

CONEXANT SYSTEMS INC
Form 425
January 10, 2011

1

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SMSC Announces Agreement
to Acquire Conexant Systems, Inc.

January 10, 2011

Filed pursuant to Rule 425 under the Securities Act of 1933 and deemed filed
pursuant to Rule 14a-12 under the Securities Exchange Act of 1934

Filing Person: Standard Microsystems Corporation
Commission File No.: 0-7422

Subject Company: Conexant Systems, Inc.
Commission File No.: 000-24923

2

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Additional Information

n Additional Information About This Transaction

n In connection with the proposed transaction, SMSC will file with the Securities and Exchange Commission (the “SEC”) a Registration Statement on Form S-4 that will include a proxy statement of Conexant and a prospectus of SMSC. The definitive proxy statement/prospectus will be mailed to stockholders of Conexant. Conexant and SMSC urge investors and security holders to read the proxy statement/prospectus regarding the proposed transaction when it becomes available because it will contain important information about the proposed transaction. You may obtain a free copy of the proxy statement/prospectus (when available) and other related documents filed by SMSC and Conexant with the SEC at the SEC’s website at www.sec.gov. The proxy statement/prospectus (when it is available) and other documents filed by SMSC or Conexant with the SEC relating to the proposed transaction may also be obtained for free by accessing SMSC’s website at www.smsc.com by clicking on the link for “Investor Relations”, then clicking on the link for “SEC Filings” or by accessing Conexant’s website at www.conexant.com and clicking on the “Investors” link and then clicking on the link for “Financial Information” and then clicking on the link for “SEC Filings”.

n Participants in This Transaction

n SMSC, Conexant and their respective directors, executive officers and certain other members of management and employees may be deemed to be participants in the solicitation of proxies from Conexant stockholders in connection with the proposed transaction. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of Conexant stockholders in connection with the proposed transaction, including the interests of such participants in the proposed transaction, will be set forth in the proxy statement/prospectus when it is filed with the SEC. You can find information about SMSC’s executive officers and directors in SMSC’s definitive proxy statement filed with the SEC on June 14, 2010. You can find information about Conexant’s executive officers and directors in Conexant’s definitive proxy statement filed with the SEC on December 10, 2010. You can obtain free copies of these documents from SMSC or Conexant, respectively, using the contact information above.

n

n Forward Looking Statements

n Except for historical information contained herein, the matters set forth in this document are forward-looking statements about expected future events and financial and operating results that involve risks and uncertainties. These uncertainties may cause SMSC’s or Conexant’s actual future results to be materially different from those discussed in the forward-looking statements. These risks and uncertainties include risks relating to the ability to obtain regulatory approvals of the transaction on the proposed terms and schedule; the failure of Conexant stockholders to approve the transaction; a failure to consummate or delay in consummating the Merger for other reasons; the risk

that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; competition and its effect on pricing, spending, third-party relationships and revenues; and other risks relating to the companies' businesses set forth in their filings with the SEC.

n Our forward looking statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations and may not reflect the potential impact of any future acquisitions, mergers or divestitures. All forward-looking statements speak only as of the date hereof and are based upon the information available to SMSC and Conexant at this time. Such statements are subject to change, and SMSC and Conexant do not undertake to update such statements, except to the extent required under applicable law and regulation. These and other risks and uncertainties, including potential liability resulting from pending or future litigation, are detailed from time to time in SMSC's and Conexant's reports filed with the SEC. Investors are advised to read each company's Annual Report on Form 10-K and quarterly reports on Form 10-Q filed with the SEC, particularly those sections entitled "Other Factors That May Affect Future Operating Results" or "Risk Factors" for a more complete discussion of these and other risks and uncertainties.

3

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Agreement Overview

Transaction Value

Anticipated Closing

Conditions

Approximately \$2.25 per share - \$1.125 in cash and \$1.125 in stock (but no more than 0.04264 nor less than 0.03489 SMSC shares)

Approximately \$284 million, including the assumption of Conexant's net debt

First Half of Calendar Year 2011

Satisfaction of regulatory requirements, approval by Conexant shareholders and other customary closing conditions

Terms

Accretive Deal

Accretive to non-GAAP gross margin, non-GAAP operating margin and non-GAAP EPS, immediately upon closing

Expect \$8 - \$10M in annualized pre-tax cost synergies by end of Q4 Fiscal 2012

4

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A History of Serving The Semiconductor Industry

n Leading developer of connectivity solutions that deliver data and multimedia content in PCs, automobiles and portable consumer devices

n Headquarters: Hauppauge, NY

n Year Founded: 1971

n Key Product Lines:

Computing & Connectivity Products

Automotive Products

Consumer Electronics Solutions

Analog Products

n Employees: ~1,000

n Worldwide Offices: North America, EMEA, Asia and Japan

n Leading designer of semiconductor solutions for imaging, audio, embedded modem, and video surveillance applications

n Headquarters: Newport Beach, CA

n Year Founded: 1999

n Key Product Lines:

