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ISIL - Q3 2015 Intersil Corp Earnings Call

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OVERVIEW:

Co. reported 3Q15 revenue of $128.4m, GAAP net income of $17m and GAAP diluted EPS of $0.13.

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CORPORATE PARTICIPANTS

Shannon Pleasant *Intersil Corporation - IR*

Necip Sayiner *Intersil Corporation - President & CEO*

Rick Crowley *Intersil Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Tore Svanberg *Stifel Nicolaus - Analyst*

Craig Ellis *B. Riley & Company - Analyst*

Jose Carey *Oppenheimer & Company - Analyst*

John Pitzer *Credit Suisse - Analyst*

Chris Caso *Susquehanna Financial Group / SIG - Analyst*

Atif Malik *Citigroup - Analyst*

Harsh Kumar *Stephens Inc. - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Q3 2015 Intersil Corporation earnings conference call. My name is Whitley and I will be your operator for today.

(Operator Instructions)

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

Shannon Pleasant - *Intersil Corporation - IR*

Thank you. Good afternoon and 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 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 November 11.

Please note that the comments made during this conference call may contain forward-looking statements subject to risk and uncertainties that could cost our actual results to vary. These risk factors are discussed in detail on 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*

Thanks, Shannon, and hello, everyone. Q3 revenue of $128.4 million was down sequentially by 3%, reflecting the weaker demand environment as we enter the second half. I&I revenue was above our expectations, while C&C revenue was below. We were successful in lowering channel inventory to healthier levels and believe we have put the majority of the inventory balancing behind us.

While many of our end markets remain sluggish, we are seeing some signs of stability and demand. Also, supported by additional new product ramp activity, our book-to-bill in the quarter was slightly over 1. The new design wins secured for our C&C business that we have been talking about are now ramping and the infrastructure weakness that has impacted our business for the last few quarters is starting to abate. Our automotive and aerospace businesses remained brighter spots for the year, as we continue to anticipate year-over-year growth for these products in 2015.

There are two key messages I'd like to convey today. First is the ability of our business to deliver 20% operating margin in one of the more challenging periods for our industry in the recent past. With the structural improvement made in the business over the last two years, we are now able to weather these storms while continuing to generate substantial cash.

Second is the observation that it does not appear that this downcycle will be a prolonged one. The end-user demand, while muted in several end markets and geographies, does not seem to be deteriorating further, and owing to swift actions we took with our channel, the duration of the correction will likely be relatively short period. I will provide more color on the product lines after Rick reviews our financial results.

Rick Crowley - *Intersil Corporation - CFO*

Thanks, Necip. First I will summarize the GAAP results. GAAP gross margin was 59.2%, about flat sequentially, and up 80 basis points from the same time last year. Total operating expenses declined significantly on a sequential basis to $58.6 million for the quarter. GAAP OpEx is down by over $3 million compared to the same quarter last year, primarily in SG&A, which was $23.5 million in Q3.

R&D expense of $31.3 million is about flat compared to Q3 of 2014. For the quarter, GAAP operating income increased sequentially by more than $1 million to $17.5 million, or 13.6% of revenue. The third-quarter tax provision was $300,000, resulting from the annual true-up of our 2014 tax provision to the final tax return for the year. Q3 GAAP net income was $17 million and diluted GAAP EPS was $0.13, well ahead of our projection of $0.05 to $0.08 per GAAP earnings per share.

The non-GAAP results will also ahead of expectations. Third-quarter non-GAAP gross margin wasn't nearly flat, at 59.5%, and up 90 basis points from this time last year. Relative to our initial forecasts, I&I was a higher percentage of total revenue, resulting in a favorable mix shift to higher margin products.

For the fourth quarter, we expect gross margin to decline by 150 to 200 basis points sequentially, driven by a mix favoring C&C products, combined with higher projected manufacturing variances, as we continue to reduce on hand inventory levels. With year-to-date non-GAAP gross margin of 59.8%, we're still on track to see a third consecutive year of incremental gross margin improvement for 2015, despite excitations for lower gross margin in Q4.

We continue to tightly manage expenses, controlling discretionary spending and hiring to reduce costs without negatively impacting our R&D execution. Q3 non-GAAP operating expenses decreased to $49.5 million, with R&D investments of $28.9 million and SG&A expense of $20.7 million. We expect Q4 operating expenses to be about flat on a sequential basis.

