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ISIL - Q1 2015 Intersil Corp Earnings Call

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OVERVIEW:

ISIL reported 1Q15 revenue of $134.2m and GAAP net loss of $68.8m or $0.53 per share. Expects 2Q15 GAAP EPS to be $0.07-0.09.

CORPORATE PARTICIPANTS

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

John Pitzer *Credit Suisse - Analyst*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2015 Intersil Corporation earnings conference call. My name is Jasmine and I will be your operator for today.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Ms. Shannon Pleasant, Vice President of Corporate Communications, Intersil. Please proceed.

Shannon Pleasant - *Intersil Corporation - VP, Corporate Communications*

Thank you. 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 financial performance and provide a summary of our outlook. After our prepared comments, we'll have a question-and-answer session.

Our earnings press release and the accompanying financial tables are available on the Investors Relations section of our website at ir.intersil.com. This call is also being webcasted and a replay will be available through May 13. Please not 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 Corporation - President & CEO*

Thank you, Shannon, and hello, everyone. First-quarter revenue was in line with our expectations of 2.3% to $134.2 million. Earnings was above expectations at $0.17, helped by a very nice gross margin result of over 60%, a Company record. Sequential growth in I&I was above the high end of our expectations and every product group contributed to that growth in the quarter.

I&I represented more than two-thirds of our revenue and supported the strong gross margin we enjoyed in the quarter. On the C&C side of the business, ramps began as projected with several of the leading China smartphone platforms resulting in counter seasonal growth in the consumer side of the business, and confirming the trough we projected as we exited 2014.

However, we were not immune to the disappointing computing end-user demand for the industry in Q1, which pulled our C&C revenue lower. Overall, we continue to feel very good about the trajectory of the business. There are, however, some demand cross-currents that are moderating our near-term expectations. For example, the infrastructure business has slowed as two customer deployments take a pause and some new consumer customer ramps we anticipated have been delayed to later in the year.

In both cases, the issue is simply one of timing as these customers are measurably growing the business they do with us in 2015 and are looking to award more to us for 2016 and beyond. This share expansion is ultimately what drives our long-term growth potential which we believe is very much intact. We'll discuss the business dynamics in more detail after we cover the financials. Rick?

Rick Crowley - *Intersil Corporation - CFO*

Thank you, Necip. First, I'll summarize the GAAP results. This quarter our GAAP results include an $81 million charge related to a March verdict in a lawsuit brought against Intersil in 2008 by Texas Advanced Optical Solutions.

The charges comprised of $59 million in awarded damages, $18 million in interest, and $4 million in litigation expense. Intersil is seeking to overturn the verdict through post-trial motions and appeals, as necessary. First-quarter operating expenses also included $5.6 million in amortization of acquisition-related intangibles and $5.8 million in stock compensation expense. Total operating expenses, therefore, totaled $144.1 million for the quarter, with R&D expense of $32 million and SG&A expense of $25.5 million.

GAAP gross margin was 59.9%. For the quarter, we had an operating loss of $63.8 million and a net loss of $68.8 million. The loss per share was $0.53 for the quarter. We expect to return to profitability on a GAAP basis in Q2.

The non-GAAP results, which exclude amortization, stock compensation and the litigation expense accrual, were very good. As Necip mentioned, non-GAAP gross margin increased to 60.2%, the eighth consecutive quarter of gross margin expansion. The Q1 improvement relative to our expectation was a function of mix, with a reduction in computing revenue, and increase in aerospace revenue positively impacting margin.

Anticipated growth in consumer and computing revenue in Q2 is expected to result in a 50- to 100-basis-point decline sequentially in gross margin. As you know, over the last 18 months we have had a concerted effort to improve the quality of the Company revenue. We have done this through the deemphasis of low-margin business and the development of higher value, more differentiated new products, which are now beginning to generate revenue. The sustained improvement relative to a few years ago is a good indicator of the magnitude of the positive changes made.

