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ISIL - Q1 2016 Intersil Corp Earnings Call

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OVERVIEW:

Co. reported 1Q16 revenue of $129.3m, GAAP net income of $11.8m and GAAP EPS of $0.09. Expects 2Q16 revenue to be $130-136m, GAAP EPS to be $0.08-0.10 and non-GAAP EPS, excluding amortization and stock compensation, to be $0.15-0.17.

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Intersil first quarter earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session, and instructions will be given at that time. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Ms. Shannon Pleasant, Vice President of Corporate Communications. Ma'am, you may begin.

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 will have a question and answer session. Our earnings press release and the accompanying financial tables are available on the Investor Relation section of our website on IR. Intersil.com. This call is also being webcast and a replay will be available through May 11th.

Please note that the comments made during this conference call may include forward-looking statements subject to risk and uncertainties that could cause our actual results to vary. These risk factors are discussed in detail in our filings with the Securities and Exchange Commission. Also the non-GAAP financial measurements that are discussed today are not intended to replace the presentation of Intersil's GAAP financial results. We are providing this information because It may enable investors to perform meaningful comparisons of operating results, and more clearly highlight the results of core ongoing operations. Non-GAAP financial measures referenced during today's call can be found in the reconciliation of GAAP to non-GAAP results provided in today's earnings press release. I will now turn the call over to Intersil's President and CEO, Necip Sayiner.

Necip Sayiner - *Intersil Corporation - President, CEO*

Thank you Shannon. Hello everyone. First quarter results reflect a slower start to the year than we were anticipating, with consistent performance across the board. Revenue of $129.3 million, was up 2.1% sequentially. Much better than seasonal norms. Gross margin increased sequentially, operating expenses remained well managed, and for the 11th quarter in a row, we achieved 20% operating income. Design win traction is a key metric in assessing the health of our revenue pipeline, and our prospects for long-term growth.

Q1 did not disappointment withthe number of design wins up 30% for the Company. Demand trends have also been improving. Particularly encouraging is the robust demand we're observing for I&I products as we enter Q2. I will provide more detail on the business after Rick reviews the financial results. Rick.

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

Thank you Necip. First I will summarize the GAAP results. First quarter GAAP gross margin was 58.8%. A 120 basis points sequential increase. Total first quarter operating expenses increased on a sequential basis to $60.8 million, with R&D investment of $33.7 million, and SG&A expense of $23.5 million. GAAP operating income increased year-over-year but declined slightly on a sequential basis to $15.2 million, or 11.8% of revenue. The Q1 GAAP tax rate was 20.2%, resulting in net income of $11.8 million, and earnings per share of $0.09.

On a non-GAAP basis, first quarter gross margin of 59.1%, increased by 130 basis points sequentially. This was ahead of our expectations, driven by a favorable mix of C&C, strong automotive performance, and lower manufacturing variances. 90 days ago, we stated that we expected Q4 would be the low point for our utilization, and that has proven to be the case. With Q2 mix favoring our I&I business, we expect to see further sequential improvement in gross margin. Operating expenses were up as anticipated to $50.6 million, but were still below year ago levels. R&D activity increased, driving investment to $30.6 million in Q1. SG&A expense declined to $20 million. We expect operating expenses to be up again seasonally in Q2, due to our annual raise cycle, as well as an increase in new product development costs, and some nonrecurring expenses, related to technology and development, and sales and training. We believe operating expenses in the second half of 2016 will be relatively stable to Q2 levels. Q1 non-GAAP operating income increased sequentially to $25.8 million, or 20% of revenue. The first quarter non-GAAP effective tax rate was 16.2%. Non-GAAP net income was $21.2 million. In Q1 resulting in non-GAAP earnings per share of $0.15. We expect our non-GAAP tax rate will remain in the 16% range in Q2, and non-GAAP share count will be about 141 million shares.

Turning to the balance sheet, quarter ending cash and cash equivalents increased once again to $254 million. Accounts Receivable balances increased by $6 million sequentially, and Days Sales Outstanding were consistent with historical averages. On hand inventory levels declined for the fourth consecutive quarter, ending at $64 million, or 110 days. Q1 free-cash flow remains solid, and we returned $16 million to shareholders through our high yielding dividend. In summary, Q1 was a very solid quarter, with improvements in the demand environment, and strong operational execution, contributing to an encouraging start to the year. Necip.

