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ISIL - Q2 2015 Intersil Corp Earnings Call

EVENT DATE/TIME: JULY 29, 2015 / 8:30PM GMT

OVERVIEW:

Co. reported 2Q15 revenues of $132.4m and non-GAAP net income of $22.1m or $0.16 per diluted share. Expects 3Q15 revenues to be $122-130m and EPS (excluding amortization and stock compensation) to be $0.12-0.15.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2015 Intersil Corporation earnings conference call. My name is Denise and I will be your operator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I will now turn the conference over to your host for today: Shannon Pleasant, Vice President of Corporate Communications. Please proceed.

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

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, 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 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 President and CEO Necip Sayiner.

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

Thanks, Shannon, and hello, everyone. Q2 revenue of $132.4 million was down sequentially and below our earlier expectations. In spite of weak demand, due to the improved expense structure of the Company, we were able to maintain strong margins and achieve non-GAAP earnings at the midpoint of our guidance range.

Looking ahead, as we disclosed in our press release, we are guiding for demand weakness to persistent into Q3, resulting in a lower-than-seasonal outlook. Specifically, we're expecting revenue in Q3 to be $122 million to $130 million, with C&C up and I&I down. I will talk in detail about the business trends and the weaker outlook for Q3, but clearly, we are behind where we had hoped to be in terms of revenue growth.

Simply put, new product revenue has not been able to offset end market weakness and 2015 is not going to be the growth year we had anticipated. Much of this has to do with the poor demand environment in general in computing and infrastructure in the first half and now in industrial. Some also has to do with either delays or softer ramps in our customers' new products.

The net outcome is a lower revenue base for the business, so we're taking the appropriate steps to manage the business through this rough patch accordingly. To that end, we have adjusted down our overall spending and now we are in the process of lowering our on-hand and channel inventories to enable the business to fully benefit when demand recovers.

We continue to be focused on building a highly profitable growth business. While the path to revenue growth is taking longer than we would like, we feel positive about the progress thus far.

I'll turn the call over to Rick to discuss the financials and then I'll cover the near-term trends in more detail. Rick?

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

Thank you, Necip. First, I'll summarize the GAAP results. GAAP gross margin was 59.3%, down sequentially as expected, but up 120 basis points from the same time last year. Total operating expenses were $62.3 million for the quarter, down 4% compared to the same quarter last year.

R&D expense was $33.1 million and SG&A expense was $25.2 million. For the quarter, GAAP operating income was $16.2 million or 12.2% of revenue.

The second-quarter tax provision was a credit of $22.1 million resulting from the release of tax reserves for prior years due to the expiration of statutes of limitations. Q2 GAAP net income was $37.7 million and diluted GAAP EPS was $0.28. Excluding the text benefit, GAAP EPS would have been $0.10. For Q3, GAAP earnings are expected to be in a range of $0.05 to $0.08 per share.

The non-GAAP results, which exclude $4 million in amortization of acquisition-related intangibles and $6.7 million in stock compensation expense, demonstrate the strong underlying financial health of the Company Necip talked about.

Second-quarter non-GAAP gross margin was 59.6%, slightly lower on a sequential basis, but within range of our target model. Mix favored our C&C business in Q2, which, combined with slightly lower revenue, resulted in the modest sequential decrease. We expect gross margin to decline by about 150 basis points sequentially in Q3, driven primarily by a lower mix of I&I products and to a lesser degree by lower manufacturing absorption to align inventory with demand.

Despite more modest revenue expectations for 2015, we still expect to see incremental improvement in our gross margin on a full-year basis.

We continue to tightly manage expenses, with Q2 non-GAAP operating expenses decreasing slightly to $52 million. R&D investment increased to $30.4 million, while SG&A expense decreased to $21.6 million. We expect Q3 operating expenses to decline by an additional $2 million to approximately $50 million.

The anticipated reduction is due to tight management of discretionary spending and hiring combined with lower variable compensation expenses. At these levels of R&D investment, we are still able to adequately fund our very healthy new product roadmap and fully support the underlying business.

Q2 non-GAAP operating income was $26.9 million or 20.3% of revenue. This is our eighth consecutive quarter of non-GAAP operating margin of 20% or above. The Q2 non-GAAP effective tax rate was approximately 16%, resulting in net income of $22.1 million. With 137.9 million outstanding diluted shares, non-GAAP earnings per share was $0.16, at the midpoint of our original guidance range.

