

1Q Semiconductor Earnings Summary—Week 1

Thrills, Chills and Spills

Wow. What a week. Only 15 semiconductor companies in the Tokeneke Universe announced 1Q earnings during the first week of earnings season, and we've already seen both good and bad surprises, including extreme highs and extreme lows—sometimes even from the same company. And while generalizing industry business conditions from such a small and wildly diverse set of individual data points is problematic at this point, I think it's clear a cyclical recovery is underway. Unfortunately, I also think investors are a little shell-shocked after such a topsy-turvy week.

INTC kicked-off the week late-Tuesday with a solidly positive announcement exceeding published expectations for 1Q sales and EPS, as well as 2Q revenue guidance—including exceeding the high-end of the range of 1Q EPS. But then the shares retreated after rallying ahead of the announcement because they missed the 'whisper' number. I'm all for 'buying on the rumor, and then selling the news,' but gimme a break. Whisper number? Really? After Reg FD, with 42 published estimates on the Street, and estimates subsequently revised upward? It's easier for this fundamental analyst to accept share price weakness attributed to Spanish bonds and US unemployment than 'missing whisper numbers' at this point. Nevertheless, I think INTC encapsulated current semiconductor industry conditions by exceeding expectations and preserving profitability amid a worse-than-seasonally declining 1Q and expectations for meaningful gains this quarter—despite adverse seasonality.

LLTC closely followed INTC with similar share price action after meeting 1Q revenue expectations, exceeding the high-end of EPS, and then slightly exceeding expectations for rebounding sales this quarter. Typical LLTC: solidly profitable and boring.

But then the sparks flew on Wednesday after the close from QCOM and MLNX. QCOM and MLNX are high-flying growth companies out of only four in my Universe that have avoided declining quarterly sales during the cyclical downturn over the last couple quarters, but both delivered notable surprises: MLNX to the upside, but QCOM to the downside.

Big-cap smartphone-darling QCOM solidly exceeded 1Q expectations. No surprise there. But the seasonal speed-bump 2Q was much more significant than investors expected (and frankly, magnified on a relative basis by the strength delivered 1Q), and then a potential shortage of devices built on 28nm process technology from wafer foundry TSMC threatened growth and earnings over the balance of the year. While the 'shortage' of this leading-edge technology is predominantly relative to excess demand rather than curtailed supply (in fairness to TSMC) and has been a factor across the industry for several months at a couple of different companies (AMD, NVDA), the negative surprise disproportionately impacted the company's (admittedly euphoric) outlook. First, by increasing spending to qualify another supplier; and second, by pushing out expected growth—both of which entail risk and uncertainty. The shares crashed by -6.6% the following day.

At the same exact time, small-cap infiniband/Ethernet-darling MLNX blew through the high-end of all expectations for both 1Q and 2Q by reporting sequential revenue growth last quarter of +22.0% and then guiding for growth in a range of +41+47% this quarter on Intel Romley server platform introduction attachments. The shares rallied by +52% the next day—despite a nosebleed valuation (in my opinion).

Next we heard from FCS and CY before the markets opened on Thursday (and investors were still digesting the news noted above). FCS missed 1Q revenue expectations but exceeded in EPS and guidance. Its recovery is already underway, with a sales gain of +3.8% last quarter and guidance for growth of +2+8% this quarter. CY, on the other hand, met revenue and guidance expectations—but significantly exceeded on earnings. But just 'meeting' sales and guidance was an exercise in whip-lash: last quarter's preannounced weakness delivered a sales decline of -23.6%, while a significant snap-back is expected this quarter in the range of +8+12%. Nevertheless, CY shares rallied that day by +11.8% on the promise of continuing growth, while FCS eked a slight gain.

And then came Thursday night. Eight chip companies announced a mix-master of earnings: AMD solidly exceeded expectations; three solidly missed expectations (SNDK, ALTR, LSCC); and four reported mixed results (RMTR, FSL, RMBS, PXLW). But get this: only one out of the eight stocks did NOT get taken out to the woodshed on Friday—and it wasn't AMD. RMTR shares posted a solid gain of +15.0% on the promise of

meaningful business gains over the next few quarters; three issues posted double-digit declines from -12.5-11.3% (SNDK, FSL, RMBS); and four delivered solid single-digit losses from -2.6% (AMD) to -8.4-6.1% (ALTR, PLXW, LSCC). Most of these companies delivered a sequentially down quarter and guided for revenue gains this quarter, except for LSCC expecting back-to-back gains and SNDK and RMBS expecting back-to-back declines.

