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## Intersil Corp Q3 2007 Earnings Call Transcript

### Question-and-Answer Session

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**Operator**

[Operator Instructions]. And your first question comes from the line of Uche Orji from UBS. Please proceed sir.

**Uche Orji - UBS**

Can you hear me?

**Rich Beyer - Chief Executive Officer and Director**

Yes.

**Uche Orji - UBS**

All right, thank you very much. Just very quickly on the computing market, last quarter, you had entered a possibility of the double ordering going on into computing market. Is there any update you can give us, given the ongoing strength in this market? So, how can you characterize the current demand environment and also if you can provide metrics like lead times, just for us to characterize; that will be helpful?

**Rich Beyer - Chief Executive Officer and Director**

This is Rich. We don't see any evidence that the orders that we have received tiered for and the backlog that we have represents anything other than very, very strong demand by our customers. You have obviously heard Intel indicate just yesterday that strong demand in the computing space, desktops as well as notebooks. So, we feel that the ordering that's going on is very solid. We had very, very extensive conversations with our customers across all of the market segments we are serving and we feel very, very good about the backlog. We also are aware that the inventories at our customers as well as inventories in the channel have not grown. And so we think it's a very healthy channel situation.

Lead times had moved out, at the end of the previous quarter in the computing space to about ten weeks. We thought, we would bring those down, but the continued strong demand has kept the lead times out at approximately that level. In aggregate, across the corporation on average, we are at seven or eight weeks, as we were 90 days ago.

**Uche Orji - UBS**

In terms of computing market, Europe was very strong for Intel, I suppose that was the same thing for you. Embedded in that number, I should get currency impact. Can you, are you able to quantify there was any effect of currency given the strength in Europe for computing?

**Rich Beyer - Chief Executive Officer and Director**

Actually the nature of our business is that we by and large sell our products largely to either North American PC OEMs or to our partners in ODM in Taiwan, in China and so forth. Intel would see the effect in geographic markets much more than we are. So, we are not exposed to the currency... of the strengthening of the euro by virtue of our computing business or any of our businesses.

**Uche Orji - UBS**

Just one last question. Any traction on Blu-ray are you able to tell us, if you have seen anything on Blu into Q4?

**David B. Bell - President, Chief Operating Officer and Director**

Sure, this is Dave Bell. We are beginning to see some traction there. As we indicated one quarter ago, we kind of anticipated that during Q3 we would be seeing the beginnings of some strength in that market. And we are happy to say that during Q3 we did achieve, what I would call significant sales and we expect those sales to continue ramping as we head into 2008.

**Uche Orji - UBS**

And just one more question, industrial was up this quarter. Is that presumably part of Planet ATE coming in there. And if you can tell us how much of industrial revenues was from Planet ATE, maybe that would just help me understand?

**Rich Beyer - Chief Executive Officer and Director**

Very trivial, Planet ATE has virtually no impact on our revenue stream. We consummated the transaction in the middle of September. So, it was miniscule, it will start to help this quarter. The industrial was up pretty broad-based across the whole number of general purpose product family.

**Uche Orji - UBS**

All right. Thank you very much.

**Operator**

And your next question comes from the line of Ross Seymore from Deutsche Bank. Please proceed

**Ross Seymore - Deutsche Bank North America**

Hi guys. Could you tell me what's your turns fill was in the third quarter and the deluctant 30% requirement heading into the fourth quarter? If I look back seems to be about the lowest turns for you guys have ever required at least in my notes. Seems like, that's a pretty low number. If you could just discuss why it so low that'll be helpful.

**David A. Zinsner - Vice President and Chief Financial Officer**

Okay, Ross this is Dave Zinsner. Last quarter, we did about just a little south of 40%. Typically it runs in the 40% to 45 % range, less than 30% obviously is a kind of a historical low. Rich talk that the lead times continue to push out, we had very strong orders and so it's just the backlog just ended up getting placed a lot earlier and so our turns requirement has been significantly reduced because of that.

**Ross Seymore - Deutsche Bank North America**

Is the profile of that backlog extended in that three... I think, you gave a six month backlog number. Is it starting to spill out further and further or because of lead times remaining flat, is kind of the duration of the backlog just about the same as last quarter?

**Rich Beyer - Chief Executive Officer and Director**

Some of its extended into Q1. But it just... in the computing and some of the consumer areas, people have placed orders into the December timeframe. Whereas under normal scenario, at this stage in the quarter, we wouldn't have that backlog later, but there is... so, there is a little more backlog on the books as we entered the quarter for Q4 and a little bit more backlog into the first quarter.

**Ross Seymore - Deutsche Bank North America**

And the last question from me, Intel mentioned about the business strengthening as the quarter progressed, whereas somebody like Linear earlier today showed that... for the fourth quarter whether it'd be normal seasonality or otherwise, they expected a little bit of slowdown. What sort of linearity do you guys have in your bookings, either just in the computing or overall if you can give me?

**Rich Beyer - Chief Executive Officer and Director**

I would say the whole quarter was some... we saw strength. We indicated that in the July conference call that we expected the lead times to come down, the fact of the matter is the bookings continued at a very healthy pace. They have indicated that they were well above one and so we saw just continued healthy growth in our bookings throughout the course of the quarter, not totally similar to Intel

**Ross Seymore - Deutsche Bank North America**

Great, thank you.