We also benefited from tight cost management with Q1 non-GAAP operating expenses increasing less than expected to $52.1 million. Non-GAAP R&D expense was $29.3 million and SG&A expense was $22.8 million. We expect Q2 operating expenses to be $53 million, plus or minus $500,000, reflecting higher tapeout activity and typical seasonal growth related to annual pay increases. Q1 non-GAAP operating income increased to $28.6 million, resulting in operating margin of 21.3%, our seventh sequential quarter operating at 20% or above.

Given that this time only two years ago the Company was under 10% operating margin, this quarter's result is another good indicator of the improved quality of the business. Non-GAAP net income was $22.9 million, or $0.17 per diluted share, down slightly on a sequential basis, but above our initial expectations.

The non-GAAP tax rate was 19.6% and it is expected to be around 19% for the rest of the year, unless the US R&D tax credit is reinstated. The estimated tax rate is higher than we previously forecasted because of an increase in the projected amount of US income for 2015, which is taxed at a significantly higher rate than foreign income.

Turning to the balance sheet, cash and investments increased by $10 million to $221 million at quarter end. Q1 free cash flow was $21.8 million, of which $15.7 million was returned to shareholders in the form of our high-yielding dividend.

Accounts receivable balances decreased and days sales outstanding improved to 35 days. Net inventory increased to $78 million or 132 days. We expect inventory to decrease in the second quarter and anticipate days of inventory should improve to less than 100 days by the end of the year.

Last quarter, we introduced our long-term operating model, which I just want to reiterate today. We believe that Intersil can ultimately deliver on an annualized basis 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 anticipate making steady progress towards these goals in 2015. And with that, I will now turn it back to Necip.

Necip Sayiner - *Intersil Corporation - President & CEO*

Thank you, Rick. We entered the year optimistic about the pending ramps in our consumer and computing business, so let's start there. C&C represented 32% of revenue in Q1, declining by about 6% sequentially, driven by computing. Computing demand has been a disappointment for the industry in Q1.

While we were not impacted as heavily as some in the computing supply chain, given the inventory [digestion] we completed in Q4, weaker demand did result in lower revenue than expected for the quarter. That somewhat lower run rate appears likely to be the new normal until Skylake ramps or Windows 10 deployment offers an opportunity for some recovery. Consumer revenue was up slightly, counter to typical seasonal trends, as we began ramps into new platforms.

We talked about a number of new design wins driving incremental revenue in C&C. So far this year, [Shami] has introduced the [meno] and [meno pro] using several of our products. Huawei introduced their flagship smartphone platform, the P8, as well as the MediaPad X2, which use our buck-boost devices. And Lenovo's recently announced VIBE handsets use Intersil's display and buck-boost technology.

There are additional wins pending that will contribute to C&C growth. In some cases, however, customers have decided to delay the timing of their next-generation product ramps. We have, therefore, tempered our near-term growth expectations, given a slower-than-anticipated start in some key platforms. We still believe the consumer business will be a growth driver in 2015, but given the recent market uncertainty, we would like to see how the computing recovery plays out before attempting to update the potential growth rates for the combined C&C business for the year.

I&I represented 68% of Company revenue in Q1, and was up about 7%, with all product areas growing sequentially. The higher-than-expected growth was driven primarily by our automotive and aerospace products, which represented about 11% and 12% of Company revenue, respectively.

Upside in automotive is being driven by new wins in power, including initial revenue for multi-cell balancing applications, where Intersil technology is being adopted. Revenue for our automotive power products is on pace to double this year from 2013 levels and become a more meaningful portion of our automotive revenue. At this point, given the strong traction and increasing penetration of our products, we are expecting automotive will be a double-digit grower in 2015.

Our aerospace products had a strong quarter, as well. Intersil's radiation hardened high reliability analog and power products are market share leaders in satellite applications. The level of quote activity has picked up measurably recently, and this has proven to be a good indicator of the level of aerospace demand for a 6- to 12-month window. We expect the business will continue to be lumpy, but based on this activity, we are anticipating aerospace demand will be solid throughout 2015.

I&I power products and our analog products represented 21% and 25% of Company revenue, respectively. Industrial end markets were strong for the quarter, resulting in good growth across both our power and analog products. We see healthy end-market dynamics in these areas driving good demand stability into Q2.