Q3 non-GAAP operating income was $26.8 million, or 20.9% of revenue. This is our ninth consecutive quarter of non-GAAP operating margin of 20% or above. Third-quarter non-GAAP effective tax rate was 20.6%, and we estimate the Q4 non-GAAP tax will be approximately 21%. Q3 non-GAAP net income was $20.8 million, resulting in non-GAAP earnings per share of $0.15, at the high end of our guidance.

Turning to the balance sheet, cash and equivalents increased by $4 million to $229 million at quarter-end. During the quarter, Intersil used $16 million of cash to acquire Great Wall Semiconductor. Q3 free cash flow was $33 million, of which $16 million was returned to shareholders through our high-yielding dividend.

Accounts receivable balances and days sales outstanding both decreased in the quarter. We were successful in reducing inventories by $3 million to $69 million. In Q4, we expect to see our inventory decrease again by a similar amount.

During the third quarter, we also made to give good progress in achieving our objective of reducing channel inventory levels. On a global basis channel inventory decreased by about one week, as we made targeted adjustments during Q3 to align distributor inventory with changes in demand that emerged early in the summer.

The largest reductions in channel inventory occurred at our Asia-based distributors, that primarily support our customers in the consumer end market. While the business environment remains uncertain, we continue to deliver strong margin, preserve profitability, and generate cash, all good indicators of healthy business fundamentals. Necip?

Necip Sayiner - *Intersil Corporation - President & CEO*

Thank you, Rick. We'll start with our C&C business, which represented about 34% of Company revenue in Q3 and was down about 1% sequentially. For consumer, the successful reduction in channel inventory in Asia during the quarter impacted revenue as we had expected. End user demand was not strong either, as sell-through of our customers' high-end smartphones remains soft.

China continues be a weak spot for our consumer business, offsetting what would normally be a stronger seasonal period. On the positive side, we are starting to enjoy yet another program ramp this quarter, with one of our display products on a notable tablet platform. We see this as further confirmation of our unique ability to help customers reduce power dissipation and conserve battery life.

During Q3, we also formally announced the products that are improving power efficiency for nex-gen ultrabook platforms. Compared to the competing devices, we were able to achieve best-in-class [light load] efficiency, better accuracy, and fast dynamic response, which translates to longer battery life.

Computing is on path to becoming a more stable business, as we benefit from the Intel platform transition that provides us with higher content and therefore a higher ASP. Computing revenue began to recover, with initial Skylake ramps in Q3 contributing to the improvement, as customers built inventory in anticipation of new product launches happening in Q4.

With customers well-positioned to service demand, we expect computing revenue to be about flat sequentially in Q4. Collectively, we expect C&C to be up mid-single-digits sequentially in Q4, as our shipments to the channel normalize, and we benefit from the ramps in new business.

I&I represented 66% of revenue in revenue Q3, declining about 4% sequentially, less than the high single-digit decline we had predicted. Automotive demand remains strong and revenue is expected to grow again in Q4, particularly driven by new power products and our video decoders for backup cameras.

I&I power product fared better than expected, resulting in revenue coming in about flat sequentially. Booking trends have improved slightly, although demand for both wired and wireless infrastructure remains lower than what we would consider normal, as customers continue to be cautious. We are seeing good design win traction on new products introduced recently, particularly modules.

Our military and aerospace product revenue was down sequentially, as expected. Trends remain healthy and we expect to see flat revenue into Q4 and another growth year for mil/aero as we wrap up 2015. Our analog products, which represent the remainder of our I&I business, drove the decline and revenue was down more than 10% sequentially.

Demanded trends in the industrial end markets remained challenged but have not gotten any worse in our view since last quarter, so we expect the normal seasonal decline for the analog products in Q4. Given all of these dynamics combined, we would expect I&I to be down mid-single-digits in the fourth quarter.

In summary, we expect Q4 revenue to be in the range of $123 million to $131 million. Based on a higher mix of C&C and higher manufacture variances, we believe gross margin will decline 150 to 200 basis point, sequentially. Operating expenses are expected to be approximately flat to Q3.

We anticipate GAAP earnings of $0.06 to $0.09 share. Earnings per share on a non-GAAP basis, excluding intangible amortization and stock compensation expense, are expected to be $0.12 to $0.15. With that, we'll take your questions.