**Operator**

And your next question comes from the line of Sumit Dhanda from Banc of America Securities. Please proceed.

**Sumit Dhanda - Banc of America Securities LLC**

Yes, hi. I had a question on gross margins. Dave, you indicated that it will be in the mid-57% range on a non-GAAP basis. Although, the segments from which we are anticipating growth are lower margin segments. So, can you help reconcile, why you think gross margins will be flat given where the growth is going to be coming from?

**David A. Zinsner - Vice President and Chief Financial Officer**

Yes, Sumit. Actually two things, one we do still anticipate additional cost improvement from operational areas, as we got this quarter. So, that should benefit us. We are also seeing some of our other product families improve in terms of gross margin in our... for example, in our interface business. We are moving more to 485 and more into dual and multi protocols, they carry higher gross margins. And so we are seeing a mix improvement there. And as you know, Dave had mentioned, we are starting to see some meaningful revenue in Blu-ray, that's obviously a much better gross margin than the red and so there is a number of different products families that are seeing improved gross margin in the fourth quarter, which should offset some of the macro mix that the computing increase causes.

**Sumit Dhanda - Banc of America Securities LLC**

As then that as it relates to an improvement starting Q1 of next year, the assumption there again is a mixed driven improvement driven by strength in industrial and high margin segments, right?

**David A. Zinsner - Vice President and Chief Financial Officer**

That's correct.

**Sumit Dhanda - Banc of America Securities LLC**

Dave I had another question for you. I guess for Dave Bell, on the Blu-ray side, is that, you started to see meaningful revenue. Any chance you could quantify that, are we talking couple of million dollars or are talking a little more both as it relates to Q3 and then it relates to Q4?

**David B. Bell - President, Chief Operating Officer and Director**

Yes. Unfortunately, I really don't want to get into that level of detail. I know you'd like me to quote a number for you, but what I guess I would say is that we have been anticipating the ramp in the blue laser diode drivers and some of the other parts we will be selling to that market for some time. And so we are pleased to see that it was meaningful or significant, I am not going to quote you a number, still well below what we have been selling in the red area, but it is the beginning of the near the curve period and I think we are going to be expecting to see the revenues in the blue area to continue to increase in Q4 and on into 2008. And just to reiterate what Dave Zinsner mentioned before, our ASPs and our margins are much better in the blue laser diode driver area as well than they have been in the red area, so that's good news.

**Sumit Dhanda - Banc of America Securities LLC**

Maybe I can answer the question in another way, have the revenues come in as per, below or above your expectations from a 3 to 4 months ago?

**David B. Bell - President, Chief Operating Officer and Director**

I think they have been arising at an even faster rate than we would have anticipated. I think that... I have to confess that my visibility here has just been the last 6 months with the company but I think perhaps the ramp in blue was a little bit later in the overall industry than would have been predicted many quarters ago, but I think the ramp rate is certainly meeting our expectations if not exceeding them.

**Sumit Dhanda - Banc of America Securities LLC**

Okay great. Thank you very much.

**David B. Bell - President, Chief Operating Officer and Director**

You're welcome.

**Operator**

And your next question comes from the line of Cody Acree from Stifel Nicolaus. Please proceed.

**Cody Acree - Stifel Nicolaus & Company**

Thanks, thanks guys. Rich, obviously lead times were still heavy, bookings are strong and they are sending out a bit. What's changed to give you more comfort that double bookings was an issue last quarter is not an issue this quarter?

**Rich Beyer - Chief Executive Officer and Director**

When we had a conference call last quarter we had just begun to see this ramp and while we were discussing with customers exactly what was transpiring, we had not had in-depth discussions with a broad range of customers at that point. We now have spent the last 90-120 days understanding quite clearly what each of our major customers needs, what their shipping rates are, they have been quite forthcoming with us and so forth and so that's what gives us the confidence. Also we see we have a very clear understanding of exactly what's transpiring in the channel and we see that the inventories in the channel are low, our customers have been providing us some insights into their own inventory positions, not across the globe, not everybody, but we have enough insight that we think that the demand and the backlog that we have is really quite solid and is there for the purpose of production as we deliver the parts and if there is no build up of inventory of the finished goods in any of these product areas.

**Cody Acree - Stifel Nicolaus & Company**

So is it fair to say that demand picked up rapidly in Q3 to a point that may be you weren't obviously comfortable, but since then in-demand has shown to absorb that and kind of support those trends?

**Rich Beyer - Chief Executive Officer and Director**

That's a good way to describe it, Cody.

**Cody Acree - Stifel Nicolaus & Company**

Okay. And then lead times, have they expanded anywhere beyond the PC segment or is it still just in this PC segment?

**Rich Beyer - Chief Executive Officer and Director**

PC and a handful of products in the consumer space.

**Cody Acree - Stifel Nicolaus & Company**

Any linearity there... granularly?

**Rich Beyer - Chief Executive Officer and Director**

Rather not get into that.

**Cody Acree - Stifel Nicolaus & Company**

Okay. And then lastly, cost savings, you talked some about continuing cost savings may be offsetting some of those mix. How much room is there, is it as we push into '08 for cost savings to continue to

offset mix shares or drive gross margins or we just going to get back in '08 to kind of swings in the mix?