The infrastructure end market continues to be a high potential growth area for our power products, and we are gaining momentum and design wins in new product introductions. In Q1, we introduced the industry's first 50-amp DC to DC power module. It provides point-of-load conversions for advanced FPGAs, ASICs and processors and is ideal for power-dense telecom and datacom applications.

During the quarter, we also secured new wins in cable equipment and base stations, further expanding our penetration in key applications. Looking to Q2, while the industrial end market is holding up well, on the infrastructure side there has been some softening in demand recently. For example, builds of a new platform we won with a large data center customer in the second half of last year are slowing into Q2.

Another top-five customer for infrastructure power has reduced their forecast due to a two-quarter delay in a contract for a deployment in India. At this point, we believe both deployments will resume in the second half of 2015, but we remain cautious on infrastructure demand given it's unclear how long the recent end-market weakness will persist. As a result, we expect I&I, overall, to be about flat in Q2, with automotive higher sequentially and infrastructure power lower.

With C&C up sequentially, we expect Company revenue for Q2 to be flat to up 3%. Based on this mix, we believe gross margin will decline 50 to 100 basis points sequentially, as Rick highlighted. Non-GAAP operating expenses are expected to increase from Q1 to be roughly $53 million. We anticipate GAAP earnings of $0.07 to $0.09 per share.

Earnings per share on a non-GAAP basis, excluding amortization of stock compensation, are expected to be $0.15 to $0.17. With that, we will take your questions.

Shannon Pleasant - *Intersil Corporation - VP, Corporate Communications*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ross Seymore with Deutsche Bank North America. Please proceed.

Ross Seymore - *Deutsche Bank - Analyst*

Thanks, guys, and thanks for letting me ask you a question. I guess the first one, Necip, on the industrial side of things, your I&I business you mentioned has two different trends between infrastructure and industrial. Can you talk a little bit about what you are seeing, maybe from a distributor point of view, and are you more confident that infrastructure is going to come back, or are you worried at all that industrial might, in fact, roll over and see some of the choppiness that you have seen in some of your other end markets?

Necip Sayiner - *Intersil Corporation - President & CEO*

So far based on the inputs we have received from our distribution partners, at least for the near term, industrial end market demand continues to be solid. So we are not seeing any signs of a roll over at this juncture. In terms of infrastructure demand coming back, as I noted in my remarks, we are being somewhat cautious. The rate of bookings we have seen in the past several weeks have been subpar in that particular end market, and is rather broad and it goes beyond the two examples I have chosen to share with you.

We don't really have very good visibility into the overall demand. Some of our larger analog peers or FPGA vendors are probably better proxies for exposure to that market. But from what we're seeing in the amount of bookings year-to-date, we don't have a very clear view as to when the demand will return to normal levels.

Ross Seymore - *Deutsche Bank - Analyst*

Thanks, that's helpful. And I guess, switching over to the C&C side and, specifically, well, I guess, we can keep in together. I know you're not going to update the 10% guidance you gave for the full year, but when you look about at the puts and takes of the design wins that are Company-specific to Intersil, and then seasonality, however you want to define that, as normal or otherwise, any sort of guidance in general that you could give for the back half of the year about how you set the odds on growth for the Company in that segment, C&C?

Necip Sayiner - *Intersil Corporation - President & CEO*

I can make some general commentary on what we are seeing on the two pieces of the C&C business. When we entered the year, when we reaffirmed the growth rate targets for C&C business, we had more than sufficient design wins in numbers and in volumes to justify the implied $20 million growth in combined C&C business.

What was implicit was the assumption that the computing business was going to remain flat to our exit rate in 2014, and I think we had stated that outlook. That has proven to be a false assumption. We were not alone in being wrong on this, but nevertheless, that had an impact of $2.5 million to $3 million in our run rate in Q1, and I think that will persist until we see a discontinuity in that market either by Skylake ramp or Windows 10 deployment.

That is a big gap to our earlier projections in the C&C business. On the consumer side of things, we have started ramping, as I mentioned, on a few key smartphone platforms. There are others in the pipeline. Some have been delayed either due to some delays in reference designs we are on, or just a decision taken by the customer. But this is really an issue of timing.