SNDK was the big news—and it was an even bigger disappointment. Big-cap SNDK is a market and technology leader in the fast-growing NAND flash memory product category. Unfortunately, this only served to accentuate its weakness. SNDK missed expectations across revenue, earnings and guidance: it had already preannounced expected 1Q weakness, and it missed guidance by the low-end of the range. To overly-simplify the company's product and market mismatches: SNDK is not on the Apple bandwagon, and Apple is single-handedly consuming a significant portion of the world's supply of NAND flash memory right now. Oops. SNDK delivered \$1.2B in sales last quarter, but it dropped by -23.5% from the prior quarter and is expected to fall by another -21-13% this quarter.

To claim that investors were shell-shocked last week probably understates the case. Not only were there 15 Tokeneke semiconductor companies announcing earnings full of extremes, exceptions, inflection points and complexities, but we also heard from IBM, MSFT, GE, NOK, STX, CREE, NVLS, LRCX, ASML and UTEK with stories and implications of their own. I don't believe chip sector share price weakness was warranted last week, especially given broader market incremental gains. But I can certainly sympathize with the difficulty investors had trying to digest all the news and announcements.

Yes, it was a dirty and confusing week full of surprises. Nevertheless, I think it is clear that the semiconductor industry has turned the corner to a cyclical business upturn. I also think there are more opportunities than risks of a fundamental valuation nature in shares across the space. Yes, stock picking is critical—especially amid the surprises. But as I've noted over the last few weeks: in my opinion it is becoming increasingly risky to NOT participate in equity markets as this year unfolds.

*CY1Q12 Earnings announcements thru April 20, 2012.
Companies sorted alphabetically by ticker across all lists in this report.*

1Q12 Earnings Review

** includes acquisition and/or divestiture*

Ticker	Revenue		
	1Q12 (\$ mil)	Qtr-Qtr change	2Q12 Guidance
ALTR	383.8	-16.2%	+14+18%
AMD	1,585.0	-6.3%	+0+6%
CY	185.1	-23.6%	+8+12%
FCS	352.2	3.8%	+2+8%
FSL	950.0	-6.2%	+3+8%
INTC	12,906.0	-7.1%	+2+9%
LLTC	312.4	6.2%	+4+8%
LSCC	71.7	2.1%	+0+4%
MLNX	88.7	22.0%	+41+47%
MU	2,067.0	-1.1%	no guidance
PXLW	14.3	-14.9%	-2+12%
QCOM	4,943.0	5.6%	-10-2%
RMBS	62.9	-24.6%	-16-6%
RMTR	15.0	-11.8%	+7+20%
SMSC	89.9	-15.3%	+9+14%
SNDK	1,205.6	-23.5%	-21-13%
Total (weighted):	25,232.6	-5.3%	-1.5+5%
<i>excluding INTC:</i>		-3.3%	-5+1%
Average Company:		-6.9%	+2.5+9%

		FCS			
		FSL			
		MU			
		QCOM			
		RMBS			
ALTR		RMTR	CY	AMD	
SNDK	LSCC	SMSC	LLTC	INTC	MLNX
13.3%	6.7%	46.7%	13.3%	13.3%	6.7%
F	E	D	C	B	A
missed/met		mixed		met/exceeded	
20.0%		46.7%		33.3%	
Total: 15 companies with published estimates					

