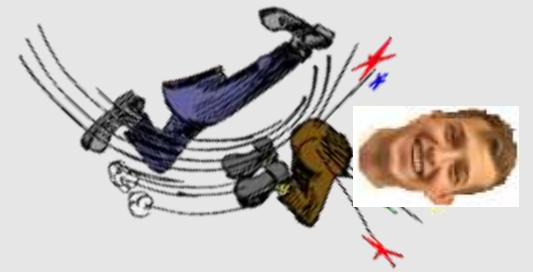


# NXP Semiconductor



## The Asset Kickers



# Company Overview



- NXP Semiconductor
- 50-Year history
- Ticker Symbol: (NXPI)
- Current Price: \$124
- Market Cap: \$34.69 Billion
- Purchased: \$86.09
- 5% of portfolio:
- Headquarters: Eindhoven, Netherlands
- Initial Public Offering: August 2010
- 14 manufacturing sites
- Operations in over 35 countries





# Business Breakdown



## Automotive

ADAS + Electrification

System solutions innovation with OEMs

Increased content drives growth



## Industrial & IoT

Fragmented customer base

Processing needs are transforming markets

Scalable solutions as a differentiator



## Mobile

Large mobile and adjacent device market

Continued demand for features - innovation

Growth driven by increased attach rate



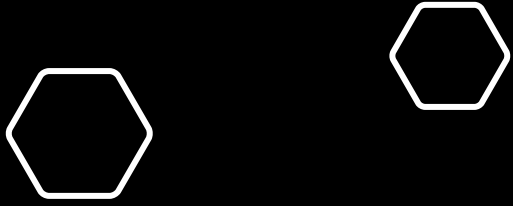
## Communication Infrastructure & Other

Capex-driven wireless infrastructure market

Secular growth due to new cellular standard

# What does NXP really do?





# Company Shift

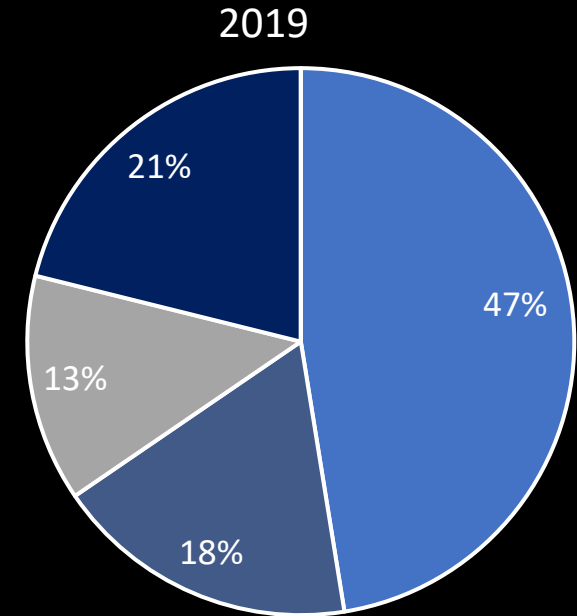
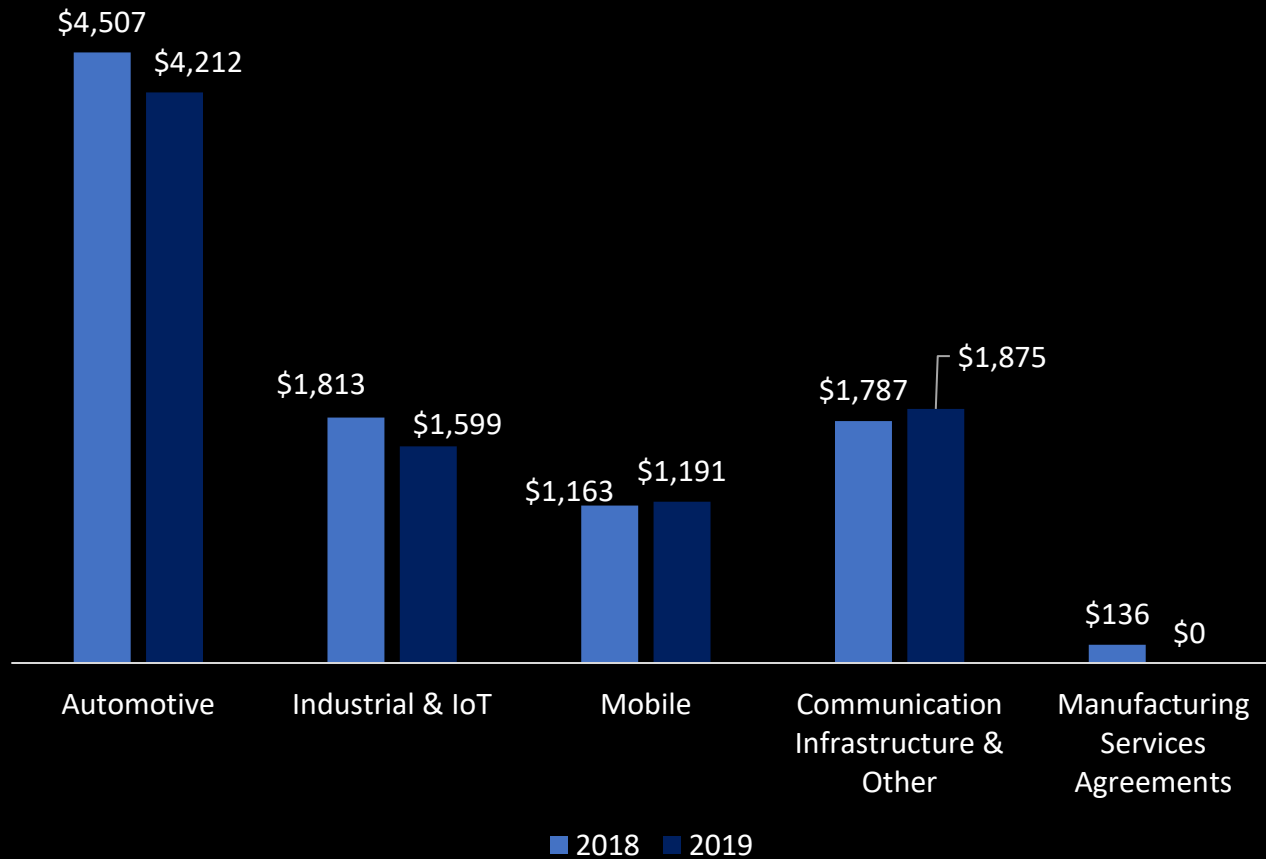
- March 2020, Kurt Sievers new CEO
- Has been with NXP since 1995
- Replaced Rick Clemmer CEO since 2009
- Acquisitions & Divestitures
  - Freescale
  - RF Power
  - VAS voice and Audio
  - Standard Product
  - OmniPhy



