NSM F3Q Earnings Exceed the High-end of Expectations

Sales and GM Strength to Persist: Raising Est, Upgrade to Buy from Hold

Diluted Shares*(mil)*:	242.5
Market Cap*($mil)*:	$3,477
Avg Volume*(,000)*:	5,109
Net Cash/Share:	($1.55)
Quarter Dividend	$0.08

Closing Price 3/11/10
$14.34

Recommendation/Target
Buy from Hold/$22 from $18

fye May	**FY09** *act*	**FY10**	**FY11**	**FY12**
Revenue*($mil)*	$1,460.4	$1,405.9	$1,591.9	$1,722.2
EPS	$0.31	$0.82	$1.20	$1.38
Price/Sales	2.4	2.5	2.2	2.0
Price/EPS	46.3	17.5	12.0	10.4

National Semiconductor is a leading supplier of power management and amplifier analog integrated circuits primarily to high-end cell phone handsets and a broad array of industrial markets. It is expanding into solar module and LED lighting power management markets.

Summary: February-ended F3Q10 exceeded expectations due to broad-based industrial demand and record gross margins. Sales and bookings grew by 5% and management is guiding for revenue growth of +4+8% and even more margin this quarter. I am raising my estimates, increasing my 12-month target price to $22 from $18, and upgrading my recommendation to Buy from Hold. My enthusiasm for the business has significantly increased over the last two quarters, but lackluster share price movement has finally piqued my interest from a valuation perspective. My target price is based on just over 3-times sales and somewhat under 20-times earnings over the next two fiscal years.

NSM has the privilege of leading each earnings season by approximately four weeks due to its May-ending fiscal year. Its fiscal periods capture two of the three months of the calendar quarter, and offer the first view to investors of the actual performance of the prior quarter and guidance to the forthcoming one. However, the company's reputation as a leading indicator to industry business conditions has been somewhat corrupted due to the timing and profile of the current macroeconomic cycle, as well as the company's over-weighted exposure to Smart Phones.

F3Q Review: Sales of $361.9M grew by 5% and approached the high-end of published expectations, while EPS of $0.22 exceeded the high-end of published expectations. Revenue strength was from analog products to broad-based industrial markets predominantly served via distribution, and offset tempered seasonal weakness from wireless handsets. Record high gross margin of 67.3% improved by 200 basis points due to a richer mix of sales to industrial markets as well as continuing manufacturing cost savings. Inventory declined by $2M to $114M with days down by one to 88; AR days flat at 23 on linearity of shipments; cash up to $869 from $822 even after paying off scheduled debt of $16M; and operating margin was 26%.

	F3Q10					
FYE May, in millions	**Estimate**	**Actual**	**EPS Impact**	**Guidance**	**Consensus**	**Range**
Revenue	$344.6	$361.9	*$0.03*	$344.6	$348.6	342-363.8
Revenue Growth	0.0%	5.0%		0%	1.2%	-0.1%+5.6%
Gross Margin	65.0%	67.3%	*$0.03*	65.3%		
Operating Expenses	$148.0	$150.7	*($0.01)*	$146-$150		
Restruct/Impairment	$6	$7.0		$6-$8		
Interest/Other	($15.5)	($14.4)		($14.5)		
Tax Rate	29.0%	26.5%	*$0.01*	28%-30%		
Diluted Shares	241.8	242.5				
Diluted EPS	$0.16	$0.22	***$0.06***		$0.18	$0.16-$0.21

Orders grew by 5% from both OEMs and distributors in Asia and North America, instead of just distribution the prior quarter, and steadily improved each month during the period except for the typical holiday hiccup. European orders were down after unusual strength the prior quarter. Turns average in the 20% range, with highs in the low-30% and lows in the low-teens percentage. Last quarter turns increased and were at the high-end of the range, and this quarter they are expected to be more normal.

Distribution accounts for over 60% of sales and NSM is now treating distribution more favorably as partners after changing its strategy in recent quarters. Initial results are good, but spotty across regions and specific distributors—meaning potentially more gains to be had. Distribution resales increased due to improving demand, inventories grew to 9-10 weeks from an unusually lean 8-9 weeks, and are expected to remain flat this quarter. Inventory also

differs by region: Asia tends to run lean, but the US and Europe prefer to run richer, and the longer-term trend of business growth in Asia should structurally compress the distribution inventory week metric.