Imaging

Audio

Embedded Modems

Video Surveillance

n Employees: ~600

n Worldwide Offices: North America, EMEA, Asia and Japan

5

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Automotive

Embedded Controller

Industrial Networking

Portable Products

PCs

Storage

Video & Graphics

Wireless Audio

Security

Battery Charging

USB Connectivity

Ethernet

Portable Power

USB Hubs

USB

Docking &

Accessories

SMSC Extending Connectivity to Content

USB

USB

USB

USB

6

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Conexant Market Segments

Imaging

Audio

Video

Embedded

Modem

Multifunction Printer SOC

and Fax

Interactive Displays

Tablet PCs

PC Audio

Speakers/Intercom

USB Headsets/Personal

Media Players

Video

Home alarm solutions

PCTV

STB modems

POS terminal

PC Modem

7

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Automotive

Embedded Controller

Industrial Networking

Portable Products

PCs

Storage

Video & Graphics

Security

Battery Charging

USB Connectivity

Ethernet

Docking &

Accessories

Expanding Connectivity with Conexant

Embedded

Audio

Connectivity

Products

World Class

Audio

Portable Power

USB Hubs

USB

USB

USB

USB

USB

8

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Balanced End Market Presence

Note: Not all segments included.

LTM Revenue

\$391M

LTM Revenue

\$241M

LTM Revenue*

\$632M

Last twelve month revenue based on 11/30/10 results for SMSC and 10/1/10 results for Conexant

9

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Highly Complementary Customer Base

Common

Customers

RAZOR

10

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Significant Revenue Scale
n Combined Company Scale Places it Among Top
Semiconductor Peer Revenue Performance

\$900

\$800

\$700

\$600

\$500

\$400

\$300

\$200

\$100

Cypress

Semiconductor

Intersil

Corp

Realtek

Semiconductor

Integrated Device

Technology Inc.

Semtech

Corp

Cirrus

Logic Inc.

Power

Integrations Inc.

Micrel Inc.

Monolithic Power

Systems Inc.

Volterra

Semiconductor

Corp

\$851

\$806

\$731

\$632

\$606

\$423

\$391

\$310

\$293

\$283

\$218

\$175

\$152

Silicon

Image Inc

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\$241

Based on 11/30/10 results for SMSC and 10/1/10 results for Conexant

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www.smsc.com
SMSC Third Quarter Fiscal 2011
Earnings Conference Call
January 10, 2011

12

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Safe Harbor Statement

Forward Looking Statements

n This presentation includes forward-looking statements about expected future events and financial and operating results that involve risks and uncertainties, which may cause actual future results to be materially different from those discussed in forward-looking statements.

n Such statements are subject to change, and the Company does not undertake to update such statements, except to the extent required under applicable law and regulation.

n See SMSC's "Other Factors That May Affect Future Operating Results" and "Risk Factors" included within the Company's filings with the Securities & Exchange Commission and the "Forward Looking Statements" description accompanying the Company's earnings releases.

Non-GAAP Financial Measures

n Non-GAAP financial measures referenced in this presentation are offered to provide additional insight into underlying operating performance.

n These non-GAAP measures exclude charges and credits for stock appreciation rights (SARs) and stock options associated with the accounting pursuant to SFAS 123R, the amortization of acquired intangible assets, restructuring charges and related accelerated depreciation on certain test equipment, litigation settlement expenses, goodwill impairment charges, inventory write-ups associated with acquisitions, acquisition transaction costs, employee stock purchase plan costs, revaluation of contingent acquisition expense and an out-of-period adjustment for the release of an inventory liability.

n The Company's management believes that this information assists in evaluating operational trends, financial performance and cash generating capacity. Non-GAAP measures are not meant as a substitute for GAAP, but are included solely for informational and comparative purposes.

n Guidance is presented on a non-GAAP basis only, given that the GAAP basis charges for equity-based compensation related to SARs cannot be projected reasonably.

13

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Financial Performance

Q3FY11 Non-GAAP Highlights

n Revenue of \$107.0M - up 3% sequentially and 23% year-over-year

n Sequential end market sales performance:

Automotive achieves record quarterly revenue of \$19.1M - up 5%

Consumer electronics grew by 4%

PC revenue grew 2%

Industrial revenue grew by 1%

n All vertical markets delivered robust double-digit year-over-year growth

n Non-GAAP gross margin of 55.4%

n Non-GAAP operating margin of 14.8%

n Non-GAAP EPS of \$0.52

n Generated \$9.2M in cash from operations

See reconciliations from GAAP to non-GAAP information at the end of this presentation.