Performance to Expectations Skew

LEGEND

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

Grade: F	ALTR	1Q (30 est.)			2Q		
Rev: ---		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: -	Rev (\$mil)	383.8	422.7	420-427.6	437-453	451.3	438-475
Rev Guide: -	EPS	\$0.35	\$0.36	\$0.35-\$0.38		\$0.41	\$0.38-\$0.48
Grade: B	AMD	1Q (28 est.)			2Q		
Rev: +		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: ++	Rev (\$mil)	1,585	1,560	1,520-1,600	1,585-1,680	1,590	1,460-1,660
Rev Guide: ++	EPS pf	\$0.12	\$0.09	\$0.07-\$0.12		\$0.12	\$0.07-\$0.18
Grade: C	CY	1Q (14 est.)			2Q		
Rev: o		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: +++	Rev (\$mil)	185.1	185.2	184.3-187.1	200-207	204	194.8-217.1
Rev Guide: o	EPS pf	\$0.12	\$0.10	\$0.08-\$0.10	\$0.17-\$0.28	\$0.16	\$0.12-\$0.20
Grade: D	FCS	1Q (14 est.)			2Q		
Rev: -		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: ++	Rev (\$mil)	352.2	355.9	354.8-360.1	360-380	360	349.8-374.5
Rev Guide: ++	EPS pf	\$0.06	\$0.04	\$0.02-\$0.06		\$0.16	\$0.11-\$0.21
Grade: D	FSL	1Q (10 est.)			2Q		
Rev: --		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: +	Rev (\$mil)	950	961.2	950-971.8	975-1,025	1,020	991.3-1,040
Rev Guide: -	EPS pf	(\$0.04)	(\$0.06)	(\$0.10)-\$0.00		\$0.06	\$0.02-\$0.11
Grade: B	INTC	1Q (42 est.)			2Q		
Rev: ++		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: +++	Rev (\$mil)	12,906	12,840	12,730-13,060	13,100-14,100	13,430	12,820-14,130
Rev Guide: +	EPS pf	\$0.56	\$0.50	\$0.46-\$0.55		\$0.55	\$0.48-\$0.61
Grade: C	LLTC	F3Q (13 est.)			F4Q		
Rev: o		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High
EPS: +++	Rev (\$mil)	312.4	312.4	309.1-315	325-337	329	318.2-345
Rev Guide: +	EPS pf	\$0.56	\$0.43	\$0.42-\$0.44		\$0.47	\$0.44-\$0.50

Grade: E	LSCC	1Q (4 est.)			2Q			
Rev: ---		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High	
EPS: o		Rev (\$mil)	71.7	72.4	72.3-72.6	72-75	77.2	75.2-79
Rev Guide: ---		EPS	(\$0.07)	(\$0.07)	(\$0.08-\$0.07)		\$0.05	\$0.04-\$0.06
Grade: A	MLNX	1Q (10 est.)			2Q			
Rev: +++		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High	
EPS: +++		Rev (\$mil)	88.7	81.6	81.4-82	125-130	83.6	81.1-86.8
Rev Guide: +++		EPS pf	\$0.51	\$0.34	\$0.32-\$0.37		\$0.32	\$0.30-\$0.35
Grade: D	MU	F2Q (25 est.)			F3Q			
Rev: +		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High	
EPS: -		Rev (\$mil)	2,067	2,020	1,900-2,250	na	2,150	1,910-2,350
Rev Guide: na		EPS	(\$0.23)	(\$0.19)	(\$0.40)-\$0.04		(\$0.03)	(\$0.24)-\$0.16
Grade: D	QCOM	F2Q (32 est.)			F3Q			
Rev: ++		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High	
EPS: +++		Rev (\$mil)	4,943	4,840	4,620-5,000	4,450-4,850	4,800	4,610-5,080
Rev Guide: --		EPS pf	\$1.01	\$0.96	\$0.91-\$0.99	\$0.83-\$0.89	\$0.90	\$0.83-\$0.99
Grade: D	RMBS	1Q (1 est.)			2Q			
Rev: o		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High	
EPS: +		Rev (\$mil)	62.9	63		53-59	66	
Rev Guide: ---		EPS pf	\$0.03	(\$0.23)		(\$0.05)-\$0.00	(\$0.20)	
Grade: D	RMTR	1Q (1 est.)			2Q			
Rev: -		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High	
EPS: ++		Rev (\$mil)	15	16.6		16-18	18.7	
Rev Guide: -		EPS	\$0.01	(\$0.01)		\$0.02		
Grade: D	SMSC	F4Q (5 est.)			F1Q			
Rev: -		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High	
EPS: +++		Rev (\$mil)	89.9	91	91	98-102	98	94-103
Rev Guide: +		EPS pf	\$0.05	(\$0.17)	(\$0.19-\$0.16)	\$0.29-\$0.38	\$0.27	\$0.22-\$0.35
Grade: F	SNDK	1Q (17 est.)			2Q			
Rev: --		Rept'd	Expt'd	Low-High	Guided	Expt'd	Low-High	
EPS: -		Rev (\$mil)	1,205.6	1,230	1,200-1,390	950-1,050	1,310	1,110-1,510
Rev Guide: ---		EPS pf	\$0.63	\$0.70	\$0.43-\$1.00		\$0.82	\$0.57-\$1.13

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