- ***Industrial***: industrial markets accounted for 45% of sales and grew by 14%, led by new SimpleSwitch integrated power management modules to well established power supply applications that also grew by 14% and accounted for 10% of total sales. 90% of industrial sales occur via distribution. NSM is also seeing early success in automotive infotainment communications and display application design wins at OEMs and suppliers in Europe, Japan and the US. LED power management accounted for 6% of total sales in applications including billboards, street lamps, light fixtures, reference designs at LED suppliers, automotive, and backlights for cell phones and notebook PCs.
- ***Mobile***: Mobile/wireless (handset) markets accounted for 25% of sales and declined by a less-than-seasonal 10% as Korean customer flatness partially offset declines at the other top five suppliers. Handset backlog is up this quarter and growth is expected to resume after last quarter's trough, with more aggressive additional design wins for power management, lighting and audio applications expected ramp in FY11.
- ***Comm/Networking:*** Communications and networking markets accounted for 13% of revenue and grew by over 20%, led by base station applications using power management, data converters, interface and timing products to European and Chinese OEMs supporting U.S. 3G, global GSM and Chinese TDSCDMA infrastructure build outs.
- ***Other***: The new Solar Magic power management offering for solar panels is expected to begin ramping production 2HCY10. Approximate revenue market exposure of 5% to PCs, under 10% to consumer, and 4-5% to displays.

Growth Strategy: With gross margins already in the high-60% range and incremental headroom from the Texas fab closure, other manufacturing savings, new product initiatives, and incremental revenue fall through of 70-80% with utilization only around 50%; management is now more aggressively pursuing revenue growth. In the short term the company is benefiting from competitive product availability constraints and extended lead times, in the medium term it is pursuing design opportunities that it had foregone in the past as a trade off to emphasize profitability, and longer term it is pursuing new products in solar energy, LED lighting and automotive markets.

On-Going Restructuring: Capital expenditures are expected to remain under 5% of sales for some time given current utilization of 49% can support quarterly revenue of $500-575M, depending on mix. The inventory build ahead of the Arlington, Texas fab closure will be complete this quarter, the facility will close early in FY11, and the balance of 200 basis point margin improvement will occur over 1HFY11. Utilization would be in the low-60% range if normalized for the Texas fab closure. Over 95% of production occurs in-house at NSM and there has been no significant change to product lead times with 80% of part types deliverable in 6 weeks or less. NSM plans to convert its UK fab to 8-inch wafers from 6-inches over the next couple of quarters which is expected to reap both cost and capacity benefits.

Management Guidance: The backlog this quarter is up, less turns are required to achieve revenue guidance, and all end-markets are expected to contribute. Management believes it is benefiting near-term from competitive delivery problems in power management products. F4Q guidance includes: revenue up by +4+8% to $375-390M; gross margin up again to 67-68% (up on volume but off some on a richer mix of recovering wireless handsets); R&D at $68-70M; SG&A at $76-79M; restructuring the Texas fab closure at $3-4M; stock compensation at $17M including $3M in COGS, $4M in R&D and $10M in SG&A; other expenses of $1M; interest expense at $14.5M; tax rate of 28-30%; and capital expenditures at $12-18M. The long-term business model remains gross margin in the mid- to high-60% and operating margin over 30%, and current gross margin strength and incremental revenue fall through allows the company to chase more revenue growth at this time.

Raising Estimates: My F4Q estimate is consistent with guidance and my expected revenue and earnings are increasing due to demonstrated sales and margin gains. I am also introducing FY12 estimates with this report.

	F4Q10		FY10		FY11		FY12
FYE May, in millions	**Previous**	**Update**	**Previous**	**Update**	**Previous**	**Update**	**New**
Revenue	$354.9	$385.0	$1,358.5	$1,405.9	$1,467.6	$1,591.9	$1,722.2
Revenue Growth	3.0%	6.4%	-7.0%	-3.7%	8.0%	13.2%	8.2%
Gross Margin	66.5%	67.5%	64.6%	65.5%	67.5%	68.6%	70.0%
Operating Expenses	$149.0	$147.0	$584.5	$585.2	$606.0	$608.7	$648.5
Restruct/Impairment	$3.0	$3.5	$14.0	$16.0	$0.0	$0.0	$0.0
Interest/Other	($15.5)	$15.5	($55.5)	($53.6)	($62.0)	($62.0)	($62.0)
Tax Rate	29.0%	29.0%	26.3%	26.1%	30.0%	30.0%	30.0%
Diluted Shares	243.0	243.5	240.9	241.2	246.0	246.5	251.3
Diluted EPS	$0.20	$0.27	$0.68	$0.82	$0.92	$1.20	$1.38

Problematic Valuation: At this point NSM is both a revenue growth and margin expansion story. However, the potential earnings leverage is muddied by the difference between GAAP and pro forma EPS for two reasons: the greater relative spread between the two calculations relative to its peers; and the fact that competitive peers prescribe their respective pro forma metrics, while NSM only reports GAAP and leaves whatever interpretation of pro forma up to individual analysts and investors.

The lack of prescribed pro forma earnings becomes an issue in terms of forecasting, which is inherently a pro forma exercise that tends to exclude restructuring and discrete events. All of NSM peers identified in the Relative Valuation table on Page 8 of this report (ADI, LLTC, MXIM, STM and TXN) specifically report both GAAP and pro forma earnings, and the spreads between the two are only a few cents a year (ADI) or a few cents a quarter. The problem with NSM is that the difference between GAAP and pro forma has been significant over the last couple of years, and there is a step-up in EPS where (pro forma) forecasting replaces (GAAP) historicals.