**Rich Beyer - Chief Executive Officer and Director**

No, I think we'll continue to have cost savings. If you look at cost savings a little bit more broadly than just reducing the spent in a fab or what have you... although we are constantly doing those kinds of things. It's also a function of taking a product that today is done in a 0.6 micron process and the next generation is done in a 0.25 micron process and therefore the die size is significantly lower, the die cost is lower. We might be able to put it in a smaller package and thus reduce the cost of the package. So things like that we're working on constantly in the whole broad range of product family. So no, we think they will still be cost savings that are associated with improvements as a result of our operational driving.

**Cody Acree - Stifel Nicolaus & Company**

Very good. Thanks Rich.

**Operator**

And your next question comes from the line of Romit Shah from Lehman Brothers, please proceed.

**Romit Shah - Lehman Brothers**

Hi thank you. Guys if we could, can we get the dollar contribution from Planet ATE for Q4?

**Rich Beyer - Chief Executive Officer and Director**

No, we haven't really shared. We gave you an indication Romit of what the size is, but this is in the category of... we don't break down our business into those elements. We only talk about it in terms of the core market segment. So really don't want us provide that kind of insight because it's a level of detail that's... it's below what we typically give.

**Romit Shah - Lehman Brothers**

Okay. But did you guys... correct me if I am wrong. But did you guys disclose that in the last 12 months Planet ATE has generated about \$12 million in total revenue?

**Rich Beyer - Chief Executive Officer and Director**

Yes, something of that order, that's right, \$10 million to \$12 million.

**Romit Shah - Lehman Brothers**

10 million to \$12 million, okay. And could you just elaborate on some of the uneven timing of communication orders and year by segment or what that might be indicative of?

**David B. Bell - President, Chief Operating Officer and Director**

Sure Romit, this is Dave Bell. Part of our communications business includes some of the high rel and products that we ship into that communications infrastructure market and unfortunately, one of the characteristics of that market is its inherently kind of lumpy and we tend to get orders in larger chunks and quite frankly, some times the order is coming ahead of when we anticipated, sometimes they come behind. So that's one of the natures of that business but I will as well illustrated we had anticipated that communications would be down this quarter and so it wasn't a surprise in any way.

**Romit Shah - Lehman Brothers**

Okay and then just lastly, is it fair to assume that with the gross margins holding steady that the computing business as a percentage of sales probably dropped down a bit?

**David A. Zinsner - Vice President and Chief Financial Officer**

In the fourth quarter Romit?

**Romit Shah - Lehman Brothers**

Yes.

**David A. Zinsner - Vice President and Chief Financial Officer**

In fact it should be up a little bit as a percentage of sales, but not a lot, probably 25% to 30%.

**Romit Shah - Lehman Brothers**

So you think computing will actually grow at a faster rate than the company average?

**David A. Zinsner - Vice President and Chief Financial Officer**

Yes.

**Romit Shah - Lehman Brothers**

Okay great, thanks a lot.

**David B. Bell - President, Chief Operating Officer and Director**

You are welcome

**Operator**

And your next question comes from the line of John Lau from Jefferies & Company. Please proceed

**John Lau - Jefferies & Co.**

Great, thank you. Rich, I was wondering if you can give us a little bit more clarity. Looks like you mentioned that your computing division was up 28% sequentially, but your gross margin was only down... overall gross margins are only down 50 basis points. It seems like the effect of the computing product group is rather benign to the overall corporate environment. Is that correct and I do have a follow up.

**Rich Beyer - Chief Executive Officer and Director**

Well, it certainly John, what you just said is true that we have worked very, very diligently to continue to improve other aspects of our business to offset the fact that the growth in computing does have a negative drawback. But even our computing business saw some improvements because of operational efforts on their part. So we are constantly trying to improve our product costs through operational efficiencies, through lower die costs and die size, lower package costs as well as we are continuously trying to find how we can move the mix of our products to higher margin things. Dave Zinsner pointed out and DSL we are going from... we are moving from ADSL to DDSL which carries higher margins, interface shift to 45 carries higher margins and there is a number of areas across the corporation where that's in effect. So we indicated at the last conference call that we knew that our gross margins would likely come down as a result of the computing business being so strong. The computing business was very strong and yet we are very pleased with how the gross margins continue to be quite respectable and we also believe that they will start to move back in a positive direction in the upcoming quarter and that's what Dave Zinsner alluded to a moment ago.

**John Lau - Jefferies & Co.**

Yes.

**David B. Bell - President, Chief Operating Officer and Director**

And John, if I may, this is Dave Bell. Just to add what Rich is saying, the growth in computing is very strong, so the downward pressure there was something we couldn't completely compensate for, but I would also point to at the same time, we're doing a lot of things to increase the ASP and the profitability of our other product lines. As you know from a quarter or two quarters ago, I went on record saying we're going to be doing our best to exit some very low margin business and we continued to do that. We also are implementing greater pricing discipline with the parts we are currently selling today, increasing our ASP and increasing our gross margin on those products and also although we really haven't seen much of the effect of this yet, we're increasing the value of the new products that we are beginning development with.

So I would just say it's the combination of things. We have this general upward trend I believe in our gross margins, but just the strong growth in computing you pointed out was so strong that they are kind of over compensated for the other positive things that we have been doing on an ongoing basis the last few quarters.

