

4Q Semiconductor Earnings, Week 1—Mañana, Mañana ***Bad Numbers, But Good Stories***

The 4Q11 earnings season kicked-off in earnest last week with reports from big-guns like Intel, IBM, Microsoft and GE. While it is still early in the season with only eight of the 103 Tokeneke Research semiconductor companies reporting thus far, I see three observations that stand out: business conditions are weak, but may have bottomed; investor expectations are generally consistent with business conditions; and company managements are optimistic despite current challenges. The numbers weren't that good, but the positive vibes resonated across the investor class as the SOX index rallied by +8.1% last week outperforming both the NASDAQ at +2.8% and the S&P500 at +2.0%.

The week started off with a rally across the sector after legitimately good news from LLTC: the company slightly exceeded 4Q revenue expectations by posting a sequential decline of -10.8%, but then guided for expected sales growth of +4+8% above the high-end of expectations after two quarters of double-digit declines. It called an inflection point in business with improving customer orders since December, and weakness across the board except for 'certain' networking customers (CSCO, in my opinion) and strength and share gains in automotive markets. And, oh, buy the way: it raised its dividend for the 20th consecutive year, and reported positive cash flow from operations for the 103rd consecutive quarter. Let's just say investors were happy after LLTC's release of numbers late-Tuesday and mid-day conference call on Wednesday. In fact, the vast majority of last week's gains for the issue and sector occurred on Wednesday.

The rest of the news last week wasn't nearly so positive—but it was good enough for investors to largely consolidate Wednesday's gains. (*Note: MU and SMSC announced prior to last week.*)

XLNX also beat expectations (albeit less enthusiastically after lowering them) as sales fell by -7.9%, guided up +2+6% after two quarters of declines, and confirmed networking strength and an apparent bottoming of business conditions. TSM was also came out ahead (even less so) with a revenue decline of -5.4% and guided for a third quarter in a row of declines at -2-0% as smartphone application growth within communications accounting for 53% of wafer outs were able to nearly offset contractions across all other markets. FCS missed big-time due to both market weakness and Thai flooding with sales falling -15.8% for the second straight quarter, but guided up +0+9% due to improving order patterns so far this month—although this quarter's extra, 14-week period probably won't hurt. Struggling Lilliputian ACTS welcomed a new CEO to cratering MP3 sales and no analyst coverage with the shares trading below cash value. SWKS beat expectations on sales falling -2.6% and another -9% this quarter despite the acquisition of AATI, but talked up a really good game of gaining LTE market share and content, and foreseeing a revenue trough this quarter. Investors ate it up and the shares rallied by +21.3% last week. And INTC exceeded its lowered estimates by posting a sales decline of -2.4% and guiding for a less than seasonal -11-4% this quarter, but then raised its capital expenditure estimate for 2012 and guided for 2012 revenue growth in the high single digit percentage. While the cap ex bullishness was tempered by building construction, the annual sales guidance was highly unusual and borderline unbelievable (in my opinion): I don't remember the last time INTC gave annual sales guidance, and the only way to get to those kind of gains requires at least a couple billion dollars in incremental smartphone business diversification—never mind a robust seasonal recovery in its core processor business during the second half of the year. The shares actually underperformed by only gaining +4.9% last week, thereby confirming investor skepticism (in my opinion).

The good news is that chip industry business conditions may well have found a cyclical bottom somewhere in the neighborhood of expectations, and share prices across the sector may have found support from that bottom. Nevertheless, I remain cautious and want to see more evidence—specifically from the 29 chip companies scheduled to announce earnings this week. The non-normal, two-humped distribution of companies reporting results on the next page is also an unusual phenomenon, probably reflecting the curse of small numbers. I think the 'legitimately' better than expected good news from LLTC was goosed by more 'aspirational' good news from the likes of SWKS, INTC and XLNX—and Wall Street clearly bought the story and its vibe over the actual numbers. Let's just see if it all holds together before getting too enthusiastic.