# Going Forward



Revenue by segment

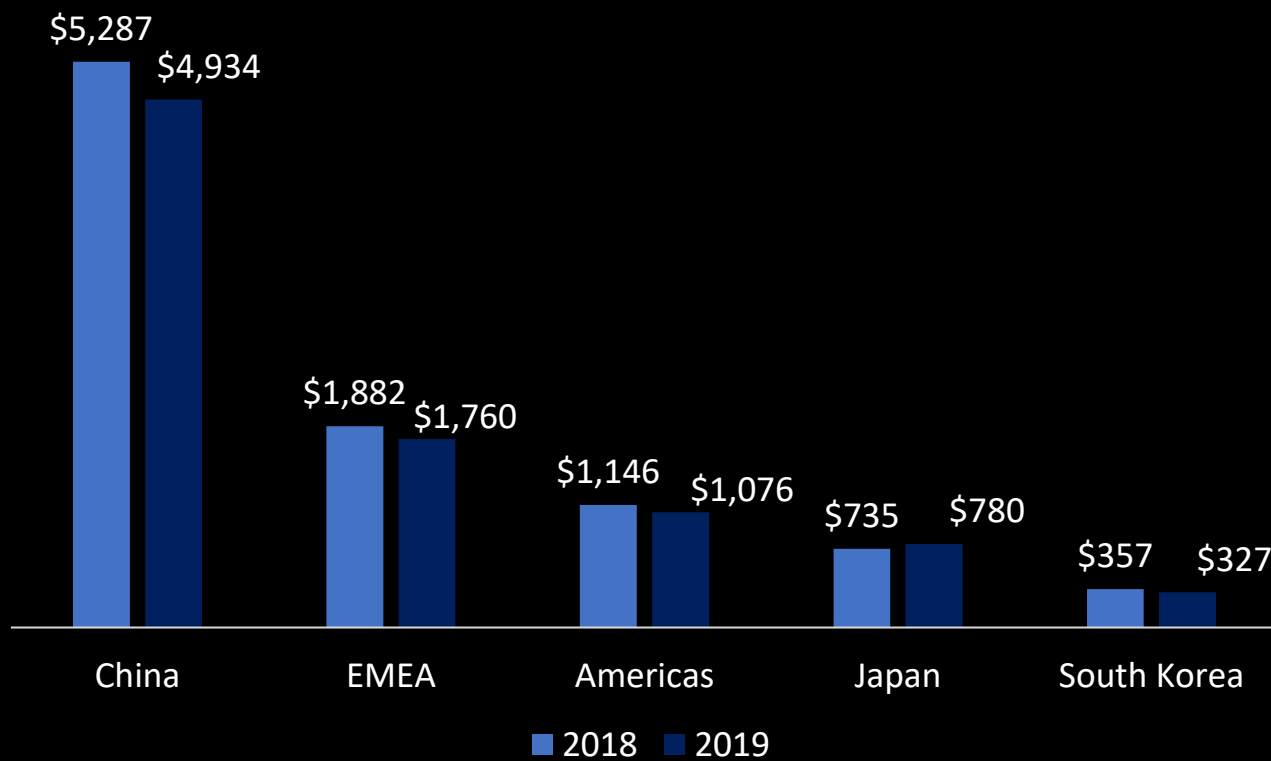


- Automotive
- Industrial & IoT
- Mobile
- Communication Infrastructure & Other
- Manufacturing Services Agreements