**John Lau - Jefferies & Co.**

I had... the reason why I asked the question is to kind of understand the leverage on the gross margin because if we assume normal seasonality as we go into Q1 and that computing business does start to go seasonally down. What was the major cause or what was the major contribution to offsetting that? Would it be the cost efficiencies that we have and the reason why I asked that is, if there was the very benign coming down, as that computing comes down, would we expect more benign or a more dramatic improvement in the mix going forward just directionally?

**David A. Zinsner - Vice President and Chief Financial Officer**

Directionally gross margins will be up if computing comes down. Obviously that comes down a percentage of revenue plus Q1 tends to be a seasonally strong quarter for industrial, which is our highest gross margin end market. We would expect to see a fairly decent shift up in our gross margins.

**John Lau - Jefferies & Co.**

Great okay, that's a good explanation. Thank you very much.

**Operator**

: And your next question comes from the line of John Pitzer from Credit Suisse. Please proceed.

**John Pitzer - Credit Suisse**

: Yes, I guess a couple of questions here. Lot of chatter in the quarter about this tight supply around power management, I look at your growth in the computing business versus the numbers that Intel put up last night and your market share kind of screens favorable to me, is that the way you see share having played out in the account of the third quarter and then I have some follow ups.

**David B. Bell - President, Chief Operating Officer and Director**

Well let me see if this answers your question, but we have seen very strong growth in the PC market, Intel certainly alluded to that the fact that they have seen very strong growth and in fact surprisingly strong growth during the third quarter. We've certainly benefited from that. We also think that we have benefited from several other things; the transition from Napa to Santa Rosa gives us more socket opportunities in the notebook space. We think that we've done a very good job getting design wins across the computing space, not just in notebooks but also in desktops and servers, so I think it's a number of factors that are helping to drive our PC business growth and as we said, we were up 28% in computing, so we have been growing faster than Intel's sequential growth was. And those factors obviously are as well as Rich and Dave both pointed out what has led to the time stretching out somewhat in the PC parts, the parts we have supplied to the PC industry.

**John Pitzer - Credit Suisse**

Couple of follow ups there. Have you guys quantified the increase in TAM from Napa to Santa Rosa and I guess should we expect sort of a similar increase as we move into Montevina next year?

**David B. Bell - President, Chief Operating Officer and Director**

I don't think we have actually quantified the increase, we know that we probably have a couple more socket opportunities for notebook computer in Santa Rosa compared to Napa. Beyond that and actually attaching a specific dollar TAM number to it, we haven't done that, John. And I think that as time goes on, as notebooks become more and more complex and have more and more features embedded in them, I think that we will have more opportunities in total as notebook generations go on, not necessarily having to do specifically with the processor itself, but just as we see more and more capabilities being put into notebooks, things like LED backlights going away from CCFL, more sophistication just that trend in general independent of the process or whether it be Intel or AMD, I think it's going to drive more opportunities for us in computing.

**John Pitzer - Credit Suisse**

And then with the turns needed for Q4 being less than 30%, clearly people... your customers are little bit worried about supply from your end. When do you think supply catches back up and do you expect to be in a more normal turns environment in the calendar first quarter?

**Rich Beyer - Chief Executive Officer and Director**

Yes, our expectation is in... in first quarter... we will get back to a state of equilibrium and a more normal turn situation.

**John Pitzer - Credit Suisse**

And then last question from me is just kind of looking at gross margins on a longer term basis, to get to the sort of the high 50s or even low 60s, is that really a function of an improving mix across your four broad segments or do you think you could maintain kind of the current mix and still see margin improvement up into the high 50s, just with some of these cost initiatives and kind of moving your skew to higher end ASPs?

**David B. Bell - President, Chief Operating Officer and Director**

This is Dave Bell again John. I think that we are going to have a mixture of things as I kind of explained earlier. I think that there is going to be some seasonality unavoidably to our gross margin because the second half of the year is going to be stronger in PC. It's going to be stronger in consumer and those products as you know are below our corporate average. At the same time, we have ongoing cost improvements in our operations every quarter and that has helped the situation during the last quarter. But in addition to that again, I would point out again the kind of improvements we have been making with pricing discipline, with exiting low margin business and improving the overall value of our products is going to be a cast in upper trends. So I think it's kind of summation of this upward trend. I hope we will continue to see an average gross margins combined with kind of this S curve in seasonality where the second half of the year just inherently is going to have some downward pressure because of the mix.

**John Pitzer - Credit Suisse**

And I apologize, I'm a little new to the story, but do you guys typically talk about ASP trends and is it relevant to think about it or is it too dispersed across the business lines to really think about a blended ASP?

**Rich Beyer - Chief Executive Officer and Director**

We typically don't talk about it for the reason that you just said. We have so many products that the selling price of something in the industrial blended with something that's an LDO, it doesn't really yield valuable information for investors. I think to say that... back to add something to Dave associated with that question, a significant part of this will be about mix, but I wouldn't ask you to think about it as the mix shifting from computing and consumer to industrial communication, but rather the mix within every segment that we operated. We're constantly looking for ways to improve on the mix of higher margin parts in everything we do. So you'll see shift in mix within computing, a shift in mix within many of the consumer sectors and then of course it is further helped by increases in most of our general purpose... well in all of our general purpose product family, many of which are in the industrial and the communications space. So we'll just keep working at every product family for higher and higher gross margin products, to basically succeed products that are lower margin.