Shannon Pleasant - *Intersil Corporation - IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tore Svanberg, Stifel.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Thank you. First question, Rick, could you just elaborate on the inventories in the channel. You mentioned bringing it down by a week, but what does that mean in absolute numbers and what would be your target?

Rick Crowley - *Intersil Corporation - CFO*

In the last call, we had said we wanted to reduce our channel inventory by about $5 million to $7 million and we were successful in hitting a reduction within that range for the quarter, so that's a good. In particular, we brought Asia-based distributors down the most, so that's in good balance now. We are close to where we would want to be. Maybe to put into perspective, the Q3 ending worldwide channel inventory is below levels of Q1 and Q2, but still slightly above the levels of the second half of last year.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Great. Thank you. As a follow-up, if you look at the gross margin guidance, down 150 basis point, you mentioned some lower loadings, but is there a mix factor here, too, perhaps, where you're not getting enough contribution from I&I?

Rick Crowley - *Intersil Corporation - CFO*

Yes. It's about one-third mix and about two-thirds manufacturing variances roughly in that projected decline.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Great. Thank you very much.

Operator

Ross Seymore, Deutsche Bank.

Unidentified Participant - *Deutsche Bank - Analyst*

Hi, this is [G] for Ross Seymore. Thank you. Necip, you mentioned that demand for wireless and wireless infrastructure remains lower than normal. Can you discuss what you're hearing from customers, if they are cautiously returning to growth over time?

Necip Sayiner - *Intersil Corporation - President & CEO*

They have been indicating that they have been expecting to more normal levels for the past couple of quarters now. But recently we have actually started seeing the order activity pick up a little bit to substantiate those expectations from the customers.

If you look at our infrastructure power business, it is running approximately 20% below same time last year levels. But when I look at our order patterns and backlog placed by customers 4Q is looking a little better than 3Q, and 1Q is looking a little bit better yet. So there is some modest improvement in the orders we are receiving from customers.

Unidentified Participant - *Deutsche Bank - Analyst*

Thank you. You also mentioned that demand in industrial end markets are not getting worse, although they've continued to remain challenged. How much is China playing a part in this, to what extent, and if you can just give some more color on geographies or customers, commentary within the industrial end markets, that would be helpful?

Necip Sayiner - *Intersil Corporation - President & CEO*

If I look at Q3, in general, by and large the decline in revenues came from Asia-Pac, and almost entirely from the channel, and most of this driven by consumer end market, as Rick mentioned. If you look at the POS data in general, this held up much better, actually the POS was sequentially up compared to Q2, but below what you would normally expect seasonally.

There are pockets of weakness in industrial, but it is not just in China. We certainly see this in China, but when I look at the industrial end markets and the applications that we compete in, the weakness has been relatively broad across product areas and geographies. China, again, certainly plays a role, but is not just about China.

On a more positive note, as I mentioned in our prepared remarks, this is not getting any worse. There is some stability in the weekly order rates that we see from our customers and the industrial end markets.

Unidentified Participant - *Deutsche Bank - Analyst*

Thank you.

Operator

Atif Malik, Citigroup.

Shannon Pleasant - *Intersil Corporation - IR*

Operator, we cannot hear a question.

Operator

(Operator Instructions)

Necip Sayiner - *Intersil Corporation - President & CEO*

Let's circle back to him.

Operator

Craig Ellis, B. Riley.

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

Talk about a pregnant pause there (laughter). Thanks for taking my question. The first one is just a clarification regarding the question that Tore asked. Rick, are you saying that the inventory correction is done or that you still have [one-third] or one-half a week left to go?

Rick Crowley - *Intersil Corporation - CFO*

We are essentially done, Craig. You always have inventories, when you look back, a little bit, need to be tweaked here and there, some a little low, some a little high, but generally, the headwind from the channel inventory correction we talked about last call is -- we are now back in balance.

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

All right. Thanks for that. The question that I have on the income statement in the fourth quarter, when I look back at the last three years, gross margins are generally flat, maybe up a little bit. Last year was probably [mix-out] help, so why this year would they be down so much relative to what we've seen in each of the last three years and in the last three years on average?

Rick Crowley - *Intersil Corporation - CFO*

The main area that addresses your question, Craig, is that we're predicting an increase in variances. We talked about the weakness that we've seen in the analog products area that heavily services the industrial end market, the weakness we began to see in Q2 that's continued, and it's not getting any worse but it's just that below run rate level, from our perspective.