EPS	FY09	FY10	FY11	FY12
GAAP	$0.31	$0.82		
pro forma	$1.22	$1.14	$1.20	$1.38

Notice this summary table of my current estimates and pro forma calculations that exclude stock compensation, restructuring, and discrete tax and other income and expenses (details by quarter are included on the Income Statement on Page 4). The good news is a pronounced trend of EPS improvement if you look at reported GAAP and expected pro forma. The bad news is that pro forma EPS does not appear to be growing, which begs the question whether discrete items in the future will temper those pro forma expectations on a GAAP basis. If I value the shares based on price-earnings on a GAAP basis then they appear expensive due to depressed earnings, but if I value them on a pro forma basis they appear inexpensive—but lack meaningful growth. In addition, it opens up a whole can of worms about how my version of pro forma may or may not be consistent with that of other analysts and investors.

However, if I base my fundamental valuation on price-sales I can avoid the Pandora's Box of pro forma earnings and still credit the company with revenue growth. While earnings leverage is a meaningful part of the NSM story right now, attempts to give the company credit for such leverage is problematic.

Upgrading to Buy from Hold: Fundamental relative and intrinsic valuation metrics are specified on Page 7 of this report. NSM is trading below the average valuation metrics of its peers, although not so on an intrinsic historical basis. I attribute this to its extended history of compressed margins and profitability that has been demonstrably corrected in recent quarters. I am raising my 12-month target price to $22 from $18 based on slightly more than three-times sales for either FY11 or FY12 (right around $20), and/or somewhat less than 20-times earnings ($24 for FY11 and $27 for FY12). My enthusiasm for the business has significantly increased over the last two quarters due to sales and margin strength, but lackluster share price movement has finally piqued my interest from a valuation perspective. Upside potential finally appears to meaningfully exceed downside risk at current price levels.

GAAP EPS	**F4Q10**	**FY10**	**FY11**
Tokeneke-revised	*$0.27*	*$0.82*	*$1.20*
Tokeneke-previous	$0.20	$0.68	$0.92
Consensus-previous	$0.21	$0.72	$1.01
Highest Est-previous	$0.25	$0.78	$1.24
Lowest Est-previous	$0.17	$0.65	$0.68

Revenue			
Tokeneke-revised	*$385.0*	*$1,405.9*	*$1,591.9*
Tokeneke-previous	$354.9	$1,358.5	$1,467.6
Consensus-previous	$360.9	$1,370.0	$1,500.0
Highest Est-previous	$380.9	$1,400.0	$1,590.0
Lowest Est-previous	$345.0	$1,350.0	$1,440.0

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Income Statement | **www.national.com**

