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Broadcom Corporation Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

Yes. Our first question comes from Randy Abrams from Credit Suisse. Please go ahead.

Randy Abrams – Credit Suisse

Yes, thank you. I wondered if you can elaborate on the gross margins. Just talk about the potential or what the moving parts would be to get back towards the 50% plus range? And then as baseband starts to ramp in second half, do you anticipate any initial drag from the baseband revenue?

Eric Brandt

Well, so Randy, I'll reiterate what I've said in the past. It's hard to draw conclusions about systemic gross margins in this kind of downturn. There are a couple of things going on. One is we have – with the significant drop in revenue you have the overhead absorption issue. The other thing that happens is we actually get an increase in excess and obsolete inventory and in fact, if you look at prior periods and prior downturns, whether you look at 2001 or 2004 or even today, that number, which is currently running at around 21% can get as high as 30% or 40%. So, as that number moves up and as you are adjusting for what's being demanded versus what you've actually got, and remember we are doing inventory planning off of the forecast, you do get that – you do get a hit from that.

In addition, I think we're in a very exciting cycle to optimize our chips. I've give examples on the road of chips where we have actually on second and third-generation 65-nanometer chips taking the same chip with the same functionality and cut die-size almost in half. And so, as we go through that I think that all of those will be benefits to the gross margin and as we sort of come out of the back half of the E&O increase, we get a bit of a tailwind that follows off of that. So I would say looking forward I'm cautiously optimistic depending on what happens in the rest of the market, but it's hard to draw a conclusion of that at this point in time. More on that I think as we go through the year.

Randy Abrams – Credit Suisse

Okay. And if we were to take the OpEx space, what's your projecting, there is a bump-up OpEx lower base into next quarter, but if you could talk about your target beyond that? If revenue continues to grow, do you expect to still hold OpEx flat through the year or as now that revenues are starting to come back up, is there any potential for core operating expenses starting to increase?

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