Necip Sayiner - *Intersil Corporation - President, CEO*

Thank you Rick. Let's start with our C&C business, which achieved year-over-year growth for the second consecutive quarter. Revenue of $47.1 million was up over 8% compared to Q1 2015. C&C represented 36% of company revenue, down 1% sequentially, much better than what is typical of a seasonal first quarter. Computing revenue declined as expected in Q1. With seasonal trends somewhat offset by the transition to Skylake. Skylake adoption has muted the impact of declining PC units, because of higher ASPs, but the transition has been slower than what we have experienced in previous generations. The mix of Skylake did increase during the first quarter, but only modestly, and the ramp continues at a very measured pace into Q2. We believe this will result in flattish computing revenue in the second quarter. On the consumer side, business is on track, with ramps in new mobile platforms accelerating during the first quarter. New product revenue is being driven by leading tablets and prominent smartphone wins. Securing these design wins in the presence of large incumbents, demonstrates Intersil's unique capability, and growing relationships in the mobile market. We are focused on opportunities where is we are highly differentiated, and customers value the performance we provide. We target markets that span multiple product generations with limited integration threats. For example, we recently announced the first USBC compliant charger, capable of supporting buck and boost mode for 1 to 3 cell lithium ion batteries in ultrabooks, tablets, and powermax. The single chip solution replaces traditional two-chip charger solutions, extends battery life, and reduces customer bill of material costs by up to 40%. In the near term, we expect to see some digestion from the strong Q4 and Q1 ramps, with resumption of growth in the second half of 2016. Taking all of the Q2 dynamics into consideration, we expect C&C to be down low single digits sequentially. I&I revenue grew 4% sequentially, at the high-end of our expectations,comprising 64% of company sales and reversing declines that persisted over the last year. While it is still premature to declare the I&I end markets healthy, giving demand is still below year ago levels, the pace of recovery is better than what we had anticipated 90 days ago. The biggest success story in I&I was automotive in Q1, which up 28% year-over-year. Q1 Automotive revenue was another record, increasing to 14% of Company revenue. We have been focused on building up our automotive power portfolio to increase our content per vehicle.

You can see the evidence of that in our new product introductions. Recently, we introduced new automotive boost controllers to support all of the amplifiers, start stop systems, and headlamp LEDs. They support wide input and output ranges, and deliver greater than 95% efficiency. Numerous on-chip protection features keep the power supply safe under all start-up conditions. We also introduced a new pin-compatible buck regulator family, for infotainment head units and ADAS applications, that address the load requirement of single, dual, and quad core processors. This enables car makers to deploy a single footprint for entry level to luxury car models. Highly reliable and efficient, these solutions offer customers a compelling value proposition. Historically, with video decoders alone, Intersil's content per vehicle has been about $4 to $5. With additional power content in the infotainment console and the cabin, the dollar content more than doubled. For hybrid electric vehicles, where we can provide multicell balancing as well, the content steps up yet again. As you can see, the automotive business is going to continue to be a very strong element of our long-term growth story. In Q2 we expect that continued demand for our video decoders in rear-view cameras, combined with growing opportunities in China and Korea in particular, will contribute to further strength. I&I power, which was 19% of Company revenue was also up sequentially for both infrastructure and industrial applications. I am pleased with the progress we're making in expanding our portfolio, particularly with controllers. For example, we recently introduced new hybrid controllers that are based on our high performance analog controlled loop, but also incorporates support for a digital interface. They're able to deliver better performance in a smaller footprint than competing solutions, while offering customers a familiar design flow. Our strategy in I&I Power has been to intersect key technology transitions to increase our share.

One such transition is the adoption of digital power conversion in data center, where Intersil is one of very few companies able to help customers realize measurable power savings. This includes both 12-volt and the latest 48-volt configurations, where we have meaningful design wins in both types of platforms. Our content is increasing as well. We offer both single and multiphase controllers for core and point of load power, as well new, companion smart power stages. Together, this increases our content as much as five-fold in server platforms that are slated to start shipping in early 2017.

