going to be the primary driver?

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Yes. I mean your arithmetic is spot on. That is what we are working towards. And I think we have the wins in place to be able to deliver those numbers in 2015.

I do believe, as I mentioned in my prepared remarks, as we make R&D investments 20% or higher of sales and choose those investment areas wisely, well within our core capability, with our size we should be able to grow the business at a 10% clip over time.

I think with mobile products, you are going to see that first, just because of the shorter product cycles. These are the products that we brought to market and can ramp this year. The infrastructure industrial products, as you know, tend to have a longer product cycle. So these new products we've invested in will start contributing in 2016 and ultimately the I&I side of the business will also get to a 10% growth rate with those new products contributing.

So I don't think it is going to be driven by one side of the business. In the near term we might see more growth from C&C, but longer term, I don't really believe the mix between C&C and I&I will deviate much from the 60% to 65% of revenues we've been running recently.

Gus Richard - *Northland Securities - Analyst*

Got it and then just as a follow-up, in the near term, in the current quarter, the March quarter, it sounds like you are going to get, effectively C&C is going to be flat which is above seasonal. I would imagine, [PCs] you took the inventory hit in the fourth quarter. So that's the consumer side of the business and it sounded like, and I just want to make sure I have got this right, that it's going to be boost and buck regulators and mobile phones and China OEMs and new designs in tablets and what have you and your display power that will drive that better than seasonal outlook, is that correct?

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

That's correct. If you look at the couple last couple of years, Gus, this combined business C&C declined 8% to 10% sequentially going into Q1. So this year we're running flat. One reason as the inventory bleed in computing in Q4. And the second reason is the start of the ramps with new wins in consumer. So you've got those two dynamics right.

Operator

John Pitzer, Credit Suisse.

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Ross Miller - *Credit Suisse - Analyst*

This is Ross Miller, calling in for John Pitzer. Thanks for letting me ask a question and congrats on the results. Just first relative to your updated target model, what is the quarterly run rate that gets you to your target margins?

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Well, as Rick mentioned, we are not looking to get to all the elements of this business model in 2015. This is a long-term success model we are putting out. We are going to first see the gross margin target achieved and it is likely that sometime in 2015 we are going to have a quarter with a gross margin with a [six handle]. And our operating margin should be the next element that follows. As we start ramping the top line, operating margin should be achieved sometime during what I referred to as phase two of our turnaround. And then ultimately as the products on I&I side come to fruition in terms of revenue generation, you are going to start us achieving 10% type of compounded revenue growth.

Ross Miller - *Credit Suisse - Analyst*

And then for my second question, I think you mentioned that you expect compute to be roughly flat year over year. I was just wondering if that includes any embedded expectation for a contribution from Skylake in the second half of 2015.

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Just to be clear, I said that until Skylake comes we will maintain the Q4 exit rate, which is approximately $26 million. So this isn't really calling for a flat year, just to be clear on what we said. The incremental revenue from Skylake will be on top of that $26 million obviously. We don't have precise timing of when that ramp will take place dependent on Intel's move of course, but whenever that occurs and we currently anticipate that sometime in the second half then the $26 million run rate will improve.

Operator

Chris Caso, Susquehanna Group.

Chris Caso - *Susquehanna - Analyst*

Yes, hi. Thank you. Good afternoon. Maybe first you could address some of the bigger picture trends you're seeing and you saw some fairly cautious demand conditions in the prior call. It sounds like things are a little more optimistic now. Perhaps you could talk about what you're seeing from your customers and the overall demand environment, how that changed from a couple of months ago?

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Chris, as we alluded to last earnings call, September and October were pretty miserable from an order pattern point of view. November, saw a significant improvement and December continued more or less along those lines and January seems to be normalized, back to what you would expect.

So I think the overall demand environment looks healthier to us than it did three months ago. I still believe there is abundance of caution from some of our customers. This input is either directly from customers we talk to or some of the distribution partners that we speak with suggest that there is some level of caution still in the marketplace, but the order patterns clearly has improved.

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Chris Caso - *Susquehanna - Analyst*

Okay, great. And just as a follow-up, in addition to what you've been saying with regard to the new product impact, should we assume that -- some of the headwinds that you face both from the share loss in computing as well as the low margin consumer business you are exiting that those headwinds are now over.

