

NXPI 4Q Exceeds on Mobile and Disti, Inventory Still Correcting

NXPI	22 est.	NXP Semi	CY24rev:	-2%
Qtr:	4Q	Grade:	D	Growth (qtr-qtr)
Rev:	3,422	Rev:	+++	Rev: -0.3%
GM:	58.7%	EPS:	++	Fcst: -12-6%
EPS:	\$3.71	Fcst:	--	Div: \$1.014

NXP Semiconductors (NXPI \$257.51 +7.78 on 3/1/24)

4Q Earnings: NXPI announced sequentially declining 4Q earnings on February 6 that exceeded expectations and the mid-point of guidance due to better than expected Mobile sales and a richer mix of distribution channel business. 1Q guidance reflects continued market weakness while factory utilization is maintained until Automotive and Industrial customer and channel inventories normalize mid-2024.

4Q Results: Revenue was slightly above the midpoint of guidance thanks to Mobile, while gross profit was above the midpoint of guidance due to greater distribution sales—although channel inventory remained flat at 1.5 months, below its long-term target of 2.5. Direct customer inventory normalization also continues as management chooses to keep inventory in-house and redirect it as needed. Operating cash flow was \$1.14B, cap ex \$175M, \$261M dividends paid and \$434M shares were repurchased.

2023 revenue grew by +1% to \$13.28B as a +8.1% price increase (except Mobile) offset higher input costs to maintain gross margin, while unit volumes declined by -7.6% across all end markets. NXPI intentionally under-shipped to end-demand to limit channel and customer inventory builds. Operating cash flow was \$3.51B, cap ex \$826M, 5.46M shares repurchased for \$1.05 billion and dividends totaled \$1.01B. No customers over 10% of sales out of 25K total, although distributor Avnet was 21%.

Automotive: Automotive revenue 4Q was flat sequentially, consistent with guidance. For the year it grew by +9% to account for 56% of total sales on higher pricing and growth from processors, advanced analog and connectivity, partially offset by lower unit volumes and declining ADAS-Safety products. Radar revenue was weak amid now-corrected inventory digestion across a concentrated customer base, but ultra-wideband is now shipping across 7 platforms and has won 18 out of 20 with another 15 in eval.

Annual non-cancelable/non-refundable (NCNR) agreements have expired, but were instrumental in providing early visibility to weakness 2Q23. Automotive inventory normalization efforts began then and management believes it will be balanced by mid-2024 with shipments then tracking to end-demand. For the record, that summary grossly over-simplifies: wide ranges of inventory levels across different customers (2-18 weeks); jockeying inventories between OEMs and Tier 1's; and ever-changing targets depending on end-demand mix and magnitude—whose growth rates have recently softened somewhat. Only 40% of Automotive goes through distribution, and eight of the Top 10 customers last year were automotive: Aptiv, Bosch, Continental, Denso, Hyundai, LGE Automotive, Visteon, and Vitesco.

Industrial and IoT: Industrial/IoT revenue 4Q grew +9% sequentially, also consistent with guidance. Annual sales declined by -13% to 18% of revenue as market weakness across the entire product portfolio more than offset price increases. Business bottomed 1Q23 and channel inventories were tightly managed throughout the year. 80% of Industrial/IoT goes through distribution serving tens of thousands customers of which the majority are in China and APAC.

IoT is about 40% of the segment and is largely China-oriented distribution business. It troughed 1Q23 and has gradually improved since, but is still below peak. The core Industrial part troughed in 2Q23 and is suffering a little bit more from over-inventory and end market weakness as well.

(Verbiage continues on Page 3)