*CY4Q11 Earnings announcements thru January 20, 2012.
Companies sorted alphabetically by ticker across all lists in this report.*

4Q11 Earnings Review

* includes acquisition and/or divestiture

Ticker	Revenue		
	4Q11 (\$ mil)	Qtr-Qtr change	1Q12 Guidance
ACTS	12.3	-19.6%	-27-19%
FCS	339.4	-15.8%	+0+9%
INTC	13,887.0	-2.4%	-11-4%
LLTC	294.3	-10.8%	+4+8%
MU	2,090.0	-2.3%	no guidance
SMSC	106.2	-5.7%	-16-12%
SWKS	393.7	-2.1%	-9%
TSM	3,459.7	-5.4%	-2-0%
XLNX	511.1	-7.9%	+2+6%
Total (weighted):	21,093.7	-3.5%	-8-2.6%
Average Company:		-8.0%	-6.5-2.3%

FCS			INTC	LLTC	
MU			TSM	SWKS	
SMSC				XLNX	
37.5%	0.0%	0.0%	25.0%	37.5%	0.0%
F	E	D	C	B	A
missed/met		mixed		met/exceeded	
37.5%		0.0%		62.5%	
Total: 8 companies with published estimates					

Performance to Expectations Skew

LEGEND

	Grade
+++ exceeded the high-end of the range	A all +++
++ above consensus, within the high-end of the range	B all +
+ slightly above consensus	C all o/+
o met consensus	D mixed -/o/+
- slightly below consensus	E all o/-
-- missed consensus, within the low-end of the range	F all -
--- missed the low-end of the range	

Grade: F	FCS	4Q (13 est.)			1Q		
Rev: ---		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: -		339.4	358.9	350-363	340-370	382.8	360-404
Rev Guide: ---		EPS pf \$0.15	\$0.16	\$0.13-\$0.17		\$0.20	\$0.16-\$0.25
Grade: C	INTC	4Q (42 est.)			1Q		
Rev: ++		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: +++		13,887	13,720	13,500-14,000	12,300-13,300	12,800	12,000-13,930
Rev Guide: o		EPS pf \$0.68	\$0.61	\$0.58-\$0.64		\$0.51	\$0.43-\$0.62
Grade: B	LLTC	F2Q (14 est.)			F3Q		
Rev: +		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: +++		294.3	293.1	280-300	306-318	302.8	290-311.8
Rev Guide: +++		EPS pf \$0.45	\$0.39	\$0.37-\$0.42		\$0.41	\$0.36-\$0.44
Grade: F	MU	F1Q (27 est.)			F2Q		
Rev: --		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: --		2,090	2,140	1,900-2,400	na	2,140	1,900-2,470
Rev Guide: na		EPS (\$0.19)	(\$0.07)	(\$0.24)-\$0.17		(\$0.03)	(\$0.35)-\$0.18
Grade: F	SMSC	F3Q (6 est.)			F4Q		
Rev: ---		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: ---		106.2	107.6	107-108	89-93	104.5	99.5-109
Rev Guide: ---		EPS pf \$0.21	\$0.33	\$0.32-\$0.35	(\$0.21)-\$0.13)	\$0.30	\$0.22-\$0.35
Grade: B	SWKS	F1Q (18 est.)			F2Q		
Rev: ++		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: +		393.7	389.6	375-394	360	348.9	336.9-363.5
Rev Guide: ++		EPS pf \$0.51	\$0.50	\$0.47-\$0.51	\$0.40	\$0.40	\$0.37-\$0.44
Grade: C	TSM	4Q (3 est.)			1Q		
Rev: +		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: o		3,460	3,450	3,430-3,470	3,405-3,471	3,290	3,210-3,360
Rev Guide: +++		EPS* \$0.20	\$0.20	\$0.19-\$0.23		\$0.20	\$0.18-\$0.21
Grade: B	XLNX	F3Q (28 est.)			F4Q		
Rev: +		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: ++		511.1	499.3	493.5-530	521-542	510.7	475-614
Rev Guide: ++		EPS pf \$0.41	\$0.37	\$0.33-\$0.42		\$0.35	\$0.26-\$0.55

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