Moving on to industrial analog, which represented 21% of Company revenue, we saw sequential improvement here as well. Growth contributed to both higher utilization, and a higher margin I&I mix. Supporting the gross margin expansion during the quarter. This is a business that most closely follows the macro demand environment. So we view this sequential growth as a good sign of improving health in the long cycle markets. We expect our industrial analog business to continue to improve in the second quarter. And lastly, Aerospace was 10% of revenue in Q1, down sequentially, which is not atypical of this somewhat bumpy business. We expect new wins in aerospace to take off in Q2, and contribute to a return to sequential growth. Given the positive dynamics we have discussed, we expect all of the I&I subcategory, automotive, power, analog, and aerospace, to be up sequentially in Q2. In total, I&I is expected to be up mid-to high single digits. We're feeling good about our business, given better end market dynamics, and an increasing proportion of new business driving revenue growth. For the second quarter, we expect revenue in the range of $130 million to $136 million, based on a more favorable product mix, we believe grass margin will increase by 50 to 75 basis points sequentially. Non-GAAP operating expenses are expected to be in the range of $52 million to $53 million. We anticipate GAAP earnings of $0.08 to $0.10 per share. Earnings per share on a non-GAAP basis, excluding amortization and 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 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). Our first question comes from the line of Tore Svanberg with Stifel, your line is now open.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Yes, thank you, and congratulations on the results. First of all, Necip, can you talk a little about your relative visibility going into Q2, it does sounds like the I&I will be up sequentially, but just sort of from a backlog coverage perspective, how do you feel about visibility going into the June quarter?

Necip Sayiner - *Intersil Corporation - President, CEO*

We've closed the first quarter with a book to bill of just over 1. We've had pretty stable bookings so far, quarter to date. We looked at the channel inventory, and it remains lean, with no noticeable changes from the year end. We're seeing orders come inpretty broadly, across all of our segments. So far everything is pointing to reasonably good sequential growth for our I&I business in Q2.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Very good. You talked about the design wins being up 30%, that's usually a good proxy for the growth that is to come. With that, would those design wins be broad based across all of these separate business units, and does any of that give you confidence that your C&C business could experience some growth in the second half of the year?

Necip Sayiner - *Intersil Corporation - President, CEO*

Yes. There are two dimensions to the design win traction that I would like to elaborate on. One is on the C&C side. These are generally proliferation of our product into the customers we have already won. Our products are being designed into more models and/or some of the newer products with higher content and functionality are being designed into follow-on generations. By and large, however the large increase in the number of design wins driven by the broad based business coming from I&I side. We see this in power, we see this in our analog business. We see a lot of strength in our automotive business, both for video decoders and power products. So I think above all, beyond the large increase in design wins, I am most pleased with the breadth of the design wins we are registering.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Sounds good. Just one last question on the automotive business. It just continues to increase as a percentage of revenue, it sounds like you have a little bit of an inflection point going on right now, with auto content doubling. Then obviously, once we get to more, the power, or the battery part of that content, when exactly should we expect that to be an inflection point for the Company? Are you already starting to see that now, or is that more to come down the road?

Necip Sayiner - *Intersil Corporation - President, CEO*

The so-called BMS revenue is in very early stages at this point. This is with our multi-cell balancing product. The auto power business is approximately a quarter of the business. Now that's much more diverse in terms of the targets both in infotainment console and in cabin. We have still an inflection point in this business to look forward towith 2018 model years. This will come in video decoders, as well as power, and as well as multicell balancing, so we haven't really seen the full benefit of this inflection due to new product investments yet.

Tore Svanberg - *Stifel Nicolaus - Analyst*

Sounds good. Very nice quarter. Thank you.

Necip Sayiner - *Intersil Corporation - President, CEO*

Thank you, Tore.

Operator

And our next question comes from the line of Cody Acree with Drexel, your line is now open.

Cody Acree - *Drexel Hamilton - Analyst*

Thank you forletting me ask a question. Maybe just finishing up on the visibility question. After some digestion of the consumer products here in the second quarter, and then on the computing, also talking about a bit of a pickup in the second quarter. What is giving you some comfort that those markets that are going to be a little softer here in Q2 are likely to improve in the back half?

Necip Sayiner - *Intersil Corporation - President, CEO*

Hi, Cody. We have had a very strong ramp at the end of 2015 into Q1, with some notable platforms ramping for product announcements towards the end of the quarter. It isn't unusual for our customers or the supply chain to order quite a bit ahead of that product launch, so we've seen really very meaningful quantities in Q1, exceeding our expectations. So we will see in the early part of Q2 especially, a little bit of digestion of the product launch. Second half for those platforms always tended to be meaningful and stronger,based on the forecasts that we've seen from our customers, this looks to be the case this year. There are some additional proliferation of products inside those customers I alluded to, will also start kicking in in the second half of the year. So for us, at this stage with the new products coming, this is really much more of a share/gain story than relying on the strength solely of the end markets.