**John Lau - Jefferies & Co.**

Great. Thanks guys.

**Operator**

And your next question comes from the line of Steve Smigie from Raymond James. Please proceed.

**Steve Smigie - Raymond James & Associates**

Great, thank you. Back to Blu-ray stuff a little bit. In the past you talked about the fact that you've got a lot more dollar content opportunity with the whole set of new Blu-ray products that you put out there. I was just curious if you could talk a little bit about how you're seeing the design wins roll out in terms of getting more the sockets outside of just where you had the same sort of product on the red and are you favorably impressed with moving may be towards the higher end of the total dollar content or is it about the average rate you're thinking?

**David B. Bell - President, Chief Operating Officer and Director**

Sure, this is Dave Bell again. So there is two things going on. Again, the laser diode driver itself has a much higher ASP and much higher profitability in the blue area then it does in the red area. But on top of that as you kind of alluded to, we do have some other opportunities. We've got some power detection ICs that we're going to be selling at the market and that gives us another opportunity for a socket there and obviously more total dollars per drive that we can enjoy in that market. So I think the combination of both of those things is going to give us higher revenue opportunities and also greater profitability.

**Steve Smigie - Raymond James & Associates**

Okay. And in the timing so far I mean is there any indication if other success of that other the part touching other sockets?

**David B. Bell - President, Chief Operating Officer and Director**

There we are getting good design win activities in those product areas, I think it's a little bit too early to pass complete judgment on how the whole thing is going to play out. But as I mentioned earlier in the call, we've been very pleased with the rate of the ramp with our blue products, the whole industry I think has been delayed a little bit beyond what people had anticipated with the introductions of those drives being slowed but now that we are starting to see the near the curve, we have been very pleased with the rate that the revenues are increasing. We continue to get design wins but just it's too early to tell exactly what our market share is going to be. And we said that even if we did know we do not reveal our market share numbers.

**Steve Smigie - Raymond James & Associates**

Okay. And just one other question if... sorry if I missed it, but did you already talk about some guidance for SG&A and R&D for Q4?

**David A. Zinsner - Vice President and Chief Financial Officer**

We said OpEx would be up approximately \$2 million to \$3 million.

**Steve Smigie - Raymond James & Associates**

That's right, okay. Thank you.

**Operator**

And your next question comes from the line of David Wu from Global Crown Capital. Please proceed.

**David Wu - Global Crown Capital**

: Yes. Just generally two questions; the first one is really on subject of gross margin, you touched upon Rich, a couple of questions ago. I was thinking in terms of if you look at your GAAP gross margins, they already are 57 so I was thinking about just call a round ballpark number 60%. To hit a 60% GAAP gross margin number, should we think about in terms of how many years would it take roughly for the product enrichment across all product lines to take place to achieve that or should we think about a revenue number and a... at that revenue number 60% is very do able given all the effort that's going on in different segments... your product line? And the second one actually is I am bringing out a bad dream which was the third quarter last year, we had a tremendous quarter followed by a pretty sharp falloff in Q4. Obviously this year is different from last year, but can you go into a little bit

more difference in what are you seeing this year from the customers order channel that you didn't see last year?

**Rich Beyer - Chief Executive Officer and Director**

Okay, let me... David this is Rich. Let me start with the second part. Our Q3 of a year ago, Q3 of a year ago versus this year is dramatically different. In Q3 the industry saw that we had built up inventory at customers and through the whole channel towards the end of Q2 and while we had certainly a strong shipping quarter, we had seen a deceleration in orders and it was crystal clear that the fourth quarter not only for us but for many in the industry was going to be a down... a down quarter. We have exactly the opposite today. We have a relatively modest first half of the year and we've seen just increasingly strong performance throughout the course of the year and at the same time, we've seen a continued decrease in inventory in the channel, but third quarter was down appreciably either from second quarter which was down from first quarter. So it is quite dramatically different in a positive sense this quarter, and that's why we're confident that the Q4 is going to be the kind of rough quarter that we've guided to.

Back to the gross margin picture, we have indicated we believe that we'll get back on quite a positive gross margin expansion path beginning... we expect a little bit of improvement at the end of this year and then get back on what we hope will be a steady improvement throughout the course of 2008 and beyond. We don't look at it at a certain revenue level will hit a 60% gross margin. We see it as a steady emphasis in investment continuously in higher and higher margin products and so we are going to drive the company to continue to bring out better products. Dave Bell has touched on that. He focuses a lot of his energy to ensure that. It will come from improved pricing of products. It will come from in fact passing on opportunities that we think do not pass our gross margin muster and so forth. So we think this is going to be a steady march towards that midpoint of our guidance of 58% to 62% as opposed to at certain revenue level.

**David Wu - Global Crown Capital**

I was wondering how many years would we... should we be thinking about in terms of time, we are talking about 2 years or is this more like 3 to 4 years?

**Rich Beyer - Chief Executive Officer and Director**

I would rather not guesstimate, but I don't think it's 3 to 4 years. I better hope that it's sooner than that.

**David Wu - Global Crown Capital**

Thank you.

**Operator**

Your next question comes from the line of Doug Freedman from Amtech Research. Please proceed.

**Doug Freedman - American Technology Research**

Good afternoon guys, thanks for taking my question. Lot of them have been asked and answered. We did see in the quarter one company miss some numbers and talk about the housing market impacting them and the industrial base and I know you are sort of new and gaining some share in the industrial market. But can you comment on what you are seeing there and any impact that you... maybe measurable it all in your housing related industrial sales?

