

3Q Earnings Unlikely to Inspire, MCHP in Perspective

Chip Sector 3Q Preview: 3Q earnings season begins this week with INTC after the close on Tuesday; LLTC Wednesday morning; TSM, FCS and CY Thursday morning; and then AMD, QLCG, SNDK and XLNX Thursday evening. In general, I expect the semiconductor sector to meet or slightly miss 3Q expectations and provide disappointing guidance for 4Q. Preannouncements have skewed negative, led my MCHP last Thursday.

While industrial and automotive markets may continue to provide support, PCs continue to erode, tablets appear to have matured, and growth for smartphones beyond Apple has grown uncertain amid pronounced market share shifts. And consumer market seasonality has peaked. I think broader market weakness highlighted by MCHP last week is legitimate, although I consider it more seasonal than cyclical in nature. Why? Because we haven't really had an upturn in the last couple of years; the two-quarter downturn called out by MCHP is almost seasonal, by definition; and we've seen this same seasonal pattern over the last three years. Mid-single digit annual revenue growth rates for the semiconductor industry basically gets overshadowed by seasonality, in my opinion. Also, I would note that MCHP was not yet able to scale the magnitude of the downturn it expects, nor identify specific application markets or geographies beyond China in general. The information is simply not yet fully available.

3Q14 Preannouncement Scorecard

*management guidance revisions, * includes acquisition*

| Ticker | Revenue Growth | | 2Q Sales (\$ mil) | Comments |
|----------------------------|----------------|----------|----------------------|-----------------------------------------------------------------------|
| | Updated | Previous | | |
| Raised | | | | |
| IDCC | -62-61% | -63-62% | 194.2 | includes \$2-6M of one-time/catch-up royalties/settlements |
| SIMO | +23+25% | +15+20% | 69.4 | no specifics. NAND flash controllers and LTE transceivers. |
| ONNN | +9+14%* | +1+5% | 757.6 | added expected contribution from acquisition of Aptina |
| EXAR | >/+40%* | +30+40%* | 30.7 | includes iML acquisition, but still 'at or above the high-end' |
| Lowered | | | | |
| ENTR | -14.3% | -2+2% | 50.2 | satellite and settop box weakness, exploring 'strategic alternatives' |
| EZCH | -14.0% | flat | 22.1 | carrier networking equipment weakness |
| ISSI | -1% | +0+5% | 84.8 | Asian comm and consumer weakness, NOR wafer shortage |
| MXL | -10-7% | +3+7% | 35.6 | cable and satellite customer push-outs |
| OIIM | -13.8% | -5+5% | 17.4 | notebook PC weakness, charger IC product issue |
| UMC | -1.8% | +1+3% | 1,201.2 | only the number reported, assumes constant currency |
| MCHP | +3.3%* | +6+9%* | 528.9 | weakness led by China, calling for industry correction |
| Narrowed/Reiterated | | | | |
| DIOD | +3+7% | +2+7% | 223.2 | no specifics. Discrete, logic and analog products. |
| MediaTek | +6.2% | +5+13% | 1,813.0 | only the number reported, assumes constant currency |
| TSM | +15.4% | +14+15% | 6,075.8 | only the number reported, assumes forecasted currency |

Preannouncements have skewed negative to date. And while there have been a short handful of upside expectations, I only count SIMO as meaningful: ONNN updated guidance to account for an acquisition; IDCC fine-tuned royalty expectations; and EXAR declined to scale the magnitude of its expected upside—and its original guidance was disappointing enough.

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