

**MXIM F1Q Mitigates Note 7 Disaster**

| MXIM        |        | Maxim Integrated Products |   |                        |
|-------------|--------|---------------------------|---|------------------------|
| <b>Qtr:</b> | F1Q    | <b>Grade:</b>             | C | <b>Growth(qtr-qtr)</b> |
| <b>Rev:</b> | 561.4  | <b>Rev:</b>               | + | <b>Rev:</b> -0.8%      |
| <b>GM:</b>  | 64.0%  | <b>EPS:</b>               | + | <b>Fcst:</b> -7-0%     |
| <b>EPS:</b> | \$0.48 | <b>Fcst:</b>              | o | <b>Div:</b> \$0.33     |

**Maxim Integrated Products (MXIM, \$39.10 -0.01)**

**F1Q Earnings:** Late yesterday LLTC announced slightly better-than-expected September-ended F1Q results. Declining revenue and earnings slightly exceeded expectations, and the sequential guidance for a decline was consistent with expectations. Guidance reflects no further shipments to Samsung for its disastrous Note 7 smartphone. Samsung is MXIM’s largest customer.

Revenue mix was 31% consumer, 26% industrial, 21% communications/data center, 18% automotive, and 4% computing. Distribution comprised 39% of revenue with increased resales in North America, Japan and China.

Consumer business was up sequentially and above expectations despite the Note 7 recall due to product diversification across a variety of tablets, wearables (smart watches), peripherals and gaming systems as well as increasing customer penetration at both big OEMs and broadening customer diversification for smartphones. MXIM supplies the same components for the Note 7 as the flagship Galaxy S7 which mitigates the shortfall and provides inventory flexibility.

Industrial business was down sequentially on normal seasonality with continued strength from factory automation products in the areas of interface, signal chain and power management that now accounts for just over 10% of total sales. The balance of industrial includes medical, utility meters, test equipment and other applications.

Communications and data center business was down sequentially, with continued momentum in optical products for the 100-gigabit data center (albeit off a small base) more than offset by soft (4G) communications infrastructure spending. The deployment of 48-volt products in the data center is expected to be delayed beyond 2017 due to a change in requirements.

Automotive business was down modestly but slightly better than expected and is expected to grow this quarter. Most of the revenue comes from infotainment applications that will continue to grow with expanding content opportunities, with significant future growth expected from battery management systems for electric vehicles as well as advanced driver assistance systems (ADAS) including autonomous driving.

Great company with outstanding products and solid potential growth vectors, including over \$3.50 a share in net cash and a dividend yield over 3%. Nevertheless, I am not attracted to the current share price trading near a 52-week high reflecting 5-times sales and nearly 20-times earnings. Too rich for my taste.

**—Dan K. Scovel**  
*Semiconductor Analyst*

**LEGEND**

|  | <b>Grade</b> |
|--|--------------|
| +++ exceeded the high-end of the range               |              |
| ++ 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 -      |

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