**David B. Bell - President, Chief Operating Officer and Director**

Alright Doug, I am not exactly sure how to answer your question, but I don't think we have seen any impact whatsoever from housing. I know one player in this market space has blamed the housing situation as one of the key reasons for a miss, but very honestly, I don't see any impact of the housing prices on our revenues. Now I guess one might point and say well, if there is less income that consumers have to spend on these products that could have an impact, but again we have seen great strength in the PC business and it's not just us. Intel obviously just announced yesterday that they

had really strong, unexpectedly strong sales and I think in our consumer business as well we have seen good strength there. So despite some of the woes elsewhere in the world, they don't seem to have any impact on our business, Doug.

**Doug Freedman - American Technology Research**

Alright, terrific, that's the answer I was looking for. Can you talk about clearly with the low level of turns required, there has to be some sort of orders that are showing up into Q1, can you give us an idea of how you are feeling about the visibility for Q1?

**Rich Beyer - Chief Executive Officer and Director**

Doug, we indicated, it's Rich. We indicated we have seen a little bit more backlog being laid in for Q1, but it's still such a modest part of the backlog that at this stage we don't have any better visibility, but we expect at the moment is that it should be... play a normal seasonal pattern, the consumer and the computing will not be as strong as in the quarter, the industrial and the comp should be stronger than they are in the quarter and that's our best estimate at the moment that we are going to see a pretty normal seasonal pattern.

**Doug Freedman - American Technology Research**

Alright, great. Are you guys at all... at this time of the year it's pretty normal for some of the large communication customers and large OEMs to be engaged in annual pricing agreements. Do you enter into such agreements and if so, how would you describe this stated those negotiations?

**Rich Beyer - Chief Executive Officer and Director**

We do it, but I would say it is very limited. The number of players that we have such annual EPA negotiations with and to be candid, they are just starting, so, we've got our bid asked on the table and so forth. We don't know what gap, what the nature of those are going to be just yet.

**Doug Freedman - American Technology Research**

The projected volume for those though, looking fairly healthy for next year?

**Rich Beyer - Chief Executive Officer and Director**

I'd say for the handful of customers that we do this, I mean what they are proposing suggests, reasonably decent growth next year in unit volumes for Intersil.

**Doug Freedman - American Technology Research**

Alright great. And then lastly, internal versus external Palm Bay, clearly it looks like more new products are coming from non-Palm Bay based foundries. Any thoughts on what you are doing there and longer term outlook and I will leave you with that one.

**David A. Zinsner - Vice President and Chief Financial Officer**

You are right. The external as a percent of our total sales was about 64%. So, that's up from Q2 we said 61%. The volume internally has been pretty consistent and our expectation is that over a fairly long-term period, its going to be kind of generally in the volume that is today.

**Doug Freedman - American Technology Research**

All right terrific. Thanks guys and congratulations on the strong quarter.

**David B. Bell - President, Chief Operating Officer and Director**

Thanks Doug.

**Operator**

And your next question comes from the line of Craig Ellis. Please proceed sir.

**Craig Ellis - Citigroup**

Thanks, good afternoon guys. I just want to start off with computing. I know there have been a lot of questions here, but to understand the underlying dynamics in notebooks. There is clearly significant share gain in Santa Rosa and a premium to underlying notebook growth as the mix shifts there. How much of the mix now is to Santa Rosa versus Napa and when we would get to 100% Santa Rosa?

**Rich Beyer - Chief Executive Officer and Director**

Well, it shifted quickly. We don't know Craig how much is actual shift in Santa Rosa versus Napa at the moment. We don't have any public data about it, all we know is that Santa Rosa has ramped quickly. Intel indicated yesterday that fact as well. We have a larger footprint on a Santa Rosa motherboard if you will, than a Napa and that's obviously helping our strength. But I think, we are still two, three, four quarters away from Santa Rosa being the overwhelming portion of business. It's coming on very strongly. But it takes three or four quarters before it become... before Napa becomes relatively trivial part of the landscape. So, there is still more growth across the next several quarters for us. And hopefully, that's going to help drive continued success of our business in the computing space.

**Craig Ellis - Citigroup**

Okay, that's helpful Rich. And then I don't know if this is for you, or perhaps Dave Bell, the Planet ATE acquisition look like an extremely good one from an accretion standpoint. Can you comment on how you are thinking about the company's ability to move on to a similar such deal? What kind of cadence could you do at Planet ATE type deal at as we look out over 2008 and 2009?

**David B. Bell - President, Chief Operating Officer and Director**

Sure Craig, this is David Bell. So, let me make sure I understand you, you are just wondering how often could we do a deal like Planet ATE?

**Craig Ellis - Citigroup**

Yes, as you look at integration requirements and the things that you need to do internally and then if you look at how attractive that type of deal is relative to growing the business through organic or inorganic means?