The non-GAAP tax rate is projected to be 19% for the remainder of the year. With the Q3 revenue guidance provided of $122 million to $130 million, we anticipate earnings per share on a non-GAAP basis, excluding amortization and stock compensation, will be $0.12 to $0.15.

Turning to the balance sheet, cash and cash equivalents increased by $4 million to $225 million at quarter end. Q2 free cash flow was $19.2 million, of which $17.2 million was returned to shareholders in the form of our high-yielding dividend. As of today, Intersil's dividend is yielding over 4%, making it one of the highest in our sector.

Accounts receivable balances and days sales outstanding increased slightly in the quarter. Net inventory decreased to $71.8 million or 121 days. We expect our days of inventory to continue to improve in the third and fourth quarters.

Channel inventory has increased to levels above historical norms as a result of the broad-based weakness in demand combined with slower-than-expected ramps and certain new consumer design wins in China. Given the uncertain demand environment and our reduced expectations for this year, we plan to work with our channel partners to reduce inventory in Q3 by about 1 to 2 weeks to bring it more desirable levels. Since we report revenue on a sell-in basis in Asia and Europe, this reduction will have revenue implications for both I&I and C&C in Q3, which are incorporated into our guidance.

Our business model remains solid, as demonstrated by our profit margins and positive cash flows. Our balance sheet continues to strengthen and we pay one of the highest yielding dividends in the semiconductor industry. And we are actively controlling expenses to sustain the success we have achieved over the past two years. This should provide a base for substantial leverage when revenue improves.

Necip?

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

Thank you, Rick. Our C&C business, which represented 34% of Company revenue in Q2, was up 2.4% sequentially. New handset wins resulted in high single-digit growth for our consumer products, while computing declined, as customers held off on orders in anticipation of new Intel platforms.

We're expecting our computing revenue to recover modestly in Q3, with initial ramps for Skylake, higher ASPs, and market share gains contributing to a better computing run rate going forward.

Consumer revenue was up nicely in Q2, with new business driving growth and improved margin. That said, consumer revenue is not uniformly robust. Sell-through of the high-end smartphones we are designing, too, has been mixed.

For example, a China customer selling products outside of the domestic market is doing quite well. However, the demand at another China customer with models that are predominately for domestic consumption is below expectations.

We see an elevated level of inventory in the distribution channel as a result of the lower-than-expected pull from handset makers, which we will strive to bring down over the course of the quarter. Despite the muted demand, we expect C&C to be up in Q3, but only with single-digit growth sequentially.

We expect to see other incremental new business continue to layer into the revenue profile in Q4, but the magnitude of the impact on revenue growth is still dependent on the timing of our customers' product launches.

The silver lining is that we have good momentum with new products continuing to be introduced and strong customer relationships. We just have to be patient as we build the revenue base in new products to drive the momentum needed for sustained growth.

I&I represented 66% of revenue in Q2, declining 3% sequentially. Automotive continued to be strong, up mid single-digits sequentially, and represented 11% of Company revenue. The growth was driven by power products, which continue to gain momentum with strategic customers such as Harman/Becker.

Q3 will bring another step-up in this product line, with new customer platforms ramping. This will be augmented by solid demand in our video decoder products for backup cameras.

Automotive is an important strategic growth area for Intersil and we are investing to accelerate that growth by increasing our SAM to address the rapidly growing power management requirements in the vehicle. We have seen double-digit growth year over year for the last two years and expect an increased focus in investment will enable us to expand our share in this high-margin business.

Our military and aerospace products represented about 12% of Company revenue and were up again slightly following a very strong quarter in Q1. This is a fairly lumpy business and we'll see a sequential decline in Q3.

We recently introduced new radiation hardened multiplexers specifically for spaceflight data acquisition systems that provide for a new level of performance and accuracy. Intersil is one of the few companies able to provide radiation hardened analog and power products for military and commercial satellites and our reputation and growing portfolio enable us to expand our market share.

I&I power products represented about 19% of revenue in Q2. The infrastructure market was weak coming into the quarter and remained so throughout the period. Revenue was down about 10% sequentially and this weakness is likely to persist longer.