(dollars in thousands, except per share data) * restated

Fiscal year ends May

		FY2009 act					FY2010 est					FY2011					FY2012				
	FY08	Q1	Q2	Q3	Q4	FY09	Q1A	Q2A	Q3A	Q4	FY10	Q1	Q2	Q3	Q4	FY11	Q1	Q2	Q3	Q4	FY12
Sales	1,885.9	465.6	421.6	292.4	280.8	1,460.4	314.4	344.6	361.9	385.0	1,405.9	392.7	412.3	387.6	399.2	1,591.9	413.2	446.3	423.9	438.8	1,722.2
COGS	671.5	158.4	144.2	124.3	117.2	544.1	122.2	119.6	118.2	125.1	485.1	123.7	127.8	124.0	123.8	499.3	124.0	133.9	127.2	131.6	516.6
Gross Profit	1,214.4	307.2	277.4	168.1	163.6	916.3	192.2	225.0	243.7	259.9	920.8	269.0	284.5	263.6	275.5	1,092.5	289.2	312.4	296.8	307.1	1,205.5
R&D	363.0	89.6	91.6	72.9	51.9	306.0	65.3	68.2	69.0	69.0	271.5	69.7	71.8	71.8	72.5	285.7	73.9	76.2	76.2	78.1	304.4
SG&A	315.5	81.8	69.5	66.5	65.2	283.0	73.0	81.0	81.7	78.0	313.7	78.8	81.1	81.1	82.0	323.0	83.6	86.1	86.1	88.3	344.1
Restructuring/other	26.8	1.0	28.0	(1.6)	116.7	144.1	3.7	1.8	7.0	3.5	16.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Expense	705.3	172.4	189.1	137.8	233.8	733.1	142.0	151.0	157.7	150.5	601.2	148.5	152.9	152.9	154.5	608.8	157.5	162.3	162.3	166.3	648.4
Operating Income	509.1	134.8	88.3	30.3	(70.2)	183.2	50.2	74.0	86.0	109.4	319.6	120.5	131.6	110.6	121.0	483.8	131.7	150.1	134.5	140.8	557.1
Interest Income	(51.7)	(14.5)	(14.9)	(16.7)	(16.2)	(62.3)	(15.2)	(15.0)	(14.4)	(14.5)	(59.1)	(14.5)	(14.5)	(14.5)	(14.5)	(58.0)	(14.5)	(14.5)	(14.5)	(14.5)	(58.0)
Other Income, net	(6.2)	(2.8)	(12.3)	1.0	6.8	(7.3)	3.3	2.4	0.8	(1.0)	5.5	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)
Pretax Income	451.2	117.5	61.1	14.6	(79.6)	113.6	38.3	61.4	72.4	93.9	266.0	105.0	116.1	95.1	105.5	421.8	116.2	134.6	119.0	125.3	495.1
Taxes	118.9	37.9	24.8	(6.5)	(15.9)	40.3	8.5	14.4	19.2	27.2	69.3	31.5	34.8	28.5	31.7	126.5	34.9	40.4	35.7	37.6	148.5
Net Income	332.3	79.6	36.3	21.1	(63.7)	73.3	29.8	47.0	53.2	66.7	196.7	73.5	81.3	66.6	73.9	295.2	81.3	94.2	83.3	87.7	346.6
EPS-basic	$1.31	$0.34	$0.16	$0.09	($0.28)	$0.32	$0.13	$0.20	$0.22	$0.28	$0.83	$0.31	$0.34	$0.28	$0.30	$1.22	$0.33	$0.38	$0.34	$0.35	$1.41
Shares-basic	252.8	230.8	228.0	228.4	230.1	229.1	233.6	236.6	237.3	238.5	236.5	239.7	240.9	242.1	243.3	241.5	244.5	245.7	247.0	248.2	246.3
EPS-diluted	$1.26	$0.33	$0.16	$0.09	($0.28)	$0.31	$0.13	$0.20	$0.22	$0.27	$0.82	$0.30	$0.33	$0.27	$0.30	$1.20	$0.33	$0.38	$0.33	$0.35	$1.38
Shares-diluted	264.3	241.3	234.0	231.3	230.1	235.1	237.9	241.0	242.5	243.5	241.2	244.7	245.9	247.1	248.3	246.5	249.5	250.7	252.0	253.2	251.3