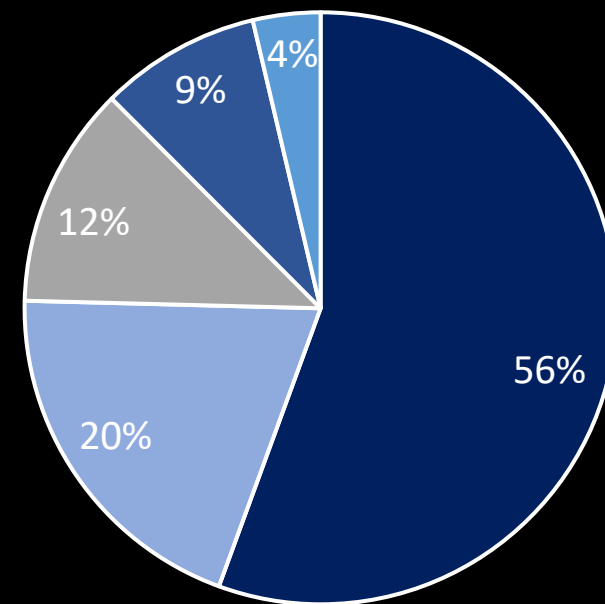


# Revenue by Geography

Revenue by segment



2019



China EMEA Americas Japan South Korea



# Growth Opportunities



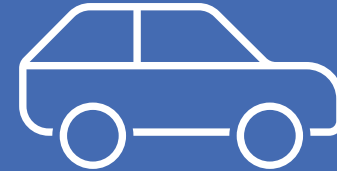
Mobile



Communication  
Infrastructure and  
Others



Industrial and  
Internet of  
Things



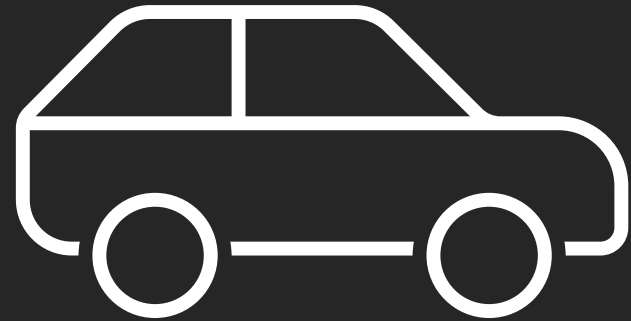
Automotive





## Automotive

- Global Vehicle Sales
- Vehicle Autonomy
- Government Requirements
- Demand for Increased Safety





# Industrial and Internet of Things

- Connected Smart Equipment
- Increasing Use of High-Performance Edge
- Factory Automation
- Health Prevention and Monitoring





# Mobile

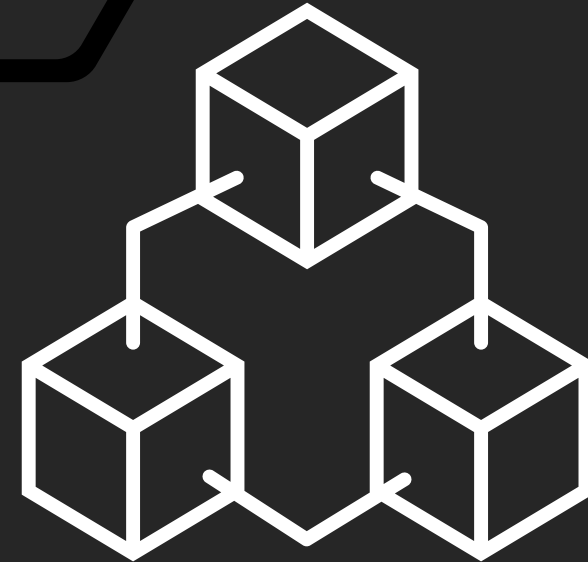
- Increased Application in Mobile Devices
- Global Demand for Mobile Devices





# Communication Infrastructure & Other

- Demand for Digital Content
- Increasing Internet Traffic
- New Mobile Communication Technology



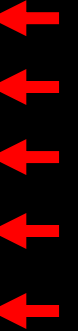


# Q2 Earnings Report

Revenue by end-market was as follows:

(\$ in millions, unless otherwise stated)

	YTD 2020	YTD 2019	Change
Automotive	1,668	2,067	(19.3) %
Industrial & IoT	811	758	7.0 %
Mobile	502	538	(6.7) %
Communication Infrastructure & Other	857	948	(9.6) %
Revenue	3,838	4,311	(11.0) %



- Revenue is declining
- Currently operating at a Net Loss
- Earnings Per Share is for the quarter is \$-0.77



# Debt

- Cash and Cash Equivalents Increased by \$2 billion
- The main cause of this is the issuance of new debt
- Over \$1 billion in short term debt
- Almost \$1 billion in long term debt

	June 28, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	3,266	1,045
Accounts receivable, net	481	667
Assets held for sale	—	50
Inventories, net	1,228	1,192
Other current assets	240	313
<b>Total current assets</b>	<b>5,215</b>	<b>3,267</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	729	944
Restructuring liabilities-current	25	32
Other current liabilities	889	815
Short-term debt	1,349	—
<b>Total current liabilities</b>	<b>2,992</b>	<b>1,791</b>
<b>Non-current liabilities:</b>		
Long-term debt	8,004	7,365
Deferred tax liabilities	136	282
Other non-current liabilities	870	923
<b>Total non-current liabilities</b>	<b>9,010</b>	<b>8,570</b>
<b>Total liabilities</b>	<b>12,002</b>	<b>10,361</b>

# Debt Summary End of 2Q20<sup>1</sup>

Debt Instrument	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Sr. Unsecured Notes	Revolving Credit Facility
Maturity Date	Jun-21	Jun-22	Sep-22	Jun-23	Mar-24	May-25	Mar-26	Jun-26	May-27	Dec-28	Jun-29	May-30	Jun-24
Amount (M)	\$1,350	\$400	\$1,000	\$900	\$1,000	\$500	\$500	\$750	\$500	\$500	\$1,000	\$1,000	\$0
Coupon	4.125%	4.625%	3.875%	4.625%	4.875%	2.700%	5.350%	3.875%	3.150%	5.550%	4.300%	3.40%	Libor + 125 bps
Rating													
Moody's	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	NR
Standard & Poor's	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	NR
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	NR

<b>Total Leverage</b>	
Total Debt (\$M)	\$ 9,353
Total Cash (\$M)	\$ 3,266
Net Debt (\$M)	\$ 6,087
TTM Adj. EBITDA	\$ 2,802
Cost of Debt	4.18%
Reported Leverage	2.2X
TTM Adj. EBITDA/TTM net Interest	8.5x





# Why are we Bearish?

- Past  $\neq$  future?
- Cyclical industry and markets
- Fails financial criteria
- Management delivering
- Growth opportunities