**David B. Bell - President, Chief Operating Officer and Director**

Yes, we don't have a precise answer to that. What I will say is that at first to underscore what you said, the Planet ATE deal was certainly accretive and Dave Zinsner can comment more on that perhaps. But it was a great deal, it was a perfect fit. We think, we can exploit their products, we think that they can help sell our products into the ATE market better than we were. And I think, it was integrated very efficiently. So, I think that it was efficient and fairly quickly done from that standpoint. How often we would do it, I think really is more a function of how often we would come across an opportunity that we think, merge consideration for acquisition. We look at a lot of deals and this happen to be one that was a perfect fit as I said. So, it's really more opportunistic in the sense that we have to find these deals, go through the due diligence and analysis and decide that yes, this is one that we want to pursue. But again, I think that at least given the size of Planet ATE and the caliber of the people at ATE and our own organization here, the integration process went very, very smoothly

**Craig Ellis - Citigroup**

Okay, that's helpful. Dave Zinsner, any comments on accretion potential for next year?

**David A. Zinsner - Vice President and Chief Financial Officer**

I rather not get into too much detail on that Craig. I'd just tell you that their gross margins are above our corporate average. So, we would expect them to be beneficial to our gross margin.

**Craig Ellis - Citigroup**

Okay.

**David A. Zinsner - Vice President and Chief Financial Officer**

Operating margins are well above our corporate average, and so we would expect that to be very accretive to our framework.

**Craig Ellis - Citigroup**

Okay. One question... I hope that's easy, so I switch gears. You are about at the end of the buyback agreement that the company announced about a year ago. Can you talk about how you look at the potential for either further buyback activity or what the thoughts would be around cash on the balance sheet?

**Rich Beyer - Chief Executive Officer and Director**

Okay, so we are... we have \$47.5 million left in our share repurchase program. Obviously, we've been buying back at a rate that's in excess of that. So, we have to review with the Board if we want to increase that. Our goal, our stated goal has always been to bring the cash down below \$500 million. We are now at \$575 million, we are positively generating cash. We are also seeing inflows from the exercised stock options. So, although the combine should indicate that the buying activity should be at a fairly similar rate to what's it's been in the past. So, we will have to wait and see what the Board says, we will meet within this quarter and let you know.

**Craig Ellis - Citigroup**

Alright. Thanks guys and nice job on the quarter and outlook.

**David B. Bell - President, Chief Operating Officer and Director**

Thanks Craig.

**Operator**

And your next question comes from the line of Simona Jankowski from Goldman Sachs. Please proceed.

**Simona Jankowski - Goldman Sachs**

Hi, guys. Thanks for taking my call. With the strength in the notebook business, is that business now bigger than your desktop business?

**Rich Beyer - Chief Executive Officer and Director**

No, its not. It's growing faster. But it's not yet larger than the desktop business.

**Simona Jankowski - Goldman Sachs**

Okay. And then when we look at your PC business in aggregate versus a year ago, I think you mentioned that it's up about 14%, which is roughly in line with the PC market. So, should we think of that as being driven by share gains in notebook and then maybe offsetting share loss in desktop and server or are there any other dynamics in there?

**Rich Beyer - Chief Executive Officer and Director**

No, we are continuing to hold our own very nicely in desktop and servers. There hasn't been any loss of market share in those businesses; our market share is quite significant in both of businesses. So, those are growing at sort of the rate of the market and the note book business market is growing more rapidly than the other two and we have been growing very nicely as a result of numerous things that Dave Bell pointed to.

**Simona Jankowski - Goldman Sachs**

Okay. And then just the last question from me is you guys have been a leader in power management and PC for a long time. So, can you just give me your view on how these products transition play out. In other words, you are being one of the leaders, does your market share change as the platform matures. In other words, do you tend to have higher market share at the beginning versus the end or once you get in a platform like Santa Rosa, do you maintain that shares throughout the life of that platform?

**Rich Beyer - Chief Executive Officer and Director**

It's an interesting question. Over the course of the platform, there is typically the introductions of platform, there is a refresh cycle and then they move onto the next platform. And I would say the market share does not change dramatically over the course of the platform. Although, there is a

modest opportunity, some of the components are revisited by customers at the refresh cycle during the course of the cycle there is very little that transpires changes in any other power management components and a desktop or a notebook until you have the refresh, at which time, there may a little bit of change that's takes place. Traditionally in these market places, we enter into one of the platforms, with the series of products and we pretty much hold our own during the course of that. We have held our share in desktop and servers now for a quite a number of years. We have steadily grown our share in notebooks, since I'd say about four years ago. So, and we are able to do that, even through the refresh cycles of the various platforms.

**Simona Jankowski - Goldman Sachs**

Okay. So desktop you're still close to about 50% share of the core power?

**Rich Beyer - Chief Executive Officer and Director**

Yes.

**Simona Jankowski - Goldman Sachs**

Okay. Thanks very much.

**Operator**

And your next question comes from the line of Mahesh Sanganeria from RBC Capital Markets. Please proceed.

**Mahesh Sanganeria - RBC Capital Markets**

Thank you very much. Just one clarification, you said industrial flat to down slightly in Q4. Is that typical seasonality or it's little stronger than typical?

**Rich Beyer - Chief Executive Officer and Director**

It's about normal. It's flattish for us in the fourth quarter. So, it's pretty normal.

**Mahesh Sanganeria - RBC Capital Markets**

And again, can you take a shot at giving us your outlook for the next year for the overall PC segment, looking at in the context of... will your mix in '08 will shift towards more PC compared to '07?