The modest market share gains from existing products are not sufficient to offset the lower overall demand. New products, on the other hand, have been doing quite well. Opportunities for new products served through our distribution channel increased by 180% in absolute numbers in the first half of this year compared to the first half of last year. And increased by nearly 250% in terms of revenue potential for the same period.

This activation of the channel is a key part of our I&I growth strategy and is the result of many quarters' worth of investment in training, sales tools, and channel awareness activities.

Our analog products, which represented the remainder of our I&I business, target primarily the industrial market, which was relatively stable in Q2. Later in the quarter, we saw some pockets of weakness resulting in a modest sequential decline.

Of concern, however, was the noticeable deterioration in new orders in June. The rate of bookings declined across most geographies, direct and distribution customers alike. Consequently, we expect to see revenue in analog products decline meaningfully in Q3.

Combining all of these dynamics, I&I as a whole is expected to be down sequentially in the high-single digits, with automotive strong, offset by lower mil/aero, power, and analog products.

When I take a step back and look at our product lines in terms of competitiveness and sustainability, we have made major changes that are not yet completely visible to investors. New products based on a higher level of rigor increased investment and an infusion of new engineering talent had been coming to market over the last 12 months.

As an early measure, the ASPs of new products introduced in 2015 are about twice the average price of new products introduced in 2013. This is due in part to higher levels of integration and in part to higher value-add in the price performance attributes of our offerings.

Changing the composition and quality of an analog business takes a long time. But just over two years into this transformation, the change is becoming visible in both our C&C and I&I businesses.

For example, in Q2, we introduced the industry's most highly integrated PMIC for ultrabooks and tablets. Integrating twice the functionality of the nearest competitor, our products shrinks board space by 75% to enable the first credit card-sized motherboards. Our proprietary modulation technology makes our offering the only single-chip solution able to support the Intel and Microsoft connected standby standard for an instant-on, always connected experience.

We also introduced an ultrasmall buck boost regulator for the wearable segment of the Internet of Things. And Intersil proprietary architecture enables industry-leading efficiency versus the competition, extending battery life and making it ideal for the high growth opportunity in small form-factor connected devices.

Our most successful industry launched to date in terms of the breadth of interest generated is an innovative 60-volt synchronous buck controller. The controller completely eliminates the need for intermediate power conversion stage, making it possible for designers to meaningfully reduce system complexity and cost.

This is just a sampling of the type of products we are developing to enable market share gains and improve the quality of our revenue profile over time. While we clearly have some near-term market challenges ahead of us, the business is well positioned to manage through them profitably while providing the investments for the compelling products behind the imminent growth phase of Intersil's turnaround.

With that, I'll take your questions.

Shannon Pleasant - *Intersil Corporation - VP of 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) Tore Svanberg, Stifel.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Thank you. First question: you talked about lowering some channel inventory. I think you said 1 to 2 weeks. Would you expect to have that process completed in the September quarter?

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

Yes, Tore, we hope to. As you know, the outcome is somewhat subject to the sellthrough in the channel. But as you know, all our direct customers and distributors keep some level of inventory based on expected consumption. And when that consumption is either below expectation or the perception of what it will be in the future changes, those purchases can be reduced to bring the inventories back in line.

And we believe that the weak demand that we're seeing in I&I products reflects this phenomenon at many of our distributors, where either the macros or uncertain demand is motivating them to reduce the buffer inventory. We also alluded to C&C, where some of the sellthrough for certain high-end smartphones in China has been a little bit below original expectations. So, we are working with the channel fulfillment partners to adjust their inventory in the coming quarter..

On the flipside, the channel inventory in certain geographies, like Taiwan and Japan, are in very good shape.

So when we step back and try to look at all this and size the impact, we look at coming up with a reduction of about the 1 to 2 weeks of inventory we referenced for y the specific channels. And we estimate that's equal to about $5 million to $7 million for us.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Very good. Thanks for that, Rick. And as my follow-up question, you talked about new products not being enough to offset this general weakness you're seeing. Is there a way to measure at this point how much of the revenue or the business is coming from new products?

You know, I'm just trying to think if this sort of slow down, general slowdown is prolonged, how and how quickly can a lot of the new product revenues start to offset some of that?