EPS-pro forma		$0.43	$0.36	$0.12	$0.29	$1.22	$0.22	$0.27	$0.32	$0.33	$1.14										
Margin Analysis																					
GM	64.4%	66.0%	65.8%	57.5%	58.3%	62.7%	61.1%	65.3%	67.3%	67.5%	65.5%	68.5%	69.0%	68.0%	69.0%	68.6%	70.0%	70.0%	70.0%	70.0%	70.0%
R&D	19.2%	19.2%	21.7%	24.9%	18.5%	21.0%	20.8%	19.8%	19.1%	17.9%	19.3%	17.7%	17.4%	18.5%	18.2%	18.0%	17.9%	17.1%	18.0%	17.8%	17.7%
SG&A	16.7%	17.6%	16.5%	22.7%	23.2%	19.4%	23.2%	23.5%	22.6%	20.3%	22.3%	20.1%	19.7%	20.9%	20.5%	20.3%	20.2%	19.3%	20.3%	20.1%	20.0%
Operating Income	27.0%	29.0%	20.9%	10.4%	-25.0%	12.5%	16.0%	21.5%	23.8%	28.4%	22.7%	30.7%	31.9%	28.5%	30.3%	30.4%	31.9%	33.6%	31.7%	32.1%	32.3%
Pretax Income	23.9%	25.2%	14.5%	5.0%	-28.3%	7.8%	12.2%	17.8%	20.0%	24.4%	18.9%	26.7%	28.2%	24.5%	26.4%	26.5%	28.1%	30.2%	28.1%	28.6%	28.7%
Tax Rate	26.4%	32.3%	40.6%	-44.5%	20.0%	35.5%	22.2%	23.5%	26.5%	29.0%	26.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income	17.6%	17.1%	8.6%	7.2%	-22.7%	5.0%	9.5%	13.6%	14.7%	17.3%	14.0%	18.7%	19.7%	17.2%	18.5%	18.5%	19.7%	21.1%	19.6%	20.0%	20.1%
Qtr-to-Qtr Growth																					
Revenue		0.8%	-9.5%	-30.6%	-4.0%		12.0%	9.6%	5.0%	6.4%		2.0%	5.0%	-6.0%	3.0%		3.5%	8.0%	-5.0%	3.5%	
Gross Profit		0.9%	-9.7%	-39.4%	-2.7%		17.5%	17.1%	8.3%	6.6%		3.5%	5.8%	-7.4%	4.5%		5.0%	8.0%	-5.0%	3.5%	
Operating Income		7.1%	-34.5%	-65.7%	-332%		-172%	47.4%	16.2%	27.2%		10.2%	9.2%	-15.9%	9.4%		8.8%	14.0%	-10.4%	4.7%	
Net Income		-4.3%	-54.4%	-41.9%	-402%		-147%	57.7%	13.2%	25.3%		10.3%	10.5%	-18.0%	10.9%		10.1%	15.8%	-11.6%	5.3%	
EPS		-1.8%	-53.8%	-42.0%	-399.7%		-146%	55.7%	12.9%	24.7%		9.8%	10.0%	-18.5%	10.3%		9.6%	15.3%	-12.0%	4.8%	
Year-to-Year Growth																					
Revenue	-2.3%	-1.3%	-15.5%	-35.5%	-39.2%	-22.6%	-32.5%	-18.3%	23.8%	37.1%	-3.7%	24.9%	19.7%	7.1%	3.7%	13.2%	5.2%	8.2%	9.4%	9.9%	8.2%
Gross Profit	3.6%	3.5%	-13.6%	-42.4%	-46.3%	-24.5%	-37.4%	-18.9%	45.0%	58.8%	0.5%	40.0%	26.4%	8.2%	6.0%	18.7%	7.5%	9.8%	12.6%	11.5%	10.3%
Operating Income	4.0%	2.0%	-38.6%	-71.7%	-156%	-64.0%	-62.8%	-16.2%	183.8%	-256%	74.4%	140.1%	77.8%	28.7%	10.6%	51.4%	9.3%	14.1%	21.6%	16.4%	15.2%
Net Income	-11.5%	-7.0%	-59.9%	-71.1%	-177%	-77.9%	-62.6%	29.5%	152.1%	-205%	168.3%	146.7%	72.9%	25.2%	10.8%	50.1%	10.6%	16.0%	25.1%	18.8%	17.4%
EPS	17.1%	8.8%	-54.5%	-68.9%	-179%	-75.7%	-63.0%	24.8%	142.7%	-201%	159.9%	140.5%	69.8%	22.7%	8.6%	47.0%	8.4%	13.7%	22.6%	16.4%	15.1%