Cody Acree - *Drexel Hamilton - Analyst*

And on the computing side, you talked about that ramp of Skylake being a bit slower than expected, one, to what do you attribute that, and two, does that give you any comfort that this transition where you are picking up some market share in the increase of dollar content have some legs that might last you well into 2017?

Necip Sayiner - *Intersil Corporation - President, CEO*

In terms of units, the expectations that we had coming into the quarter, Q1 was not that far off, in terms of actuals. But the mix was different, we have seen less Skylake than we anticipated. There are some very specific platforms that will ramp in the second half, with our product system, large customers so that should certainly increase the mix of Skylake in our computing business. Perhaps the silver lining in the slow adoption of Skylake, is that it is what you are alluding to, that increase in content will certainly have legs into the end of this year into next.

Cody Acree - *Drexel Hamilton - Analyst*

Then lastly, Rick, with C&C being a bit lighter here in Q2, and maybe it picks up in the second half, how do those moving parts impact the gross margins for the remainder of the year?

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

Yes, Cody, we said on the call in January, we expected our gross margin improvement for this year to be closely tied to the I&I recovery. If you recall, we went through a pretty big inventory depletion, and lower demand in I&I in the second half of last year. In Q1, I&I demand improved, so the demand and the inventory have come back more into balance. So looking forward, we have got it up 50 to 75 basis points, most of that is mix related, because I think now that the inventory is more in line with demand, the manufacturing variances are expected to become a smaller factor, leaving mix to being the biggest piece. For the rest of the year, it is really the same thing. As I&I demand moves, it should help, and improves, it should help our gross margin moving forward.

Cody Acree - *Drexel Hamilton - Analyst*

Okay. Thanks guys. Good luck.

Operator

Our next question comes from the line of John Pitzer with Credit Suisse. Please go ahead.

Steve Jiskowski - *Credit Suisse - Analyst*

This is Steve [Jiskowski] on for John. I had a question regarding your data center business, so last quarter you noted some design wins with hyperscale data center providers. I was wondering, how this business was tracking, if could you provide us with a little bit more color, what you think is a sustainable long-term growth rate, and if it could rival the successful growth you've seen in your auto segment?

Necip Sayiner - *Intersil Corporation - President, CEO*

The design wins that we alluded to are moving forward in that we continue to support our customers through their production builds. These will hit production when Intel's next gen Skylake server processor hits, currently expected at the very end of this year, or early 2017. So this is certainly moving on track with all of the engagements we've been able to secure. As I alluded to in my prepared remarks, it's a sizable addressable market for us, with 10-plus million units of servers shift every year, and our content ranging from $30 to $50, or even higher depending on the configuration, or the number of processors on the server board. This is a $0.5 billion opportunity for us for the product set. I think for our first generation offering, our share is likely going to be rather modest, but for that kind of addressable market, I think it will be a measurable improvement in revenues for our infrastructure business next year.

Steve Jiskowski - *Credit Suisse - Analyst*

Great. Thanks. As my follow-up I guess, you noted some improvements in I&I segment, I was wondering if you could give any color on how that business, particularly auto, performed by geography, and how that factors into your long-term outlook?

Necip Sayiner - *Intersil Corporation - President, CEO*

Okay. In general. In Q1, all of the regions were up, albeit modestly, led by North America. When I look at Q2, North America and Asia PAC will be up significantly driving that sequential growth. The product line segmentation in I&I is across the board. We have touched on automotive, seeing a lot of strength, it will be another record quarter in Q2. We have seen a little bit of recovery in China, LTE deployments, and we're levered to that with some of our power products. We'll see a meaningful start of ramp for a sizable project in our Milaro business in Q2. Also just the seasonal strength in industrial contributing. So it is a pretty broad sequential improvement, both in terms of product lines and geography.

Steve Jiskowski - *Credit Suisse - Analyst*

Thank you.

Necip Sayiner - *Intersil Corporation - President, CEO*

You're welcome.

Operator

Our next question comes from the line of Craig Ellis with B Riley. Your line is now open.