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Yes, yes it is. And then if you look at the consumer business in particular, just to give everybody a sense of what we put behind us in the last 18 months, that was a $30 million decline in 2014 over 2013. Some parts that were end of lifting that are still into 2013 first-half run rate. The gaming success that the Company enjoyed in the second half 2013 that contributed to revenues. Did not repeat in 2014, that was another bucket of declines, and importantly we've put a lot of low margin products behind us that's potentially another third of that $30 million headwind. But that's all behind at this point. The gaming revenues [is at the] de-minimis levels. The low margin business we wanted to deal with has been dealt with. So as I mentioned in my prepared remarks, I believe that consumer revenue is certainly at the trough right now.

Operator

Tore Svanberg, Stifel.

Tore Svanberg - *Stifel - Analyst*

Yes, thank you. I just had a few follow-ups. The first one, you talked about some depreciation costs hitting the P&L because of the initial ramp of the 8-inch fab in the March quarter. I'm just wondering how I should think about that as we move throughout the year? Are these sort of start-up costs that have a little bit more of an impact in Q1 and then they become lower throughout the year or will it be a little bit more linear and constant?

Rick Crowley - *Intersil Corporation - SVP, CFO & Treasurer*

Yes, I guess you can qualify it more as a start-up cost, Tore, because you've got -- return on the cost has we begun to ramp and then, you're not fully absorbed for that. Pretty modest and it's a small 8-inch line. But I think as we get into the second half, it gets to more under a neutral position and then ultimately, as I mentioned, it will trend to a positive for us bringing our overall front-end cost down. (multiple speakers)

Tore Svanberg - *Stifel - Analyst*

And then the other follow-up I had was you indicated the tax rate is expected to be 17% this year that excludes the R&D tax credit. If that were to be reinstated, are we talking about a couple of hundred basis points lower tax rate then?

Rick Crowley - *Intersil Corporation - SVP, CFO & Treasurer*

Yes. Yes. Let's say 14% to 15% if it comes back in.

Tore Svanberg - *Stifel - Analyst*

Okay. Very good. Just one last question, I don't think I heard this, but you're obviously spending the entire capital allocation or cash, cash back to shareholders in the form of dividends. But your cash balance is starting to grow quite nicely here, so do you have any intention at all in the near term to maybe start buying back some stock?

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Rick Crowley - *Intersil Corporation - SVP, CFO & Treasurer*

I think the -- as we pointed out I think the dividend right now is the central to the capital allocation strategy. And as you mentioned, a real high payout of free cash flow right now and a very, I think, attractive yield. So our intention is to continue that right now in the near term and we'll have to continue to assess as you move forward, but actually our cash level has been pretty flat the last couple of quarters. So I think as a (inaudible) I think the current dividend is the appropriate method is our view to return cash to shareholders.

Tore Svanberg - *Stifel - Analyst*

Sounds good. Thank you again.

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Thank you.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

All right, thanks. Let me ask you a question. First question is on the I&I side of the business, I think in the past you've talked that business actually growing ahead of the market and some of your new design wins kicked in. I seem to remember that you [thought it will] actually start a bit in 2015 versus today where you said you'd be growing in line. Has something changed or is it just the time it takes for those assignments to come to fruition?

Necip Sayiner - *Intersil Corporation - President, CEO & Director*

(inaudible) Ross, nothing really has changed. I think we're making really good progress with the new products in terms of designing. We're taking a business, not just in I&I, but this speaks for the overall company that has underperformed the market for many, many years and trying to bring it to a much healthier place and outgrowing our markets.

So along the way somewhere we're going to grow in line with the market I would say, in spite of the fact that in 2014 the I&I grew 6%, that's underperforming the overall market and 2013 was a worst story. I think 2015 is going to be a year where we grown in line, that's mostly due to design wins with existing products and in 2016 you're going to start seeing us doing a little better at the rate of new products coming in line basically.

So nothing in the plan we laid out has really changed, ultimately I&I will grow ahead of the market with a healthier margin structure. That's the thesis behind our investments in R&D.

Ross Seymore - *Deutsche Bank - Analyst*

Great. Then I guess as my one follow-up on the computing side of C&C within Skylake, can you talk a little bit about how you think the content, addressable content goes up, is that a positive driver as well as the potential market share gain (inaudible) in that business?

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Necip Sayiner - *Intersil Corporation - President, CEO & Director*

Yes. The ASPs are healthier because in Skylake generation, the power management IC both from a single rail in Haswell, Broadwell to three rails in Skylake. So there is more content in a higher ASP for that particular product. So both some share gain as well as higher ASPs is what will take place when Skylake ramps.

Operator

I would now like to turn the conference over to Shannon Pleasant for closing remarks.

Shannon Pleasant - *Intersil Corporation - IR*

All right. Thank you very much for joining us today. This now concludes our call.

Operator

Ladies and gentlemen that concludes the presentation. Thank you for participating. You may now disconnect. Have a great day.

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