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National Semiconductor

Financial Summary

(dollars in millions) * restated

Fiscal year ends May

	FY2007	FY2008	FY2009	F3Q09	F4Q09	F1Q10	F2Q10	F3Q10
Assets								
Cash and equivalents	828.6	736.8	700.3	777.1	700.3	734.1	821.7	868.6
Net accounts receivable	150.6	137.3	71.7	82.6	71.7	84.3	87.6	87.4
Quick Assets	979.2	874.1	772.0	859.7	772.0	818.4	909.3	956.0
Inventories	176.0	148.6	134.6	149.6	134.6	123.0	116.4	113.9
Other	135.3	148.9	190.2	126.7	190.2	211.0	208.5	185.9
Current Assets	1,290.5	1,171.6	1,096.8	1,136.0	1,096.8	1,152.4	1,234.2	1,255.8
Property, plant and eqt, net	583.5	557.3	461.8	542.0	461.8	425.8	416.0	419.2
Goodwill	63.6	60.5	61.5	60.5	61.5	61.5	66.1	66.1
Deferred tax assets	197.8	247.5	241.9	273.4	241.9	253.9	256.7	258.5
Other assets	69.9	112.2	101.3	101.5	101.3	97.9	102.5	103.3
Total Assets	2,205.3	2,149.1	1,963.3	2,113.4	1,963.3	1,991.5	2,075.5	2,102.9
Liabilities and Shareholders Equity								
Current portion of long-term debt	0.0	62.5	62.5	187.5	62.5	312.5	339.0	339.0
Accounts payable	59.9	53.5	40.3	47.6	40.3	47.3	41.7	45.8
Accrued expenses	122.7	180.3	144.6	119.9	144.6	129.8	161.2	165.1
Income taxes payable	117.4	12.3	28.2	33.4	28.2	7.4	17.0	14.3
Current Liabilities	300.0	308.6	275.6	388.4	275.6	497.0	558.9	564.2
Long-term debt	20.6	1,414.8	1,227.4	1,244.4	1,227.4	962.9	921.8	906.2
Other	157.7	228.8	283.3	227.9	283.3	289.7	298.6	285.2
Total Liabilities	478.3	1,952.2	1,786.3	1,860.7	1,786.3	1,749.6	1,779.3	1,755.6
Common stock	155.1	116.3	116.3	114.8	116.3	118.3	118.9	119.0
Additional paid-in capital	0.0	0.0	67.6	25.7	67.6	119.4	145.0	161.9
Retained earnings	1,685.7	167.4	116.8	199.5	116.8	127.9	156.0	190.1
Accumulated other comp. loss	(113.8)	(86.8)	(123.7)	(87.3)	(123.7)	(123.7)	(123.7)	(123.7)
Total Shareholders Equity	1,727.0	196.9	177.0	252.7	177.0	241.9	296.2	347.3
Total Liabilities and Equity	2,205.3	2,149.1	1,963.3	2,113.4	1,963.3	1,991.5	2,075.5	2,102.9
Sales and Income								
Revenue	1,929.9	1,885.9	1,460.4	292.4	280.8	314.4	344.6	361.9
COGS	757.7	671.5	544.1	124.3	117.2	122.2	119.6	118.2
Net income	375.3	332.3	73.3	21.1	(63.7)	29.8	47.0	53.2
Other								
Capital Expenditures	106.6	94.7	82.6	20.6	6.9	5.9	8.5	9.5
Depreciation and Amortization	144.7	132.7	119.8	30.5	27.8	25.0	22.8	23.8
Shares (weighted average diluted)	334.2	264.3	235.1	231.3	230.1	237.9	241.0	242.5
Employees (units)				6,500	6,000			
Dividends Paid	45.1	50.6	64.4	18.3	18.4	18.7	18.9	19.1
Stock Repurchased		2,123.5	128.4	0.4	0.0	0.0	0.0	0.0
Ratios								
Liquidity								
Quick Ratio	3.26	2.83	2.80	2.21	2.80	1.65	1.63	1.69
Current Ratio	4.30	3.80	3.98	2.92	3.98	2.32	2.21	2.23
Leverage								
Debt Ratio	0.22	0.91	0.91	0.88	0.91	0.88	0.86	0.83
Long-term Debt/Capital	0.08	0.76	0.77	0.70	0.77	0.63	0.59	0.57
Asset Management								
Fixed Asset Turnover	3.3	3.3	2.9	2.1	2.2	2.8	3.3	3.5
Total Asset Turnover	0.9	0.9	0.7	0.5	0.6	0.6	0.7	0.7
Recievables DSO	28	26	18	25	23	24	23	22
Inventory Days	84	80	89	108	103	91	88	87
Inventory Turns	4.3	4.1	3.8	3.3	3.3	3.8	4.0	4.1
Profitability								
Gross Margin	60.7%	64.4%	62.7%	57.5%	58.3%	61.1%	65.3%	67.3%
Net Margin	19.4%	17.6%	5.0%	7.2%	-22.7%	9.5%	13.6%	14.7%
Return on Assets	17.0%	15.3%	3.6%	4.0%	-12.5%	6.0%	9.2%	10.2%
Return on Equity	21.7%	34.5%	39.2%	36.2%	-118.6%	56.9%	69.9%	66.1%
Per Share Data								
Book Value/Share	$5.17	$0.74	$0.75	$1.09	$0.77	$1.02	$1.23	$1.43
Tangible Book Value/Share	$4.98	$0.52	$0.49	$0.83	$0.50	$0.76	$0.95	$1.16
Gross Cash/Share	$2.48	$2.79	$2.98	$3.36	$3.04	$3.09	$3.41	$3.58
Net Cash/Share	$2.42	($2.80)	($2.51)	($2.83)	($2.56)	($2.28)	($1.82)	($1.55)
Earnings/Share	$1.12	$1.26	$0.31	$0.09	($0.28)	$0.13	$0.20	$0.22