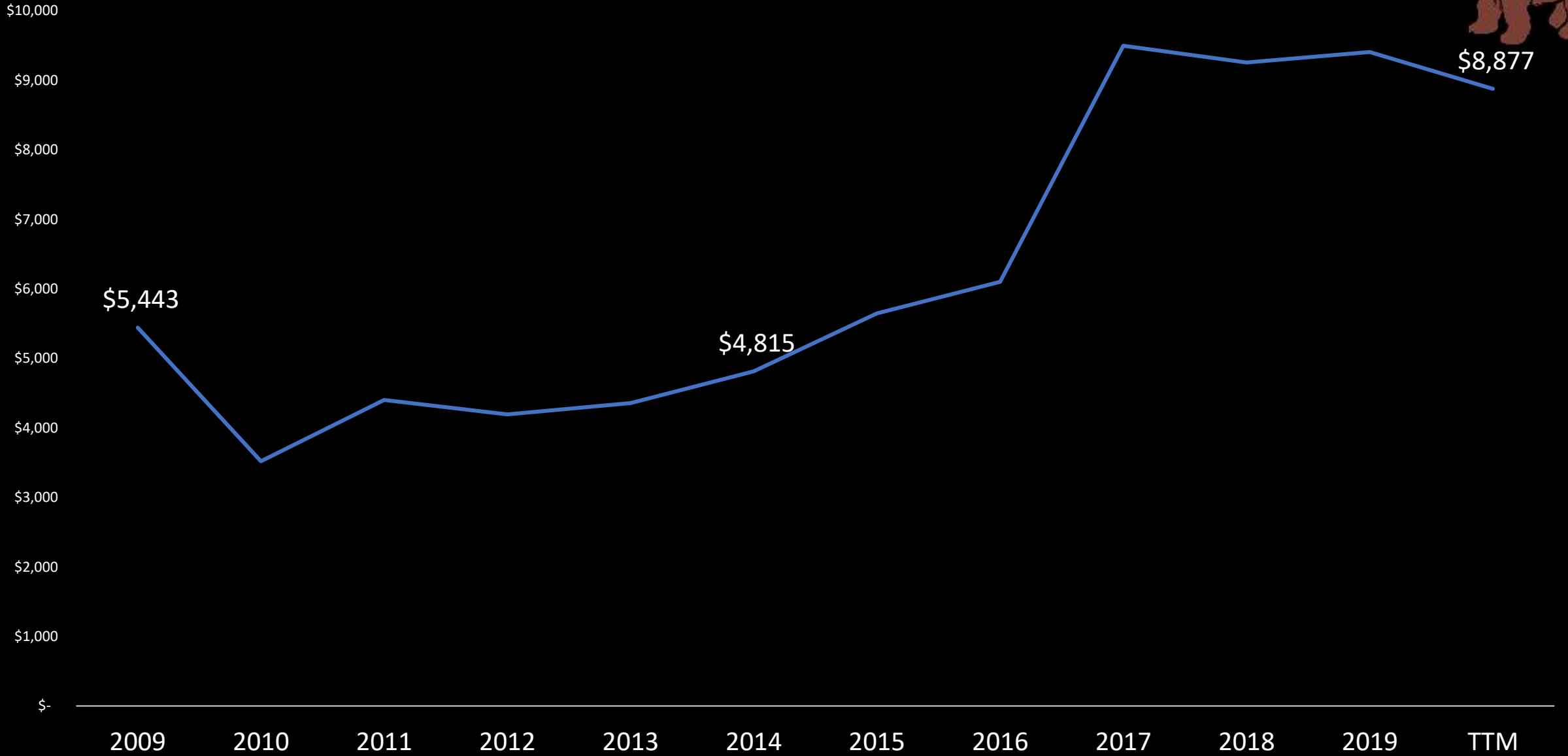




# Interpretation of Financial Statements (IOFS)

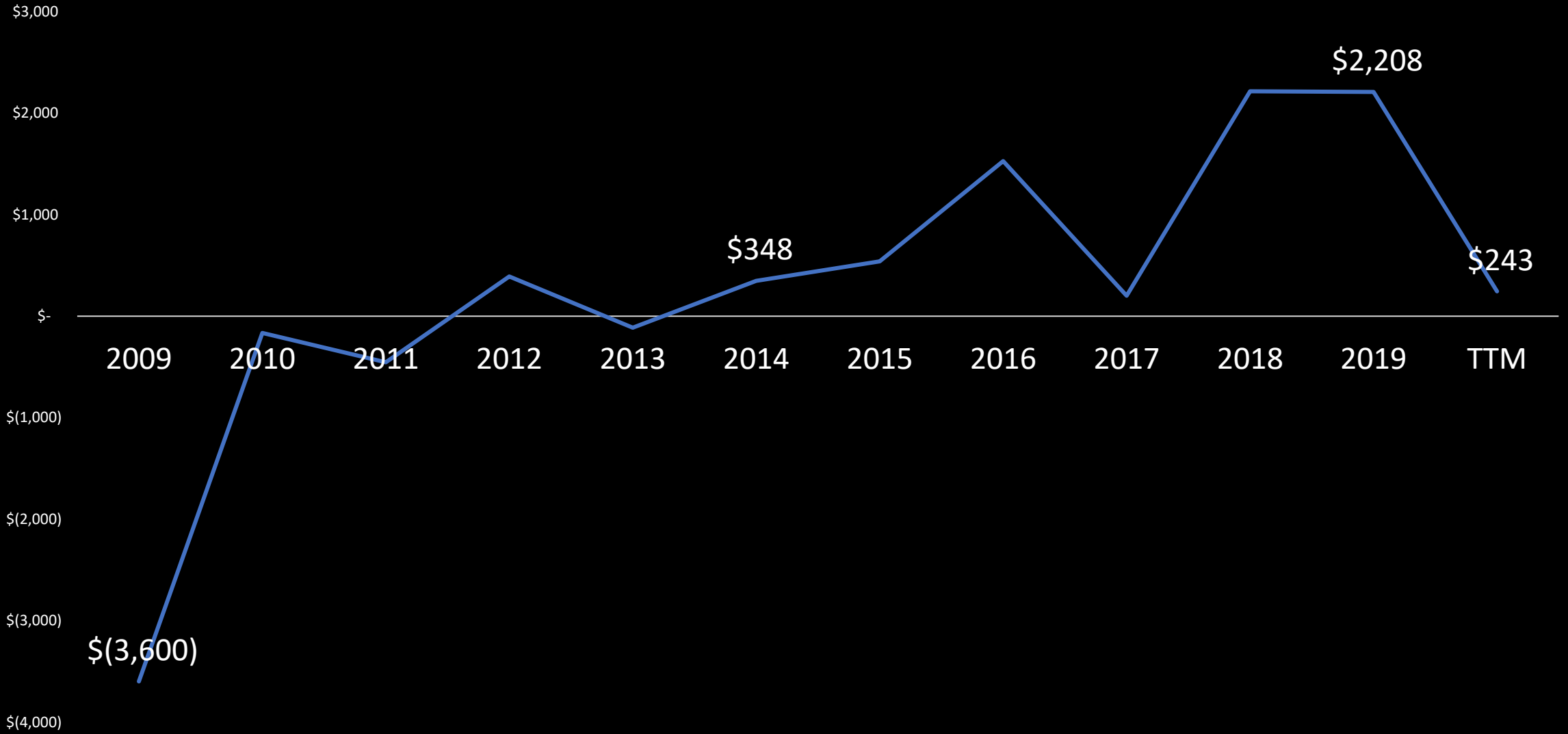


# Revenue

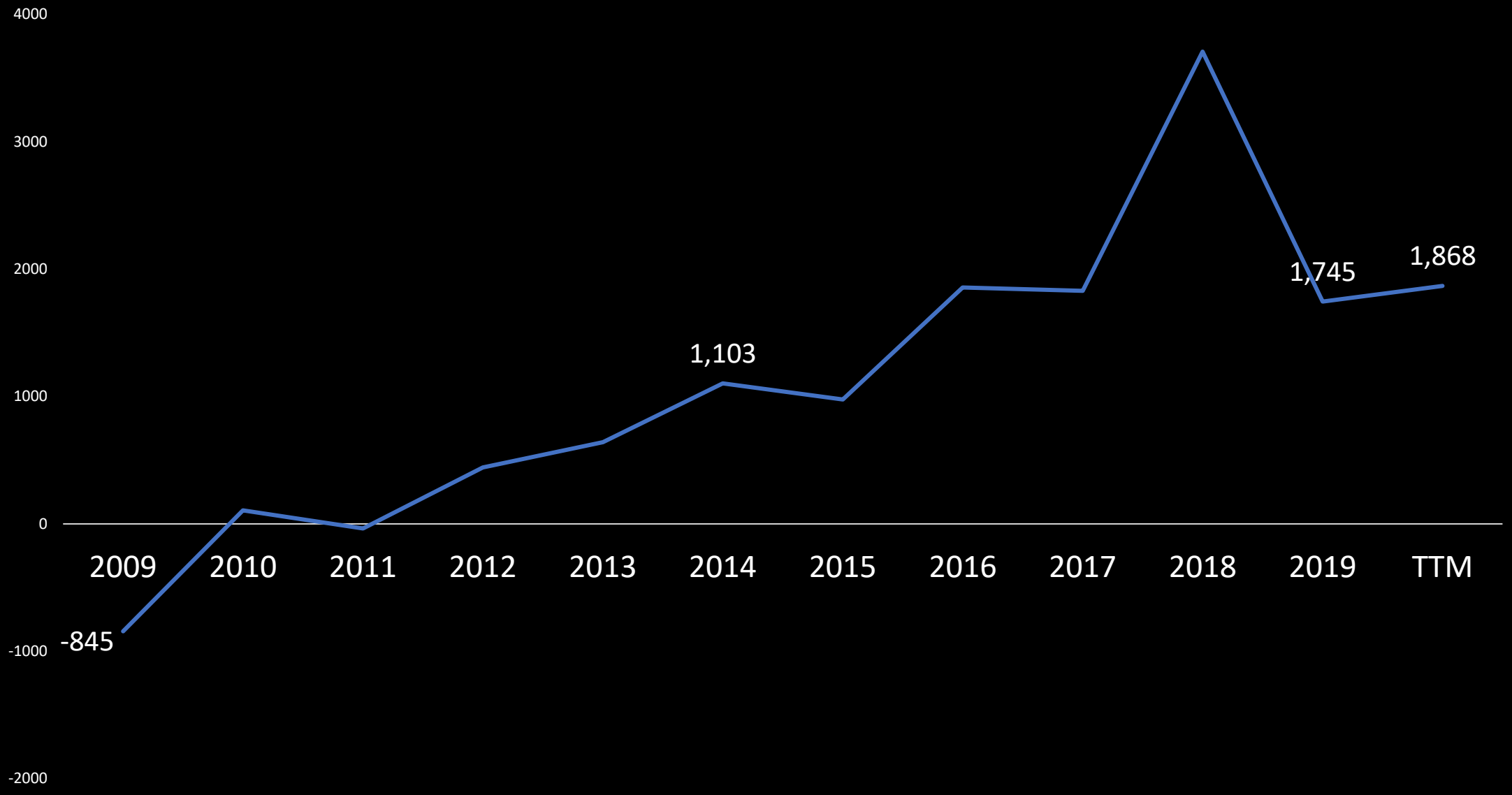