**Rich Beyer - Chief Executive Officer and Director**

It's early for us. We're developing our annual operating plans for next year. And I don't think we can provide more insight to what's going to go on in the PC space, and bigger players like Intel and so forth. So, it's a little bit too early for us. We feel that we're continuing to be very, very competitive in desktops and servers and doing very well in notebooks and we believe that will continue in 2008, but to give any more granularity or insight into that would be very difficult and premature for us.

**Mahesh Sanganeria - RBC Capital Markets**

Okay. So one last one from me, I guess there were lots of questions on gross margins, but you had mentioned a few times about OpEx improvement. Have you put a target for the long-term operating margin and then if you what is the plan on getting to that target?

**David A. Zinsner - Vice President and Chief Financial Officer**

Well, our operating margin that our goal is to stay between 27% and 30% operating margin level. You are obviously in that level until now. Our goal is to get to the high end of that... that model. Our R&D, we would like to spend at about 16%. So we're a little bit under that for the long term goal is we at 16%. And the long-term SG&A is to be around 14% and we're spending a little bit below that but over time it's expected to be around 14% on average.

**Rich Beyer - Chief Executive Officer and Director**

I would just like to add it if I may, our margin models of gross and operating models are very, very important and I think it should be pointed out that we saw very significant improvement in our operating margin this time. Our gross margins went down as we had clearly indicated back in July that the result for the strength in computing would see that. But the fact of the matter is we improved

our operating margins from 26.9% to 28.6%, a very significant improvement, so we concentrated on controlling operational expenses and so the sales growth even with a gross margin coming down a bit. So we still delivered very, very solid improvement in operating margin and that's clearly part of our modeling... part of what we're committed to do.

**Operator**

And your next question comes from the line of Tore Svanberg from Thomas Weisel Partners. Please proceed.

**Unidentified Analyst**

Yes thank you. This is Kevin [ph] for Tore Svanberg. I just have a couple of quick questions. One is on your notebook business. Regarding Montevina and Griffin are you looking.... what kind of transition are you looking forward to. Is there going to be the scale of content increase, as you have gone into Santa Rosa? Are you looking for more market share? Could you elaborate on that?

**David B. Bell - President, Chief Operating Officer and Director**

Yes Evan this is Dave Bell. I don't have a whole lot of detailed information I can give on that, but let me refer back to something that I mentioned earlier. I think that these transitions and our opportunities for getting more products designed in don't necessarily have a lot to do with the processor itself. I think there is two things going on. When there is a new generation like the transition from Napa to Santa Rosa new designs are done and that opens the doors and opportunity for new parts to be designed in and as Rich said once they get parts designed in, unless there is a major issue, you tend to hold on to that socket for that platform. So when there is a new generation processor like Montevina or Griffin, it creates an opportunity to win new sockets that may have been owned by some other competitor.

The other thing that happens is kind of independent of the processor itself is that more and more capabilities keep getting put into the notebook platform and more and more high performance analog opportunities exist and in fact in some cases, you find some solutions that were previously dealt with by a commodity part that for space reasons, or power efficiency reasons, or what have you, end up becoming really a high performance analog opportunity in the future. So that's a trend as well that we think will continue. You saw that in Santa Rosa here that there were more opportunities because more functionality, more high performance sockets and I think we will see that as well in future generations when they are designed around Montevina or Griffin but that doesn't necessarily have anything to do with the particulars of the processor. Does that make sense?

**Unidentified Analyst**

Yes, it does, thank you for the clarification.

**David B. Bell - President, Chief Operating Officer and Director**

You are welcome.

**Unidentified Analyst**

And I was also wondering in that area if you are seeing any changes in power management and specifically is have you seen any penetration of digital power management in notebooks and any significant transition... changes there and how it interest your position?

**David B. Bell - President, Chief Operating Officer and Director**

Well, I think we are positioned very well when it comes to digital power, we have been recently demonstrating a digital power solution that's been net worth rave reviews, we are very, very pleased about the kind of feedback we are getting from customers. Having said that, I don't think that the notebook market is really going to be a good opportunity for digital power anytime soon, I think that the first opportunities for digital power are going to be more in the infrastructure market. Things like high availability servers, communications infrastructure, networking infrastructure equipment and so

forth. I think those are going to be the early adopters of digital power and probably not going to see any significant digital power opportunities in notebook for some time to come.

**Unidentified Analyst**

Okay great, thank you very much.

**David B. Bell - President, Chief Operating Officer and Director**

You are welcome

**Operator**

We have exhausted the time allotted for Q&A. I would now like to turn the presentation back over to Mr. Rich Beyer, CEO for closing remarks. Please proceed sir.

**Rich Beyer - Chief Executive Officer and Director**

Thank you. Let me just reiterate, we are very pleased with the third quarter, where we saw increasing demand across the very broad range of our product segments. We saw revenue at a record level since we became a pure play, high performance analog company. Our gross margins came down as we expected albeit we believe we held them quite solidly, given the strong growth in computing. Our operating margins expanding quite significantly and our earnings per share outgrew our revenue growth, which is part of the model that we have.

So we think it was a very, very solid quarter and as you can tell by virtue of the backlog that we go into this quarter that we believe this quarter is going to be a very, very solid quarter for Intersil and we are very proud of that. So, we think, we had a good quarter and we are going to have another good quarter. Thanks very much everybody for your interest and we'll see you in another 90 days. Thanks operator.

**Operator**

Thank you for you participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.

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