National Semiconductor

Sales Analysis

dollars in millions

Fiscal year ends May

	F2007					F2008					F2009					FY2010		
	F1Q	F2Q	F3Q	F4Q	FY07	F1Q	F2Q	F3Q	F4Q	FY08	F1Q	F2Q	F3Q	F4Q	FY09	F1Q	F2Q	F3Q
Revenue by Product																		
Power	222.0	220.7	202.6	209.7	855.0	212.2	239.5	213.1	217.1	881.9	218.8	193.9	137.4	129.2	679.4	154.1	172.3	-
Amplifiers/Comparators	108.3	105.3	103.4	114.0	431.0	117.9	129.7	104.3	110.9	462.8	107.1	101.2	64.3	64.6	337.2	122.6	134.4	-
Interface	48.7	40.1	34.5	31.9	155.2	37.7	44.9	36.3	37.0	155.9	51.2	46.4	29.2	30.9	157.7	-	-	-
Data Converters	32.5	25.1	21.6	22.8	101.9	23.6	25.0	22.7	23.1	94.3	23.3	21.1	17.5	14.0	75.9	-	-	-
Other Analog	54.1	35.1	21.6	22.8	133.6	37.7	20.0	27.2	18.5	103.4	14.0	12.6	11.7	14.0	52.4	16.2	15.9	-
Total Analog	465.6	426.4	383.6	401.2	1,676.7	429.1	459.1	403.5	406.6	1,698.2	414.4	375.2	260.2	252.7	1,302.6	292.8	322.5	-
Non-Analog	75.8	75.2	47.4	50.1	248.6	42.4	44.9	49.9	50.8	188.0	46.6	42.2	32.2	28.1	149.0	21.7	22.1	-
Total Revenue	541.4	501.6	431.0	455.9	1,925.3	471.5	499.0	453.4	462.0	1,886.3	465.6	421.6	292.4	280.8	1,451.5	314	345	362
Growth																		
Power		-0.6%	-8.2%	3.5%		1.2%	12.9%	-11.0%	1.9%	3.2%	0.8%	-11.4%	-29.1%	-6.0%	-23.0%	19.3%	11.8%	
Amplifiers/Comparators		-2.7%	-1.8%	10.2%		3.4%	10.1%	-19.6%	6.3%	7.4%	-3.4%	-5.5%	-36.4%	0.4%	-27.1%	12.0%	9.6%	
Interface		-17.6%	-14.1%	-7.4%		18.2%	19.1%	-19.2%	1.9%	0.4%	38.6%	-9.5%	-37.0%	5.6%	1.2%			
Data Converters		-22.8%	-14.1%	5.8%		3.4%	5.8%	-9.1%	1.9%	-7.5%	0.8%	-9.5%	-16.8%	-20.0%	-19.5%			
Other Analog		-35.1%	-38.6%	5.8%		65.5%	-47.1%	36.3%	-32.1%	-22.6%	-24.4%	-9.5%	-7.5%	20.0%	-49.4%	15.1%	-1.9%	
Total Analog		-8.4%	-10.0%	4.6%		6.9%	7.0%	-12.1%	0.8%	1.3%	1.9%	-9.5%	-30.6%	-2.9%	-23.3%	15.9%	10.1%	
Non-Analog		-0.7%	-37.0%	5.8%		-15.4%	5.8%	11.1%	1.9%	-24.4%	-8.4%	-9.5%	-23.7%	-12.7%	-20.8%	-22.7%	1.7%	
Total Revenue		-7.4%	-14.1%	5.8%		3.4%	5.8%	-9.1%	1.9%	-2.0%	0.8%	-9.5%	-30.6%	-4.0%	-23.0%	12.0%	9.6%	5.0%
Revenue Percent																		
Power	41.0%	44.0%	47.0%	46.0%	44.4%	45.0%	48.0%	47.0%	47.0%	46.8%	47.0%	46.0%	47.0%	46.0%	46.8%	49.0%	50.0%	
Amplifiers/Comparators	20.0%	21.0%	24.0%	25.0%	22.4%	25.0%	26.0%	23.0%	24.0%	24.5%	23.0%	24.0%	22.0%	23.0%	23.2%	39.0%	39.0%	
Interface	9.0%	8.0%	8.0%	7.0%	8.1%	8.0%	9.0%	8.0%	8.0%	8.3%	11.0%	11.0%	10.0%	11.0%	10.9%			
Data Converters	6.0%	5.0%	5.0%	5.0%	5.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%	5.0%	5.2%			
Other Analog	10.0%	7.0%	5.0%	5.0%	6.9%	8.0%	4.0%	6.0%	4.0%	5.5%	3.0%	3.0%	4.0%	5.0%	3.6%	5.1%	4.6%	
Total Analog	86.0%	85.0%	89.0%	88.0%	87.1%	91.0%	92.0%	89.0%	88.0%	90.0%	89.0%	89.0%	89.0%	90.0%	89.7%	93.1%	93.6%	
Non-Analog	14.0%	15.0%	11.0%	11.0%	12.9%	9.0%	9.0%	11.0%	11.0%	10.0%	10.0%	10.0%	11.0%	10.0%	10.3%	6.9%	6.4%	
Total Revenue	100.0%	100.0%	100.0%	99.0%	100.0%	100.0%	101.0%	100.0%	99.0%	100.0%	99.0%	99.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Revenue by Region																		
Asia-Pacific					885.7					924.3					693.8			
Americas					423.6					377.3					341.1			
Europe					404.3					339.5					310.1			
Japan					211.8					245.2					115.4			
Total					1,925.3					1,886.3					1,460.4			
Revenue Percent																		
Asia-Pacific					46.0%					49.0%					47.5%			
Americas					22.0%					20.0%					23.4%			
Europe					21.0%					18.0%					21.2%			
Japan					11.0%					13.0%					7.9%			
Total					100.0%					100.0%					100.0%			
Revenue by Market																		
Handsets/Mobile											33%	30%	30%	30%		30%	30%	25%
Communication/Network											10%	12%	12%	12%		12%	12%	13%
Industrial											38%	38%	38%	38%		40%	40%	45%
Other											19%	20%	20%	20%		18%	18%	17%
Total											100%	100%	100%	100%		100%	100%	100%
Revenue by Customer																		
Avnet					14.0%					15.0%					15.0%			
Arrow					13.0%					12.0%					13.0%			
Nokia										11.0%								
Other																		
Orders											-7%	-33%	-25%	30%		17%	17%	5%
Utilization											70%	66%	37%	38%		46%	46%	49%