Many of these design wins are on established high-volume programs, so that gives us confidence that we'll be able to hit those run rates, but it will be pushed out by one to one-and-a-half quarters from where we were at the beginning of the year. I hope that answers your question.

Ross Seymore - *Deutsche Bank - Analyst*

Yes, that's great detail. Thank you very much for that. I appreciate it.

Operator

And our next question comes from the line of Tore Svanberg with Stifel, please proceed.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Yes, thank you. My first question is on your C&C business. I was hoping you could update us a little bit on Skylake, meaning, when do expect Skylake to be a driver for your growth? And I know there has been some discussions on Intersil getting some content for that particular platform, I was hoping you could update us on that, as well, please?

Necip Sayiner - *Intersil Corporation - President & CEO*

What we know based on what we hear from our customers, as well as the public announcements by Intel that the Skylake ramp will indeed occur in the second half of this year. We believe that there will be some SKUs released in that timeframe, perhaps not all.

In you are right, there will be some content gain for all involved as that generation ramps, and I believe we will also enjoy a modest share gain. So barring any major changes in the overall end user demand, those ramps should be incremental to our current run rate in the second half.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Great, thank you, Necip. My follow-up is for Rick. Rick, you guided OpEx here for the June quarter, but given this a little bit more and certain near-term environment are you adjusting OpEx at all? Should we think of them as remaining sort of flattish until the environment changes?

Rick Crowley - *Intersil Corporation - CFO*

Well, I think you have seen that we have tried to be disciplined about our spending and to hold OpEx down until we see the revenue growth. As we mentioned, we do have some normal seasonal increases due to the annual increase in salaries coming in Q2. But if you look, still, I think, a constrained OpEx relative to where we were a year ago in the June quarter. We look at the revenue growth as one indicator of what we can invest.

That being said, where we are increasing it will be predominantly in R&D. We look to keep SG&A flattish in the near term and leverage that as we have gone forward. Overall, I don't think our strategy has changed. I would look to answer your question, Tore, by just looking at the OpEx restraint we have shown the last couple of quarters in the face of uncertain demand as the way we operate the business.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Very helpful, thank you very much.

Operator

And our next question comes from the line of Ruben Roy with Piper Jaffray. Please proceed.

Ruben Roy - *Piper Jaffray & Co. - Analyst*

Thank you. Necip, I have a follow-up on the commentary around the customer delay, customers, timing delays on the handset side. It sounded like some reference designs, but then also some general timing of rollouts, and you had mentioned one to one-and-a-half quarters or so.

Is that for both sides? Or do you expect those rollouts to happen in one-and-a-half quarters and then the reference designs are different? And I'm also wondering, just around those rollout issues, is that kind of an end demand driven delay, would you say, or are there other factors at hand on those rollouts?

Necip Sayiner - *Intersil Corporation - President & CEO*

We talked about smartphone platforms using our buck-boost and display technologies. Some of them have started ramping, as projected. There are a few that will be ramping slightly later than we had expected. That's primarily due to availability of another piece of silicon on their platform.

You have also heard us talk about our display technology being adopted on larger-screen smartphones and tablets, and with one exception, you haven't heard me provide any other examples of that, so those are still in the pipeline and will be ramping in the second half of the year. But that does represent a delay of three or four months compared to the visibility we had in the very beginning of the year into their build plans that shifted to the right.

Ruben Roy - *Piper Jaffray & Co. - Analyst*

Okay, great. Thank you for that, and then just a quick follow-up on the C&C side. I understand how you're thinking about when we should start expecting potential growth to resume, but in terms of the inventory that you guys saw build and digest coming out of 2014, how would you characterize the inventory levels out there for your products?

Necip Sayiner - *Intersil Corporation - President & CEO*

I will make one or two specific comments and then I will let Rick add to it. If there is just one tiny bit of silver lining in the computing end the market in Q1, it was the fact that we were able to further reduce the channel inventories in computing, so now this is the lowest it's been in four quarters for us.

There has been some inventory that we built internally in preparation for these ramps, and so our inventory on a dollars and days basis are somewhat elevated right now, but as those start getting consumed, both will decline, as Rick pointed out.