That ongoing weakness is impacting our manufacturing variances, as many of these products are manufactured in our own internal foundry. So as the demand has decreased, we've adjusted the wafer starts to be in line with that end demand, which is unfavorably impacting the utilization.

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

Okay. And then the question on product program side. Necip, I thought heard you say that in consumer there was a weak China environment that was impacting the business. If that's correct then how do I reconcile that with what was 22% LTE smartphone shipment growth from the China supply chain to China carriers in the third quarter?

Necip Sayiner - *Intersil Corporation - President & CEO*

There is one notable supplier into China that is seeing a lot of success and we are not on that platform. They announced yesterday. We are participating on the platforms with Huawei, Xiaomi, and Lenovo, among others that are smaller. We have a good share with every one of them, albeit on their high-end line-up of their offerings.

They are having mixed success. One of those customers is doing quite well and we are sharing in with that success and seeing good volumes from that customer. A couple others have reduced their forecasts for the remainder of the year, especially on their high-end line-up, so we're seeing less from them. If you aggregate all of this with the good and the bad, the volumes we are at now are lower than what we would have all expected for the second half.

That was further anticipated by the fact that we went and aggressively reduced the inventory in the channel. As a result, in Q3, the consumer revenue went down a few million dollars, which was compensated by an increase on the computing side, so we came in about flat, but of course, that's much weaker than you would expect seasonally.

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

Thanks for that.

Operator

Richard Schafer, Oppenheimer.

Jose Carey - *Oppenheimer & Company - Analyst*

Hey, guys. This is [Jose Carey] on for Rick. Appreciate that you're taking the time. Congrats on the good quarter and solid outlook. Was hoping you talk a little bit about your GMs, sorry, gross margins. They have done well over the last couple of years, trended in the right direction. Wondering how much more room we have to go here and what's in the puts and takes there besides mix?

Rick Crowley - *Intersil Corporation - CFO*

Yes, Joe. Our target is still to get at 60% or above for our gross margins. Around the near-term, we are going a little bit lower here in Q4. We still think that is achievable so nothing's really changed there. It gets down to layering in -- beginning to layer in new products as a higher percentage of mix and higher qualities of revenue to help drive that. Generally, mix will be one of the main items that will cause perturbations up and down as we proceed towards that goal.

Jose Carey - *Oppenheimer & Company - Analyst*

Okay. Thanks. And then with respect to Skylake, I know you guys see a nice content bump there. Wondering if you've seen any change in demand through the early stages here in 4Q as far as ordering goes or build expectations? Thanks.

Necip Sayiner - *Intersil Corporation - President & CEO*

In computing, Q3 was the first quarter in as many as four quarters where we've seen some improvement growth both in revenues and units. Almost all of that improvement came from Skylake, I would say, for our business, at least.

The rest of it stayed about the same so we have seen an upside coming from Skylake and majority of these will be shipped in Q4. In terms of the availability of the process around timing of different SKUs, I feel we shouldn't be the ones to comment on that; it should be Intel. But there is reasonably solid demand for Skylake, as far as what we see from our customers at this juncture.

Jose Carey - *Oppenheimer & Company - Analyst*

Okay. Thanks. Then any updates on the lawsuit?

Necip Sayiner - *Intersil Corporation - President & CEO*

No.

Jose Carey - *Oppenheimer & Company - Analyst*

Okay. Thanks so much guys.

Operator

John Pitzer, Credit Suisse.

John Pitzer - *Credit Suisse - Analyst*

Good afternoon, guys. Thanks for letting me ask the question. Necip, just a follow-up on the compute business, up a couple million in the September quarter. Then you said in your prepared comments, flat going into December. Given the Skylake ramp and your content increase, not the bad numbers, but I would've expected maybe a little bit better numbers.

Can you help me understand the discrepancies? Is it still that the market is suffering from not enough Skylake supply or just tell me how you see that playing out? And does that imply March could actually be up again as availability of Skylake gets better?

Necip Sayiner - *Intersil Corporation - President & CEO*

We're going to see continued increase in volumes if the prior process of generation transitions are any guide. Looking at the prior transition with Haswell and Broadwell, when I look at what we have shipped in Q3 with Skylake, actually it's pretty reasonable start. We continue to see demand for prior-generation architectures, Haswell and Broadwell in Q4.