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

You know, the new product revenue is most evident in our consumer segment today, Tore. That new product revenue has been steadily increasing. If you look at our consumer revenue profile thus far in 2015, it's almost a mirror image of 2014, where the quarterly revenues declined sequentially throughout the year as we executed on some of the tactical moves to walk away from low margin business.

Q1 was up over Q4 against typical seasonality. Q2, as I mentioned, is up over Q1. And Q3 should be another up quarter in spite of all of the puts and takes that we've described. And there's more coming in Q4 and then we're going to start seeing some improvement in run rate in computing as Skylake starts ramping fully.

So I think the concentration of new product revenue certainly favors the mix as we move into later 2015 and into 2016. But the size of the reduction in our I&I revenue currently is rather significant for the new product revenue to be able to offset that weakness.

Tore Svanberg - *Stifel Nicolaus - Analyst*

That's helpful. Thank you very much.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Thanks for letting me ask a question. I guess the first one would be just a clarification on the guidance in the C&C segment. I know you said it would be up slightly sequentially. The computing, you said, was up. Did you say what the consumer subsegment would do sequentially?

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

I think the overall C&C would be up, I would say, in mid-single digits and I think both computing and consumer will be up. But beyond that, we don't really have the level of accuracy to be able to guide. But I'm expecting both to be up.

Of course, this is less than what we would expect seasonally, especially in the midst of some new product cycle ramps. But I think I was able to articulate this to some extent why that is a bit more muted.

Ross Seymore - *Deutsche Bank - Analyst*

And then just a little more clarification on what you said you saw in both in the infrastructure side staying weak and then the industrial side coming down. In aggregate, do you think this is more of a demand? I know you said the inventory burn is kind of kind of $5 million to $7 million impact.

But it seems like the magnitude is a little bit worse on Intersil with it down upper single-digit sequentially than we've seen from most companies, save Linear Tech. Can you describe a little bit of what you're seeing and any of it is Company-specific?

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

Sure. Our first impulse is to look for Company-specific factors, especially ahead of what we've heard from peer companies publicly. On balance, I think 95%-plus of what we're seeing here is macro-related.

This is a business, especially on the analog side, that is comprised of 20-odd product lines, hundreds of applications, thousands of customers. And we've seen a very significant slowdown in new bookings at the very end of May that lasted through June into early July. For 5, 6 weeks, you know, the bookings were unusually low. We haven't seen push-outs or cancellations; it's just very anemic rate of bookings.

You know, which improved in the past couple of weeks, but now we're walking off of a much lower base working our way up to the revenue. So the analog revenue we're guiding to be down in double digits as a result. Given the breadth of the weakening across geographies and across product lines and how instantly that occurred, there's really nothing that I can point to as being Company-specific at this stage.

Ross Seymore - *Deutsche Bank - Analyst*

One last quick one; a more housekeeping for Rick. On the OpEx side of things, at that $50 million run rate, how much of that is sustainable at that level? And how much do you think is more a variable cost issue that whenever things improve, we would expect to rebound with somewhat higher OpEx?

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

Most of it is sustainable as we go through the rest of the year, Ross. There is a little bit of variable comp in there, but you get leverage in that when the revenue improves.

Ross Seymore - *Deutsche Bank - Analyst*

Great, thank you.

Operator

Chris Caso, Susquehanna Financial Group.

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

Just kind of going back to a little bit of the previous question and what you said earlier and with regard to the deterioration in bookings from May into June. You experienced something similar back as you're going into the fourth quarter of last year. And it was fairly abrupt, but yet kind of short-lived.

And I know that that's impossible to predict right now. But perhaps you could compare kind of what you're seeing and what you're hearing out of the channel from your customers now as compared to the downtick that you saw at the end of last year?

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

Yes, I can certainly do that compare. This is really very different. If I look at our analog business in particular -- and I have history of that business since I joined early 2013. It was a very well-behaved, predictable business, given the diversity it enjoys.

You know, the revenues were in a very tight band throughout the booking patterns; very predictable. First half would be slightly higher than the second half and then first half of next year would see a small step-up. Overall, there was maybe 2 to 3% decline on a year-on-year basis, given the modest investment we have.