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

Thanks for taking the question, and nice job on the first quarter, guys. Necip, my first question is just a longer term question of the nature of the consumer business. Can you just either quantitatively or qualitatively, characterize the degree to which your OEM and platform penetration is broadening, as you look at where you are a year ago and where you are now, and what the design ins foretell where you will be from around a year from now?

Necip Sayiner - *Intersil Corporation - President, CEO*

Sure. I'll give it a try. We have been expecting some of these new revenue for a while now, the engagement on some of these platforms date back almost two years. So I think they've come a long way in securing not only this generation of sockets with some of these customers, but alsothe follow-on generations for 2017 already. With some of our new initiatives on handsets, I am pleased to see the proliferation of our product inside some of those customers. We've had a few customers where we've had success in China that we reported on last year. Their success in their marketplace has been mixed. But some who have been successful in increasing their share, and have a global footprint, those customers have chosen to put more of our products on their new platforms, so that is certainly helping. So those two combined really contributed to a record revenue for the new products in Q1. And not withstanding the digestion we're talking about in Q2, I expect the trajectory to continue.

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

And do you see other meaningful new customers coming into your mix based on the design wins that you have?Or as you look at the back half of the year, where you would be next year with the follow-on platform engagement, is it the current set that you would have?

Necip Sayiner - *Intersil Corporation - President, CEO*

So thus far, what we feel secure about in terms of having notched design wins, a large majority of that revenue are going to be driven with existing customers. Just on more platforms and/or on more content. There are additional design wins to broaden the customer base. But I would have to say the majority of the revenue is driven by the larger platform wins.

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

Okay. Thank you. And then the follow-up question is an intermediate term question. In the business showed nice C&C growth year-on-year this year. Then it looks like Industrial & Infrastructure could be on its way in another couple of quarters. As you look at the business, and recognizing we're in a muddled macro with a cyclical industry, can you characterize your confidence that the two primary segments will be back to year-on-year growth this year, and with the risks that are out there, be that they wouldn't get back to year-on-year growth. Thank you.

Necip Sayiner - *Intersil Corporation - President, CEO*

Yes. On the C&C side, the first task will show certainly year-on-year growth. And the revenue on C&C was pretty flat throughout the year last year. So as with the second half ramps we're alluding to, I think it's almost a foregone conclusion to suggest that we'll see year-on-year growth for C&C.

On I&I side, we were not that sure about the pace of recovery when we reported 90 days ago. 90 days into the year, the pace is a little ahead of our expectations. The sequential improvement into was a little ahead of what we would have projected. And it's breadth and the lean channel inventories gives us some confidence that this is a sustainable recovery. And if we don't see any big impact on a global basis to the macro. There is a good chance that C&C can also show a year-on-year growth when all is said and done.

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

Thank you, Necip.

Necip Sayiner - *Intersil Corporation - President, CEO*

Thank you.

Operator

(Operator Instructions). Our next question comes from the line of Ross Seymore with Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Hi guys. Thanks for letting me ask a question. Similar question to what Craig just asked. If I look back in the last year, year and a half, somewhere in the low to mid-90s is where your I&I segment had peaked out. Can you talk a little bit about what the drop has been cause by the sub-segments with that, and anything that would preclude you from returning to that low to mid-90s range?

Necip Sayiner - *Intersil Corporation - President, CEO*

So that is very similar to the way that we look at this. If you look at 2013, the I&I business was about $85 million run rate. 2014 it was up at $90 million. That was a good year for some of our end markets. In 2015 it went back to about an 85 run rate. And now we're somewhere in the 85 to 90 range. So I think the best way to look at this, in my opinion, is the observation that unlike the C&C business, where in I&I we don't really have the benefit of new product revenues yet, the level of revenue has largely followed the ups and downs of the macro. It went up in 2014, in a good year. It came down in 2015,it was a more challenging year. Now we're seeing more signs of stabilization and recovery with the improvement. So I think until we start delivering on new product revenue on I&I, that will remain the case. I am optimistic that with the new product slated to generate revenue for us beginning of 2017, we'll start disconnecting from, in a positive way from the ups and downs of macro in I&I. But that's been the past three years history of I&I revenue.

Ross Seymore - *Deutsche Bank - Analyst*

Great. That's very helpful. I think switching over, Rick, one for you on the margin side of things. If you are talking about with the seasonality, plus Company specific growth in C&C in the back half of the year does occur, is it fair to say that places some pressure on the gross margin in the back half of the year versus the first half of the year? Maybe another way to look at it, how do you think of the year-over-year gross margin trajectory, given what you guys think is going to happen in revenue mix in the back half of the year?