14

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State of the Market & Business Outlook

n Above seasonal strength in 1HFY11 resulting in muted seasonality in the back half, as expected

n We expect the following for FY11:

Revenue over \$400M (record annual revenue)

Non-GAAP EPS more than 3X improvement from FY10

n Looking forward:

Expect Q4FY11 sequential revenue to be roughly in line

with seasonality at \$96 - \$99 million (down 7-10%

sequentially)

Quarter to date book-to-bill of 1.3 after a weak 0.7 in Q3

Backlog coverage coming in line with normal trends

15

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n Klear® Design Wins

Arcam rCube iPod Speaker System

TDKWR700 Headphones

Volkswagen will use MOST150 in all production series across all
brands

n Latest MOST® Model Adoptions:

Design Wins & Product Recognition

Bentley Mulsanne

BMW X3

MINI Countryman

16

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Attractive Level of Diversity in End Markets

Unaudited Data

Q3FY11

Q2FY11

17

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Product Growth Drivers

Computing & Connectivity

USB application expansion

USB 3.0

Continued enterprise PC sales recovery

Market share gains in Japan and Korea

Security and storage

Automotive

Luxury demand recovery

Initial USB, Ethernet and Companion product ramps

New OEM MOST® ramps

Next generation MOST

Analog Products

Ramp of RightTouch™ capacitive sensing products

Low-end PC demand, particularly in Asia

Market share gains in thermal management

Battery charging

Consumer Electronics Solutions

New product ramps in:

Portable hubs

Tablet connectivity

Portable power

Home theater

Headphones

Q3FY11 Performance

Computing & Connectivity

64% or \$69.2M

Automotive

18% or \$18.7M

Consumer Electronics Solutions

8% or \$8.7M

Includes newly acquired

Storage Products

Includes Portable &

Wireless Audio Products

Analog Products

10% or \$10.4M

18

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Solid Geographic Diversity

Design Win Location;

Unaudited Data

Q3FY11

Q2FY11

\$104.1M

\$107.0M

19

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Financial Highlights - Non GAAP

P&L

\$ in millions except per share data

Revenue

Gross Margin %

Operating Expenses

Operating Income

Operating Margin

Diluted EPS

Q3 FY11

Q2 FY11

Q3 FY10

\$107.0

\$104.1

\$87.2

55.4%

57.4%

54.9%

\$43.4

\$39.9

\$37.1

\$15.9

\$19.8

\$10.8

14.8%

19.0%

12.4%

\$0.52

\$0.51

\$0.34

Net Income

\$12.0

\$11.5

\$7.7

See reconciliations from GAAP to non-GAAP information at the end of this presentation.

20

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Revenue Performance

\$100

\$75

\$50

\$25

\$0

Q3FY10 Q4FY10 Q1FY11 Q2FY11 Q3FY11

107.0

104.1

Revenues

83.0

87.2

97.2

21

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Profitability Track

\$15

\$10

\$5

\$0

Q3FY10 Q4FY10 Q1FY11 Q2FY11 Q3FY11

4.1

See reconciliations from GAAP to non-GAAP information at the end of this presentation.

Non-GAAP Net Income

7.7

7.6

11.5

12.0

22

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Strong Balance Sheet

\$200

\$175

\$150

\$125

\$100

\$75

\$50

\$25

\$-

Q2FY11

Q3FY11

\$139.6

\$155.7

\$145.8

\$43.0

\$37.1

\$30.5

Cash/ST Investments

Auction Rate Securities

Cash + Investments

\$182.6

\$192.8

\$179.4

n ~\$8.30 in cash + investments per share...and no debt
n \$40M net cash provided by operating activities in FY10; ~\$33.8M in FY11 to date

Q3FY10

\$33.6

\$158.0

\$188.5

\$132.6

\$43.7

\$176.3

Q4FY10

Q1FY11

23

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Inventory and Accounts Receivable

\$100

\$90

\$80

\$70

\$60

\$50

\$40

\$30

\$20

\$10

0

Q3FY10 Q4FY10 Q1FY11 Q2FY11 Q

Q3FY11

4.5

4.0

3.5

3.0

2.5

2.0

1.0

.5

0.0

3.8

3.1

49

Inventory (\$ Millions)

A/R (\$ Millions)

\$80

\$70

\$60

\$50

\$40

\$30

\$20

60

50

40

30

20

Q3FY10 Q4FY10 Q1FY11 Q2FY11

Q3FY11

INVENTORY TURNS

DSO

49.6

55

46.1

47.9
52
44.4
48.0
3.4
41.4
54.5
51
62.0
54
45.4
3.9
64.8

24

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Business Outlook

Q4FY11 Outlook:

Revenues

Non-GAAP Gross Margin

\$96 to \$99M

Approximately 54%

Approximately flat sequentially

Non-GAAP OPEX

Non-GAAP Diluted EPS

\$0.20 to \$0.24

25

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Actions Going Forward

- n Successfully assimilate acquisitions to win business and drive economies of scale
 - n Execute new product road maps
 - n Achieve financial objectives
-

26

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GAAP to Non-GAAP Reconciliations

27

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Supplemental Reconciliation of GAAP Results to Non-GAAP Financial Measures
(in thousands, except per share amounts)