And when I look at where we're guiding to for third quarter and if I use this as a run rate, we are looking at a double-digit midteens type of decline. So nothing I have seen in my time at Intersil is somewhat unusual.

So we don't really have a unique insight into how long this might last or all the reasons that contribute to this step-down in demand. But it's very different than the overall trend line. So at some point, as the demand normalizes, I would expect some reversion to the mean.

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

Right, okay. And moving on to the consumer space. And what it sounds like is that a number of the design wins that you were expecting are starting to hit, but because of the market conditions, the magnitude is less.

What does that mean as we go into next year? Do some of these design wins survive into next year and it's just going to depend upon the ramp of the customer platforms and how well they are received? Is the situation once this year is done, we are onto a new design cycle, so you've got to go and re-win sockets? How should we think of that business as we go into next year?

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

Yes, so the platforms that have seen delays -- one to two quarters depending on which platform, to the best of our knowledge, have survived. So we will see the ramp starting at the later quarter in 2015. So some of that revenue falls into 2016.

Whether the delay in introduction of those platforms would mean a meaningful change in overall volumes, we can't say. We don't believe so at this point, based on what we know of these platforms. But there's certainly that potential of volumes being not the same as what they would have been in 2015.

We continue to compete for new sockets, additional sockets, with all the new products we are bringing to the market. So that's going well. So clearly from a directional point of view, the consumer revenue is headed very much in the right direction. What is that question is really the rate and pace of that growth.

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

Okay, thank you.

Operator

Craig Ellis, B. Riley.

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

Thanks for taking the question and I'll start with a follow-up to Chris's question. Necip, as you look at the opportunity set in consumer versus where you were 6 and 12 months ago, is the opportunity set the same as you look out over the next 12 months? Or given some of the volatility that we've seen while some of it has resulted in transitory push-outs, is it a smaller opportunity set than what you thought you had seen over the last year or so?

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

I think the opportunity set remains the same. I think where we might have been too bullish and in hindsight is the time it would take to achieve that revenue potential. For us, we are coming from an extremely low share in this market of handhelds and tablets with our offerings.

So regardless of growth in the end market, I think the growth that we are enjoying with our products is all incremental to us. I don't really see a weakening of the opportunity set. I think what is somewhat disappointing to us is the pace at which we can achieve the revenues that we had anticipated and the time it takes to start showing some year-on-year growth attributes in the business.

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

Okay. And then there was some mention of Skylake earlier. I'm not sure if you touch base on market share, but has there been any change to market share expectations? And to what extent is some of the content gain we've been looking for from the notebook side of Skylake impacting the third-quarter sequential dynamics in the PC business.

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

I think what I had said in prior forums remains unchanged. We believe we have been able to regain some modest amount of share, given the competitive dynamics within the Skylake platform.

There's certainly the ASP gain that is I think well understood. We have made some very small amount of shipments already at the very end of second quarter of our products. And there will be the initial ramp in Q3 that is incorporated into our guidance.

So as that ramp fully unfolds over the next several quarters, we will see slightly better share and higher ASPs coming from Skylake as projected.

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

Okay. And then I'll wrap it up with a question for Rick. Rick, with the gross margin guidance down 150 basis points sequentially, to what extent is that an intersegment mix issue and intrasegment mix issue?

I think historically, the Company said that on the upside -- or on the way up, it wasn't really getting any help from volumes. So is that the case on the downside? Is there an absence that I've heard from that or is gross margin being negatively impacted by volume? So just looking for a breakout of the 150 basis points into its biggest volume mix or other buckets.

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

Craig, I would break it down that about two-thirds of the projected sequential decline is related to mix and about a third is due to lower absorption of our internal capacity, overall less absorption is about a third..

Operator

(Operator Instructions) John Pitzer, Credit Suisse.

John Pitzer - *Credit Suisse - Analyst*

Yes, Rick, maybe a follow-up to that question there, just on the utilization front. Do you feel as if the utilization actions you are taking in Q3 is enough to kind of mark a hard bottom, such that you don't need heroic revenue recovery for utilization to no longer be sort of an incremental headwind? Or how should I think about that?