We're calling for a flat outlook for computing, but if the ratio of the orders from our customers between Haswell and Skylake changes, as you allude to, of course, that has positive ramifications from a revenue standpoint, but that is not the picture we have today from our customers.

John Pitzer - *Credit Suisse - Analyst*

That is helpful, Necip. But then my second question, a lot of increased speculation about M&A in the semiconductor space overall. You guys made a small acquisition in the September quarter. I'm wondering if you can just help us understand your philosophy on potential targets that you are looking at?

More importantly, do you feel as if you need to get to a certain scale size not to be disadvantaged relative to some of your competitors? Or is it your sense that scale is not a significant issue here and you can be successful even though you are a smaller scale than some of the bigger players out there?

Necip Sayiner - *Intersil Corporation - President & CEO*

That is a very pertinent question, John. In the first phase of our transformation, we made it clear that we were not going to entertain any M&A and complicate the matter of for us. At this juncture, we are through that phase. The business is on a solid footing from an execution and financial standpoint, so we are at the point where we can start entertaining acquisitions.

But having said that, this isn't also the primary objective or a priority for us today, and while we will be open to them, I don't feel that our size, just by itself, is an obstacle to competing and winning. Some of the sockets that we are talking about, we have won and some of them are higher volume with prominent customers, or what is down the pike that we are competing for and are about to win on the infrastructure side.

We are winning those sockets against competitors that are significantly larger than us, but we're able to win those sockets because we are bringing some tangible advantages in innovation. I'll conclude, though, by saying we're very cognizant of the environment.

It is an industry that is consolidating and at a relatively fast pace. This is something we're going to have to contend with, and a few years down the road, it is hard to imagine a company with our current size and scale to remain. So we're going to have to see which end of this we will be from a consolidation point of view.

John Pitzer - *Credit Suisse - Analyst*

Necip, that's helpful. Maybe if I could sneak just one quick one in. You talked about in your prepared comments this being relatively short-lived downturn. Is the implication there, especially what you're talking about, with inventories being in better shape and some product-specific Company ramps, would you expect March to at least be in line with seasonal or how are you thinking about the beyond December time period?

Necip Sayiner - *Intersil Corporation - President & CEO*

As much as possible, I'm going to try to refrain from giving forward guidance on Q1, but I'm going to acknowledge some of the dynamics. We are the midst of some favorable product cycles and we do expect some of the weakness in some end markets that's been persisting for some time to start abating and start normalizing. So that is all favorable.

The sell-through data we see in the channel is also giving us some confidence that things are not getting incrementally worse and things are stabilizing. So that's some of the data behind the statement we made about this being a relatively short inventory production, especially because we have gone to great lengths in Q3 to correct it quickly.

John Pitzer - *Credit Suisse - Analyst*

Thank you, guys. Appreciate it.

Operator

Chris Caso, Susquehanna Financial Group.

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

Thank you. Good afternoon. The first question, I just wanted to clarify some of the comments on inventory. I know you talked about the inventory reduction being behind you. Is that reflected in this quarter's guidance such that your guidance this quarter isn't anticipated taking additional inventory out of the channel? And if that's the case, can we consider this revenue run rate as the true demand run rate for your customers' consumption as we are seeing things right now?

Necip Sayiner - *Intersil Corporation - President & CEO*

I'd say that there is no extraordinary steps we're taking this quarter to reduce it further. It might come down a little bit more in the quarter, but certainly not at the levels we've seen in Q3. We are going to be reducing our on-hand inventory, as Rick alluded to, and that has quite a bit to do with the margin expectations that we have for Q4.

In retrospect, we did expect a decline in Q3 in gross margins and didn't materialize. We came in about flat, so now we're going to see it in Q4, as some of those wafers come out their internal fab. But one last comment.

I'm not suggesting that where we are at infrastructure or industrial end markets is a normalized level of demand. What we might be shipping in, might be commensurate with consumption, but that level of consumption is somewhat muted than what we would consider normal. So I do expect over time demands from customers, both in infrastructure space and industrial space, to normalize some time in 2016.

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

Understood. That leads into my follow-on question, which is regarding production expectations for the first quarter. You've given some of your comments on Q1. Obviously, we don't know what Q1 will be like at this point.

But do you feel that, based on what you see today, the internal inventory reduction that you will achieve this quarter will be sufficient enough to remove some of the manufacturing variances into Q1? And perhaps you could give us some idea of the impact of those manufacturing variances on margins?