Rick Crowley - *Intersil Corporation - CFO*

I think that covers it.

Ruben Roy - *Piper Jaffray & Co. - Analyst*

Yes, that's great. Rick mentioned that the days would come down by the end of the year. Thank you for that, guys.

Operator

And our next question comes from the line of Atif Malik with Citigroup. Please proceed.

Atif Malik - *Citigroup - Analyst*

Hi, thanks for taking my question. I had a question on the gross margins. You are already at your target model at 60% and to the extent that I&I keeps on growing from 68%, how should we think about the improvement in gross margins that you can make from these levels?

Necip Sayiner - *Intersil Corporation - President & CEO*

We are pleased that we have reached a gross margin level that starts with a [six angle], however, before we can call this goal accomplished, we need to deliver that level of gross margin on a sustained basis, and this is our next challenge as revenue progresses, and there will be more dollar growth in C&C in the second half of the year. We need to demonstrate we can maintain the levels we are at through that period. We're going to continue to make this a focus for us as we develop new products and trying to enhance the quality of revenue in general.

Atif Malik - *Citigroup - Analyst*

Great. And then, can you remind me about your in-source versus outsourced manufacturing?

Rick Crowley - *Intersil Corporation - CFO*

Sure. We get about 80% of our wafers, more than 80% of our wafers outside and all of our assembly and back end test is outsourced.

Atif Malik - *Citigroup - Analyst*

Thanks.

Operator

And our next question comes from the line of Chris Caso with Susquehanna Financial Group. Please proceed.

Chris Caso - *Susquehanna Financial Group / SIG - Analyst*

Yes, thank you, good afternoon. I wonder if you could speak to a little bit about the seasonality in the second half on your industrial business in light of what you're seeing right now? I know the industrial segment in total is typically seasonally down in the second half.

Any reason to think that would be different given what you are seeing now? I guess, it is probably best to split that out between industrial and infrastructure.

Necip Sayiner - *Intersil Corporation - President & CEO*

I think it is highly predicated on the timing of an expected comeback in infrastructure demand. As I mentioned, some of the declines we are seeing and comprehending in our Q2 guidance are some very specific deployments. Some of them have been recent design wins that have started in the back half of 2014 and went strongly in the first quarter of this year. We certainly expect those deployments to come back.

In general, what will happen to the overall infrastructure spend is a more macroeconomic question, I think, than a Company-specific item in this case. I need to point out, in spite of the softness in demand that we are seeing, we are not seeing any slowing down in our customers' R&D platform efforts. That seems to be going very strongly with, at least the customers we are engaging in, and we are trying to win as many [sockets] as we can and there has been much more good news for us in that front than not.

So I think we need to delineate the current softness in demand from those customers with the R&D investments that they are making for their next-generation platforms. Industrial, we have relatively limited visibility, as I mentioned. To answer Ross's question earlier the industrial market appears to be solid at the moment, but we don't have really good visibility into the second half. One last thing I would mention with respect to our aerospace products, that has been a pleasant surprise for us year-to-date as coming stronger, and based on the activity we are seeing, that could also provide some further support to I&I revenue in the second half.

Chris Caso - *Susquehanna Financial Group / SIG - Analyst*

Okay. What about -- as a follow-up -- specific to your product cycles, your new product introductions in those segments? I know you have been bringing out new products there, I think you are continuing to bring out new products there. I realize that in those segments it takes longer for those new product introductions to materialize in revenue, but is that something, I guess, how should we look at that going forward?

Is that something we're going to start to see in a couple quarters? Is it more of a gradual incremental revenue as those products are introduced?

Necip Sayiner - *Intersil Corporation - President & CEO*

I think there will be gradual improvements as the new products that we've introduced in the last 18 months start generating revenue, as we've consistently maintained. These new products in the I&I side for the most part start contributing to revenue in 2016.

The design wins that we have gotten with existing products on existing platforms last year will certainly contribute as new product revenue. But when I talk about new product revenues, these are the products we've started investing since the new management team was assembled in 2013, and those will not be visible on our top line until 2016.

Chris Caso - *Susquehanna Financial Group / SIG - Analyst*

Okay, thank you.