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

Yes, John, good question. As you know, we were able to bring inventory down, both in dollar terms and in days in Q2. And while we're taking the factory down a little bit, we believe that where we're setting it here in Q3 will position it to bring inventory down again, even with the revenue guide we've put out there.

So, as we've mentioned I think on numerous calls, we're trying to get down to 100 days or less by the time we get out to the end of the year. And we've set the factory accordingly. So yes, I think we are trying to be proactive here in both our on-hand inventory and channel inventory to get things in position to benefit when demand turns around and goes the other way.

John Pitzer - *Credit Suisse - Analyst*

That's helpful. And guys, maybe as my second question, Necip, with all the repositioning of the Company, kind of normal seasonality is getting more and more difficult to figure out. But the December quarter has historically been a down quarter for you.

I think visibility is limited, but given the weakness in Q3, given some of the new product ramps you've talked about, is there an opportunity to see the December revenue flat to up? And as you answer that question, I'd kind of curious of your views of how pervasive you think Skylake will be in the calendar fourth quarter. Or is that something you think you really have to wait until the calendar first and second quarter of next year to be a major tailwind?

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

I'll think the consumer design wins you allude to, provided they happen on the timeline our customers are telling us, should help from a revenue perspective, you know, barring any inventory management our customers tend to do in the end of the year. I would expect Skylake to be on a steady ramp-up with more SKUs being introduced to the market as time goes on.

I think the pace at which those SKUs are brought to market is perhaps more appropriate for Intel to respond to. But we do expect a steady increase in number of SKUs and associated volume.

I think given two-thirds of our business in I&I, the wildcard really remains with that business. How quickly do we see a return to more normalized demand. The way we are planning our staffing and capacity at the moment, we are not looking for a quick recovery. If it comes, we'll be prepared with capacity in particular, but we're not planning for it at this point.

So as you would appreciate it, it is particularly challenging to project the revenue when you are in the midst of an uninspiring demand environment, to say the least.

John Pitzer - *Credit Suisse - Analyst*

Necip, maybe if I can quickly follow-up to that on the I&I side. I know you talked about in the prepared comments kind of the weakness being kind of broad-based from a GEO perspective.

But specifically within I&I, I'd be curious as kind of your GEO perspective? And to what extent is this China related and to what extent is the China related less about fundamentals and more about maybe some government policies around corruption and the like.

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

I have some geographic data to share with you. I don't necessarily have it right in front of me from a I&I versus C&C point of view. In Q2, we have seen Asia PAC about flat to Q1, with China up and rest of Asia being down.

Going into Q3, I know we see both China and rest of Asia being sequentially down. And I think that decline is perhaps more tilting towards the I&I products. China is a sizable market for us. So any perturbations there in the perceived end demand affects the behavior of our customers as well as the distribution partners.

So we may very well be seeing an outsized reaction to all the economic news there. It's really difficult to parse this out, given the number of customers and products that we sell into that market.

John Pitzer - *Credit Suisse - Analyst*

That's helpful, Necip. Thank you.

Operator

Joseph Zaccaria, Oppenheimer.

Joseph Zaccaria - *Oppenheimer & Co. - Analyst*

Thanks for taking the questions. Two quick ones. First one: if you could talk a little bit about how you see your content on Skylake's versus some of the previous generations, I guess in relative terms, it would be helpful.

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

Well, we haven't quantified the increase in ASPs for competitive reasons. Maybe some of our competitors have, so I'm not necessarily going to disagree with them if they have some. So we're going from a single rail in Vcore products to three rails. That does represent a significant increase in the average selling price, but we haven't put any numbers around that for competitive reasons.

Joseph Zaccaria - *Oppenheimer & Co. - Analyst*

Okay, I understood. And then if you could just give us an update on the TAOS litigation, it would be helpful. Thanks.

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

Not much to report, really. We have filed for post-trial motions and currently, the judge is considering those motions. He has not yet entered his final judgment. We are awaiting his instructions at this point.

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Joseph Zaccaria - *Oppenheimer & Co. - Analyst*

Okay, thanks so much.

Operator

We have no further questions. I will now turn the call back over to management for any closing remarks. Please proceed.

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

Okay, thank you, Denise. We don't have any further remarks today. So thank you very much for joining us. This now concludes today's call.

Operator

This concludes today's conference. You may now disconnect. Have a great day, everyone.