Rick Crowley - *Intersil Corporation - CFO*

Well, as we said, Q1, we don't want to really predict what is going to happen because we don't have enough visibility, and a lot of it really does depend on the shape or the recovery of, say, in the industrial and the analog market that Necip alluded to that we would expect in 2016. Our in-house inventory should be in a pretty good balance based on what we perceive to be current demand levels, and when we exit Q4, exit the end of the year.

But what the actual levels of production will be in Q1, it is too early to say what that effect will be a variances. Although I would say that if you look at the industrial and infrastructure end market, the demand typically improves seasonally in Q1. If it does, that should help us from both a mix and a capacity utilization standpoint, if we'd normally see when some type of seasonal uplift in those end markets.

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

Right. And I was going to ask a follow-up question on seasonality. You've answered it for industrial and infrastructure, but typically the consumer and the computing segment would be down, and perhaps that could be buffered by some of the design ramps if that should continue into the first quarter?

Necip Sayiner - *Intersil Corporation - President & CEO*

Yes. That is the trade-off. We're not at a point where we can quantify which one will dominate in Q1, but you have the dynamics right, Chris.

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

Great. Thank you.

Operator

Atif Malik, Citigroup.

Atif Malik - *Citigroup - Analyst*

Hi. Can you hear me?

Necip Sayiner - *Intersil Corporation - President & CEO*

Yes.

Atif Malik - *Citigroup - Analyst*

Thanks for taking my question. I apologize for the bad connection earlier. Similar to John's question earlier. I would've expected a better revenue guide on the computing segment. Can you talk about any share shifts happening in the market or pricing pressures between you and Rich, taken on? Can you talk about share shifts?

Necip Sayiner - *Intersil Corporation - President & CEO*

There's one that is favorable to us because of the Skylake transition. In Q3, we have seen a double-digit increase in revenue in computing. That is consistent with what you might have seen from others in computing space. The overall C&C number is down 1% sequentially, but I thought I was clear on the mix between computing and consumer.

Atif Malik - *Citigroup - Analyst*

Okay. Then in the industrial infrastructure segment, can you talk about the bookings here in the month of October? Are you expecting book-to-bill to be a positive or more than 1 in your December quarter?

Necip Sayiner - *Intersil Corporation - President & CEO*

I have no way of forecasting bookings. I wish I could. But we had a good start into the quarter so far. That's all I can report.

Atif Malik - *Citigroup - Analyst*

Sounds good. Thanks.

Operator

Harsh Kumar, Stevens.

Harsh Kumar - *Stephens Inc. - Analyst*

Hey, guys. I had a quick question maybe for Rick. Rick, you guys had free cash flow of about $33 million. I was curious about the composition of where the cash is generated. How much of your total cash flow from operations, for example, comes from the US in a typical quarter, how much from abroad? And of the cash you have, how much of it is onshore versus abroad? Just curious?

Rick Crowley - *Intersil Corporation - CFO*

We ended Q3 with about $50million of cash onshore, and the rest offshore. If you look on a run rate basis, we're generating anywhere, I'd say, from 30% to 40% of our operating cash flow in the US and the rest is offshore.

Harsh Kumar - *Stephens Inc. - Analyst*

Got it. Okay. Thanks. That is it from me.

Operator

Craig Ellis, B. Riley.

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

Thanks for taking the follow-up. Necip, I wanted take a step back and just follow up on something that you've been highlighting recently, and that's the performance of the transition businesses and the investment businesses. It looks like from what you're saying that you're seeing some nice strength in some of the investment businesses like automotive and others. Where will we be at the end of this year with transition businesses and how much of a headwind will they be as you look at growth in 2016?

Necip Sayiner - *Intersil Corporation - President & CEO*

We are -- probably turned the corner in the way we defined the transition business for you all in the past, combining computing and some of the low-margin. Computing is turning into a modest tailwind for our business at this point, with the higher content on Skylake, even with some modest expectations of continued decline in units. On the consumer side, we're pretty much done with exiting the low-margin businesses, so that is very little, if any, in our quarterly run rate in Q4, so that is behind us.

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

Thank you.

Shannon Pleasant - *Intersil Corporation - IR*

All right. If there are no more questions, this now concludes our call. Thank you very much for joining us today.

Operator

Ladies and gentlemen, that concludes today's conference. You may now disconnect. Have a great day.

THOMSON REUTERS