Operator

Our next question comes from the line of Craig Ellis with B. Riley. Please proceed.

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

Thanks for taking the question. Since there has been very little attention on the automotive part of industrial, I will follow up there, Necip. Can you just talk a little bit about what you see from a revenue generation standpoint with the power related products that you mentioned? I thought three months ago the Company was looking for [10%-ish] growth, was I correct? And so has the outlook there really changed, plus or minus, or how are you looking at automotive relative to where you entered the year for this year?

Necip Sayiner - *Intersil Corporation - President & CEO*

I think automotive is going to be a 10% grower for us this year. The automotive power is smaller but faster growing portion of our revenues. I think it's going to get to somewhere close to 25% of our automotive revenues by the end of this year. So that is a significant improvement to where we were, say, two years ago.

What we're doing is we are both developing products suitable for the automotive end market from grounds up or taking existing products from our industrial portfolio and qualifying for automotive use. We have been successful on both fronts, primarily building some content around our footprint in infotainment. There are going to be some additional design wins in auto power kicking in in the second half of this year that is comprehended in our outlook with a major European OEM. That is also consistent with the strategy of developing more business and content with the OEMs in general. So I would say the automotive business is very much on track to what we projected.

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

Thank you. And then the follow-up is a higher level question, but I will just stay within the same area. Going into the year, I think the view is for industrial infrastructure to potentially grow 5%. It looks like the gives and takes are some push outs in the infrastructure side, but you sound a little more confident in the military aero piece. Does that mean there is still potential for 5% growth, or are you looking at the business differently now?

Necip Sayiner - *Intersil Corporation - President & CEO*

I'm a little gun shy about giving annual growth rate targets a quarter into the year after missing some of earlier projections on the other side. But aside from the softness in infrastructure demand, we have not had any unpleasant surprises to date. If anything, we started the year on a slightly stronger footing on I&I.

So provided that there are no further shocks to the system and the infrastructure demand comes back in the second half, I think we're going to be able to show growth in the I&I business consistent with the overall end market as we projected.

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

Thanks for that, Necip.

Operator

And our next question comes from the line of John Pitzer with Credit Suisse. Please proceed.

John Pitzer - *Credit Suisse - Analyst*

Yes, good afternoon, guys. Thanks for letting me ask the question. Necip, in your prepared comments, I think you said the C&C business was down about 6% sequentially in the March quarter. I wonder if you could just tell me just how much the computing business was down in March? And relative to the gross margin guidance for June, I'm just trying to get a sense of how much you think computing might grow sequentially in the June quarter?

Necip Sayiner - *Intersil Corporation - President & CEO*

Computing was down more than the combined business because, as I said, consumer was up slightly, so about a $2.5 million to $3 million step down in computing. That is a big chunk of the $20 million bogey we had on a run rate basis, obviously. And I don't see anything that really changes that level of business in the near term until we see some of the new generation ramps occur.

John Pitzer - *Credit Suisse - Analyst*

That's helpful. And then, I guess, for my follow-up, you talked about sort of two customer delays in infrastructure, and two customer delays in consumer that are impacting the June quarter. I'm kind of curious if could help us quantify what you think the revenue impact was in the June quarter around those delays, specifically within the infrastructure market, that would be helpful?

Necip Sayiner - *Intersil Corporation - President & CEO*

To quantify for our Q2 revenue, say, compared to what our view would have been at the beginning of the year, it is about $8 million in total. And I would put it into three buckets, as follows. I would put about $3 million into computing, $3 million into consumer, and about $2 million in infrastructure. Yes, if you look at computing, I think that is gone until the end user demand comes back.

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Consumer has just shifted out. I don't think there is going to be any change in terms of the run rate we achieved, but some of that revenue falls out of 2015. And then, infrastructure power, there is some near-term loss, but I do believe those deployments will resume and we will benefit from that.

John Pitzer - *Credit Suisse - Analyst*

Thanks, Necip, that color is very helpful.

Necip Sayiner - *Intersil Corporation - President & CEO*

Sure.

Operator

And our next question comes from the line of Richard Schafer with Oppenheimer & Company. Please proceed.