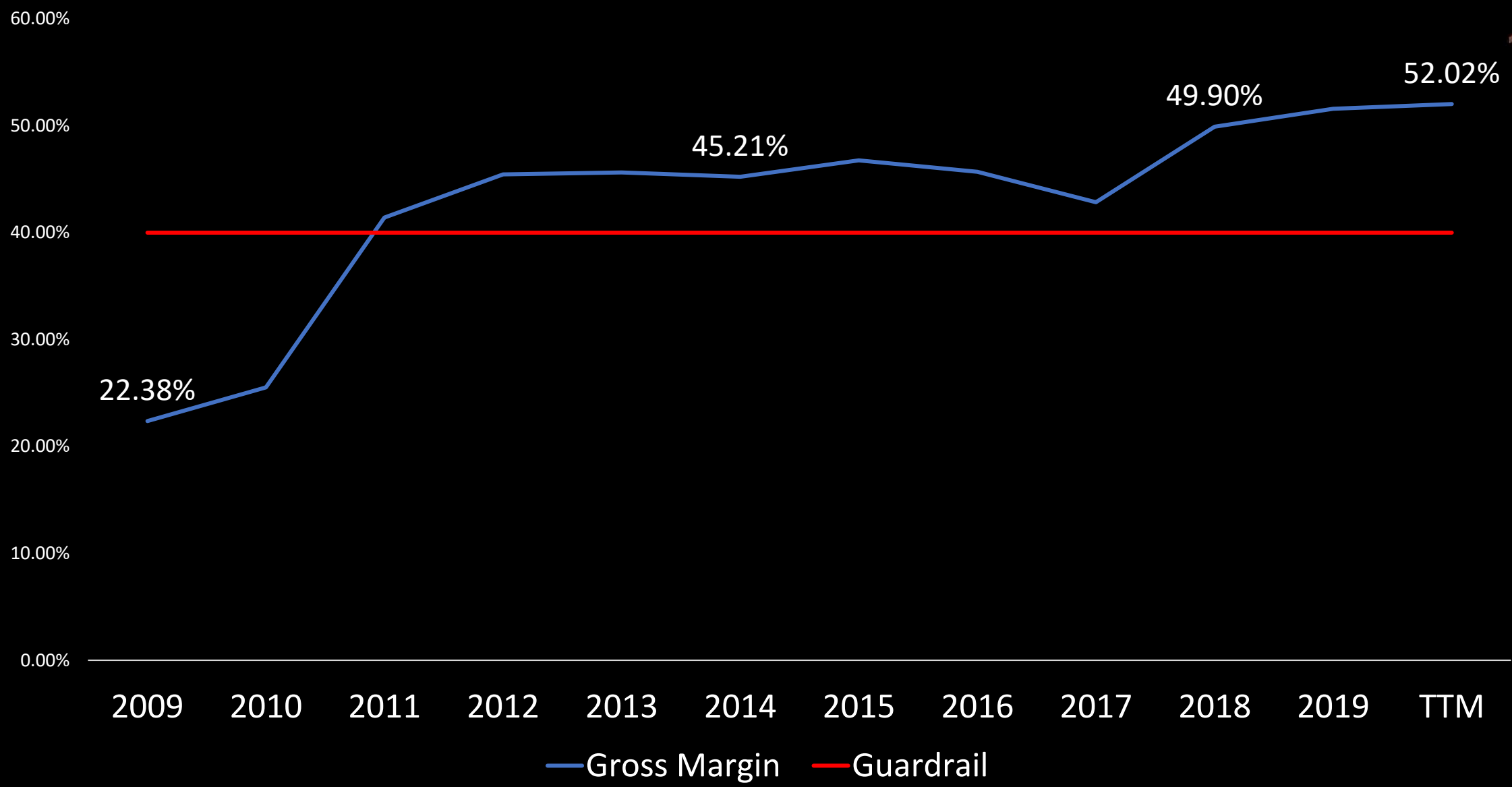


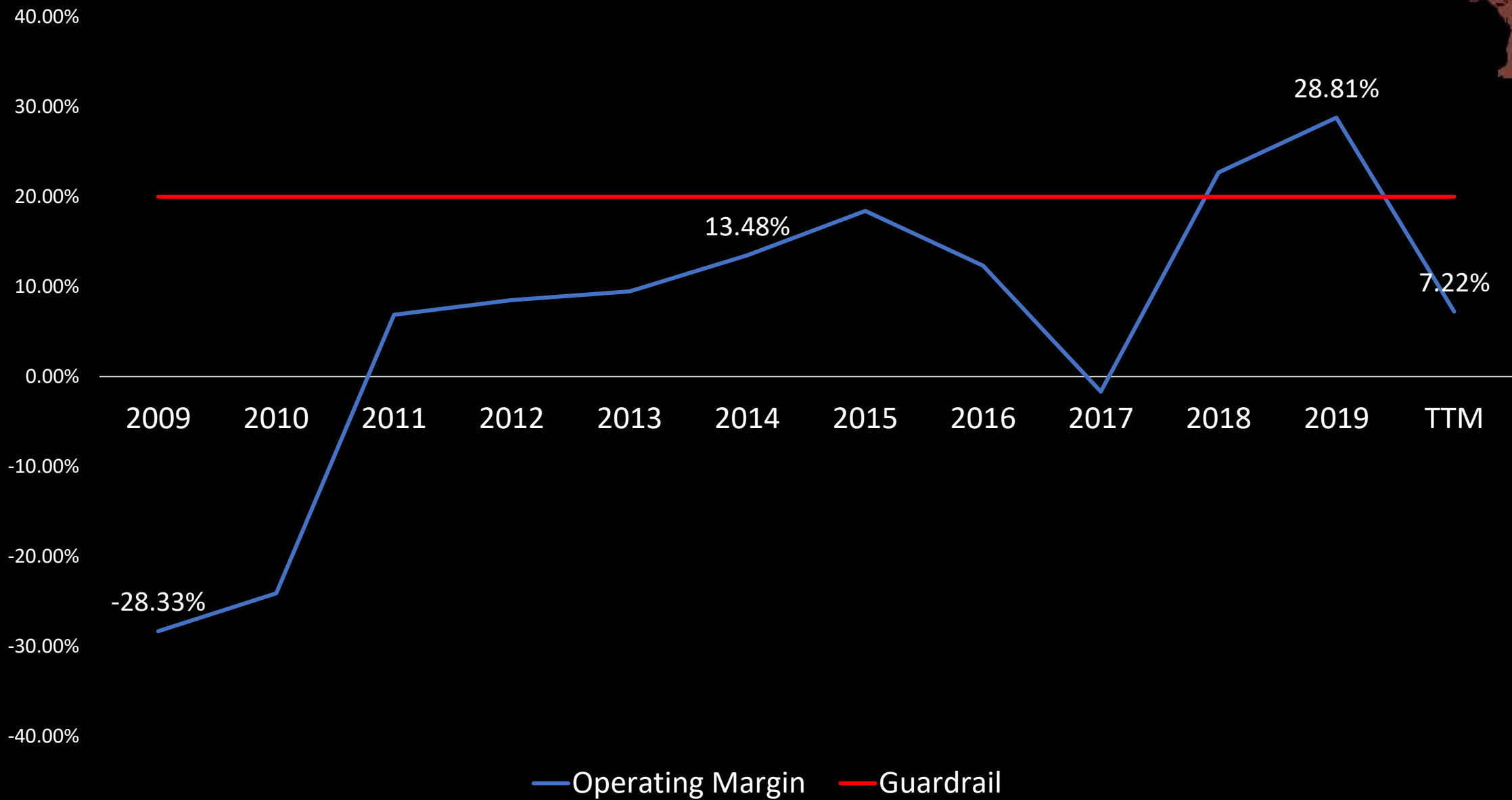