NXPI Financials

	2021	2022					2023				
		1Q	2Q	3Q	4Q	2022	1Q	2Q	3Q	4Q	2023
End-Market											
Automotive	5,493	1,557	1,713	1,804	1,805	6,879	1,828	1,866	1,891	1,899	7,484
Industrial & IoT	2,410	682	713	713	605	2,713	504	578	607	662	2,351
Mobile	1,412	401	388	410	408	1,607	260	284	377	406	1,327
Comm Infra/Other	1,748	496	498	518	494	2,006	529	571	559	455	2,114
Total Revenue	11,063	3,136	3,312	3,445	3,312	13,205	3,121	3,299	3,434	3,422	13,276
non-GAAP											
Gross Profit	6,205	1,807	1,915	1,999	1,922	7,643	1,816	1,926	2,010	2,010	7,762
Gross Margin	56.1%	57.6%	57.8%	58.0%	58.0%	57.9%	58.2%	58.4%	58.5%	58.7%	58.5%
Operating Profit	3,641	1,119	1,193	1,271	1,208	4,791	1,085	1,155	1,203	1,219	4,662
Operating Margin	32.9%	35.7%	36.0%	36.9%	36.5%	36.3%	34.8%	35.0%	35.0%	35.6%	35.1%
EPS (GAAP)	6.79	2.48	2.53	2.79	2.76	10.55	2.35	2.67	3.01	2.68	10.70
EPS (non-GAAP)							3.19	3.43	3.70	3.71	14.01
Dividends/Share	2.250	0.845	0.845	0.845	0.845	3.380	1.014	1.014	1.014	1.014	4.056
End-Market Percent											
Automotive	49.7%	49.6%	51.7%	52.4%	54.5%	52.1%	58.6%	56.6%	55.1%	55.5%	56.4%
Industrial & IoT	21.8%	21.7%	21.5%	20.7%	18.3%	20.5%	16.1%	17.5%	17.7%	19.3%	17.7%
Mobile	12.8%	12.8%	11.7%	11.9%	12.3%	12.2%	8.3%	8.6%	11.0%	11.9%	10.0%
Comm Infra/Other	15.8%	15.8%	15.0%	15.0%	14.9%	15.2%	16.9%	17.3%	16.3%	13.3%	15.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
End-Market Growth											
Automotive			10.0%	5.3%	0.1%	25.2%	1.3%	2.1%	1.3%	0.4%	8.8%
Industrial & IoT			4.5%	0.0%	-15.1%	12.6%	-16.7%	14.7%	5.0%	9.1%	-13.3%
Mobile			-3.2%	5.7%	-0.5%	13.8%	-36.3%	9.2%	32.7%	7.7%	-17.4%
Comm Infra/Other			0.4%	4.0%	-4.6%	14.8%	7.1%	7.9%	-2.1%	-18.6%	5.4%
Total			5.6%	4.0%	-3.9%	19.4%	-5.8%	5.7%	4.1%	-0.3%	0.5%
Channel Revenue											
Distributors	6,325	1,680	1,829	1,876	1,876	7,261	1,491	1,679	1,947	2,078	7,195
OEM/EMS	4,587	1,412	1,441	1,525	1,397	5,775	1,594	1,596	1,463	1,310	5,963
other	151	44	42	44	39	169	36	24	24	34	118
Total	11,063	3,136	3,312	3,445	3,312	13,205	3,121	3,299	3,434	3,422	13,276
Channel Percent											
Distributors	57.2%	53.6%	55.2%	54.5%	56.6%	55.0%	47.8%	50.9%	56.7%	60.7%	54.2%
OEM/EMS	41.5%	45.0%	43.5%	44.3%	42.2%	43.7%	51.1%	48.4%	42.6%	38.3%	44.9%
other	1.4%	1.4%	1.3%	1.3%	1.2%	1.3%	1.2%	0.7%	0.7%	1.0%	0.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Geography											
China	4,180	1,069	1,173	1,260	1,198	4,700	947	1,031	1,150	1,238	4,366
APAC	3,471	998	1,036	1,046	1,085	4,165	975	958	906	902	3,741
EMEA	2,036	638	668	672	604	2,582	725	797	866	708	3,096
Americas	1,376	431	435	467	425	1,758	474	513	512	574	2,073
Total	11,063	3,136	3,312	3,445	3,312	13,205	3,121	3,299	3,434	3,422	13,276
Geography Percent											
China	37.8%	34.1%	35.4%	36.6%	36.2%	35.6%	30.3%	31.3%	33.5%	36.2%	32.9%
APAC	31.4%	31.8%	31.3%	30.4%	32.8%	31.5%	31.2%	29.0%	26.4%	26.4%	28.2%
EMEA	18.4%	20.3%	20.2%	19.5%	18.2%	19.6%	23.2%	24.2%	25.2%	20.7%	23.3%
Americas	12.4%	13.7%	13.1%	13.6%	12.8%	13.3%	15.2%	15.6%	14.9%	16.8%	15.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Mobile: Mobile revenue 4Q grew a better-than-expected +8% sequentially. 2023 sales declined by -17% and accounted for 10% of total revenue due to handset market weakness and inventory digestion of advanced analog and mobile wallet products. Ultra-wideband has been slow, but has been adopted by a few premier handset OEMs. Android inventory has been digested and the company is now shipping to end demand, while non-Android is in decent shape. Two Top 10 customers include Samsung and Apple.

Communication Infrastructure and Other: Comm/Other revenue 4Q declined by a worse-than-expected -19% sequentially. For the year it grew by +5% to account for 16% of total sales due to increasing sales of secured card and tracking solutions, higher pricing, and last-time buys of select legacy network processors, partially offset by a decline in RF Power for cellular base stations and connectivity products.

Guidance (non-GAAP): 1Q revenue at \$3.125B +/- \$100M with Automotive down mid-single-digits, Industrial/IoT down low-double-digits, Mobile down mid-teens, and Comm/Other down low double-digits. Gross margin 58% +/-50 basis points due to lower distribution sales to maintain inventory at 1.6-months or below, operating expenses \$755M +/- \$10M, operating margin 33.9%, financial expense \$66M, tax rate 16.9%, non-controlling interest \$3M, 259M shares, cap ex at 7%, and EPS of \$3.17.

2024 revenue is expected to be flat with a weak 1H and stronger 2H, gross margin 58% +/-50bps, op ex 23% of sales, tax rate 16.4-17.4%, stock-comp \$480M, non-controlling interests \$25M, and cap ex 6-8% of sales. IoT and Mobile troughed in 1Q23 and the gradual improvement since then is expected to continue this year. Automotive and core Industrial inventory began correcting 2Q23 and is expected resume growth 2H24. The recent Comm/Other decline is expected to persist this year. Factory utilization (40% of wafers are internal) will stay at low/mid-70% until inventory normalizes; the company plans to expand its distribution customer reach; and will keep returning all excess free cash flow to shareholders.

Valuation: On a TTM, current and next FY basis, price/sales is at 5.0x, 5.1x and 4.7x, respectively, while price/earnings is at 18.4x, 18.8x and 16.5x on expected sales and earnings growth next year. Price/book is at 7.8x but swings negative on a tangible basis and the company's debt drives net cash negative, although free cash flow is positive and the company continues to repurchase shares. Valuation metrics appear generally consistent with current expectations, with incremental upside potential depending on the magnitude of growth from automotive and industrial markets 2H24, in my opinion.

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LEGEND		Grade	
+++	exceeded the high-end of the range	A	all +++
++	above consensus, within the high-end of the range	B	all +
+	slightly above consensus	C	all o/+
o	met consensus	D	mixed -o/+
-	slightly below consensus	E	all o/-
--	missed consensus, within the low-end of the range	F	all -
---	missed the low-end of the range		

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