Joe Zaccaria - *Oppenheimer & Co. - Analyst*

Hi, guys, Joe Zaccaria on for Rick. I appreciate you taking my question. Just was hoping, from a high level, you could talk a little bit about these smartphone opportunities? Maybe you could try to size up how big the business is now and how big you see it potentially over time?

Necip Sayiner - *Intersil Corporation - President & CEO*

Well, I'm going to refrain from sizing the amount of business inside consumer. I think the level of overall consumer business from the [exacerbate] Q4 of last year, about $20 million. I can tell you, though, that all that exit rate, at that point in time, handsets, when it was the largest piece even before the ramps that we are talking about in the current period. But we are also going to see significant growth starting in the second half of this year with display products on tablets, et cetera.

Joe Zaccaria - *Oppenheimer & Co. - Analyst*

Good, thanks, that's helpful. And then, just a quick question on the litigation. What are some of the timing milestones we should be looking for as you address that?

Rick Crowley - *Intersil Corporation - CFO*

We will have post-trial motions which, we believe, extend well into the late summer timeframe. And then, it is kind of uncertain after that as to how long it will take the judge to rule on those motions, and then depending on the outcome of that will determine whether we move into an appeal process or not which could then take some additional length of time. So we see this taking, I don't know, 12 to 18, at least 18 months, maybe, before we get some clarity on this. Perhaps longer depending on the appeal process.

Joe Zaccaria - *Oppenheimer & Co. - Analyst*

Okay, thanks so much, guys.

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Operator

And today's final question comes from the line of Harsh Kumar with Stephens. Please proceed.

Harsh Kumar - *Stephens Inc. - Analyst*

Yes, thanks for squeezing me in at the end. Necip, a quick question for you. A lot of the guys that play in the infrastructure market are saying weakness in base stations, but seeing some marked uptick of some kind or the other, particularly in optical on the wide side. I'm curious if you can talk about your product portfolio that you have on the wide side that might enable you to offset some of this weakness?

Necip Sayiner - *Intersil Corporation - President & CEO*

If you look at our infrastructure power business, rough number is about 10% of our revenue. It's comprised of controllers and drivers and server markets. It's comprised of digital power controllers and telecom and datacom applications. It includes products such as bridge drivers.

We sell into base stations, the LT upgrade cycle in China being a recent example. These are some of the larger portions of the product revenue in our infrastructure power. So when we talk about a large customer we acquired in data centers late last year taking a pause or a large telecom customer delaying one of their deployments, the dollar amount is impactful to the size of the business for us to be able to make up elsewhere. I roughly called it to be about a $2 million impact in Q2 compared to what it would have been if those deployments did not pause, or started on time.

Harsh Kumar - *Stephens Inc. - Analyst*

Necip, if I could ask a little bit longer-term question, in infrastructure, just setting aside the near-term softness that yourself and a lot of your peers are talking about, how would you characterize the design win traction from a mid-term to a long-term angle in the infrastructure marketplace with the new products that you have coming on?

Necip Sayiner - *Intersil Corporation - President & CEO*

Okay. I will give a long answer to your long-term question then. I think a good example is what we are doing in the service space. Intersil has historically not been very strong in servers.

Most of the revenue base in VR12 generation came from drivers. Into VR12.5 generation, the Company was somewhat late in coming with the right product. And it also didn't take advantage of the integration offered between the driver and the MOSFET.

What we've done in the past couple of years is to position ourselves for the next generation, the VR13, the [pearly] platform with controllers that is not only on time for the needs of the customers, but also can boast a significant performance level compared to the competitors, and can offer additional content on that platform to what we have historically provided.

So I'm not going to go as far as previewing some of the new products that we'll announce in the next couple of quarters, but it suffices to say, not only we are on time and winning in VR13, but we are able to do so with more content than ever before.

Operator

And that concludes today's question-and-answer session. I would now like to turn the call back over to Ms. Shannon Pleasant for closing remarks.

Shannon Pleasant - *Intersil Corporation - VP, Corporate Communications*

Okay, thank you very much. We appreciate you joining our call today. This now concludes today's call.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. You may now disconnect. To you all, have a great day.