National Semiconductor

Valuation

Relative Valuation

Company	Ticker	Price 3/11/10	52-Week Low	52-Week High	CY EPS 2008	CY EPS 2009	CY EPS 2010	CY EPS 2011	CY P/E 2008	CY P/E 2009	CY P/E 2010	CY P/E 2011	Diluted Shares(mil)	CAP ($ mil)	Price-Sales TTM	Price-Sales Cur FY	Price-Sales Nxt FY	FY Ends	Qtr Div/sh	Div Yield
National Semiconductor *	**NSM**	**14.34**	**9.30**	**16.20**	**1.42**	**0.33**	**1.28**	**1.28**	**10.1**	**43.5**	**11.2**	**11.2**	**243**	**3,477**	**2.7**	**2.5**	**2.2**	**May**	**$0.08**	**2.2%**
Analog Devices	ADI	29.17	18.59	32.19	1.55	1.22	2.07	2.23	18.8	23.9	14.1	13.1	305	8,894	4.2	3.5	3.3	Oct	$0.20	2.7%
Linear Technology	LLTC	27.68	20.26	31.21	1.99	1.37	1.63	1.85	13.9	20.2	17.0	15.0	228	6,322	7.0	6.0	5.2	Jun	$0.23	3.3%
Maxim Integrated Products	MXIM	19.14	11.69	21.00	0.48	0.52	1.12	1.43	39.9	36.8	17.1	13.4	310	5,935	3.6	3.0	2.7	Jun	$0.20	4.2%
STMicroelectronics	STM	9.27	4.20	10.28	0.44	-0.73	0.48	0.75	21.1	NM	19.3	12.4	878	8,142	1.0	0.8	0.8	Dec-ADR	$0.03	1.3%
Texas Instruments *	TXN	24.07	15.34	27.00	1.58	1.26	2.14	2.37	15.2	19.1	11.2	10.2	1,257	30,256	2.9	2.3	2.1	Dec	$0.12	2.0%
Average									21.8	25.0	15.7	12.8			3.7	3.1	2.8			

** Tokeneke estimate*
Source: consensus as of 3/11/10

Historical Valuation

Company	Ticker	Price 3/11/10	Trailing 12-month Price/Earnings Current	Price/Earnings Historical*	Price/Sales Current	Price/Sales Historical*	Price/Book Current	Price/Book Historical*
National Semiconductor	NSM	$14.34	13.0		2.7		10.0	
			Average	36.6	**Average**	2.1	**Average**	6.0
			High	600.0	**High**	6.6	**High**	111.0
			Low	7.1	**Low**	0.2	**Low**	0.5

** weekly since 1990*

Tokeneke Research LLC — *Company Overview*

Semiconductor Industry Analysis and Insight

The Company

Tokeneke Research is an independent research firm specializing in semiconductor industry business issues, providing fundamental research focused on US equities across all market capitalizations within the sector to investors. The company was founded in 2005 and is based in Connecticut.

The Offering

- *Monthly Newsletter:* A summarized review of noteworthy industry business developments, sales statistics, and sector equity market performance, as well as a near-term and annual outlook for sector business fundamentals and share prices. This report typically includes two pages of text and a handful of recurring charts and tables. It is intended for relatively broad-based distribution.
- *Industry Reports:* A semi-annual publication offering insight and perspective to industry-wide, multi-year forecast updates; periodic sub-sector product type and/or end-market reviews; fundamental and valuation perspectives on sector equity relationships; and an industry introduction and overview. These are more detailed reports with varying shelf-lives, and are intended for narrow distribution to interested clients.
- *Company Reports:* Fundamental equity research including earnings estimates and customized valuation analysis.
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Publications are distributed via email in .pdf format, unless otherwise requested. Client confidentiality and customized research exclusivity accommodated. Rates vary with the nature, duration, and terms of offerings.

My Background

I have an electrical engineering background, nearly 12 years of semiconductor industry experience, and was on Wall Street for nearly eight years where I was selected as the Best On The Street semiconductor analyst for 2002 by The Wall Street Journal, and third-rated Best of the Best across all sectors.

I obtained my undergraduate BS degree in electrical engineering from the University of Washington, and my MBA from Santa Clara University. My industry experience consists of nearly 12 years in various technical sales and marketing roles at four different semiconductor firms located in Silicon Valley beginning with Advanced Micro Devices in 1984, followed by two small start-up companies, and ending at Cirrus Logic where I supported the firm's Japanese market development. I joined Fahnestock & Co. as a senior semiconductor analyst in 1996 and was recruited by Needham & Co. in April 2000.

My formal coverage list as a sell-side analyst included the following equities: AMD, ALSC, ALTR, ARTI, ATML, CUBE, CY, ESST, GNSS, INTC, ISSI, LSI, MOSY, MU, OIIM, OVTI, RMTR, SIII, SMSC, STEC, SVTG, TDFX, TSRA, TXN, and ZRAN.

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