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

I think the C&C anticipated growth will not be as much of a headwind as you might be thinking. Some of the quality of these design wins that are ramping, that have ramped and will continue, have good margins for us. Of course, computing. They sense that grows with the Skylake, both seasonably and Skylake ramp, a little bit of a headwind. But the overall volume of revenue at solid margins will help. So I would anticipate that we should be able to show solid year-over-year comparisons in the second half of the year in gross margins.

Ross Seymore - *Deutsche Bank - Analyst*

Great. If I can just sneak in one last one quickly. The Taos case, can you give us an update, I think there was a legal finding with the jury today? I know you have reserved against that to a certain extent, but any update on today's news would be helpful?

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

Sure. After the jury verdict over a year ago, both the plaintiff and Intersil's defendant filed motions with the court. So this order today is really the Judge's ruling that sets in motion the process for the court's final judgment. The amounts are in line with our current accrued liabilities. So pretty much as we anticipated a year ago. We feel the claims are without basis, and we will appeal the ruling, and that process will take 12 to 18 months after the final judgment comes down, which should be relatively shortly.

Ross Seymore - *Deutsche Bank - Analyst*

Great. Thank you.

Operator

Our final question comes from the line of Betsy Van Hees with Wedbush Securities. Your line is now open.

Betsy Van Hees - *Wedbush Securities - Analyst*

Good afternoon, and thank you for taking my question. Congratulations on the solid quarter. I was wondering if we could talk a little bit about seasonality trends. Looks like we have got a couple of headwinds in the competing consumer business in Q2, if you could talk about what we would expect for broader seasonal trends in Q3, in both the I&I business, given that your business has changed so much from what it was a year ago today?

Necip Sayiner - *Intersil Corporation - President, CEO*

Hi, Betsy. Historically, the I&I business was about flat Q2 to Q3. And there was some level of decline into Q4. I don't expect this to be very different this year. One potential difference could be in our analog business, where we see a second half decline over the first half. But since we are coming out of a pretty weak period, the past few quarters, and this business is in a recovery mode, we may not see that step down in our analog business in the second half. That could be one pleasant surprise. On the C&C side, typically the third quarter shows a notable improvement in revenue. Again, while we don't have great visibility into the demand of our customers, or their end customers, based on what we are seeing from their polls and forecasts, we should see a repeat performance this year.

Betsy Van Hees - *Wedbush Securities - Analyst*

And then could we potentially, given the weakness of Skylake in Q1, and then it looks like it may be Q2 as well, maybe sort of asnap back in the Q3 timeframe on top of what would be the typical, the computing business, or is that too hard to tell at this point in time?

Necip Sayiner - *Intersil Corporation - President, CEO*

I think it is beyond our visibility. That can certainly happen. In I think the most optimistic case. But so far the pace of adoption has been slower than prior transitions, so we would plan on a more modest uptake, but what you're pointing out is certainly possible.

Betsy Van Hees - *Wedbush Securities - Analyst*

Then my last question has to do with inventory levels. Since the computing business did track inline with your expectations, but mix was different, is there any concern that you have had historically problems with inventory, and had digestion, if there are any inventory issues or that you have the right mix, not only in the computing business, but also in consumer and I&I, so that the inventory that is sitting out there will be able to sell through, we don't have any repeats of the unfortunate last year?

Necip Sayiner - *Intersil Corporation - President, CEO*

Well, the channel inventory was well within historical norms for us. Where we had seen some uptick in channel inventory on the C&C side, and primarily associated with the ramp that we were alluding to, that our distributors were supporting. So some of that we know has already sold through. We are being very careful, particularly with our distributors in Taiwan, in managing their inventory in the computing segment. And thus far I think we've been able to maintain it within acceptable norms.

Betsy Van Hees - *Wedbush Securities - Analyst*

Thanks so much for taking my questions. And once again, congratulations on a really great quarter.

Necip Sayiner - *Intersil Corporation - President, CEO*

Thank you, Betsy.

Operator

Thank you, and that is all the time we have for questions. I would now like to turn the call back do to Ms. Shannon Pleasant.

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

Thank you for joining us. This now concludes today's call.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude today's program. You may now disconnect. Everyone have a great day.