# Net Income

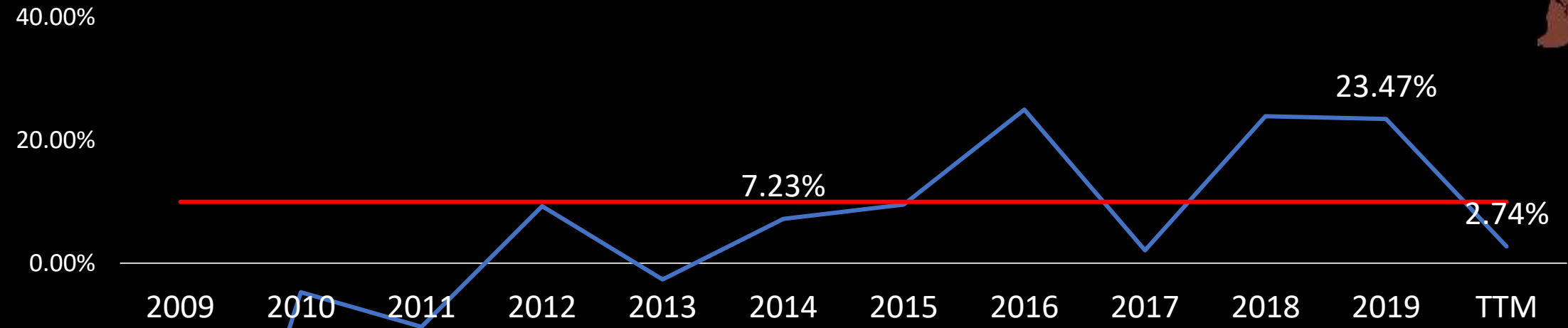


# Free Cash Flow

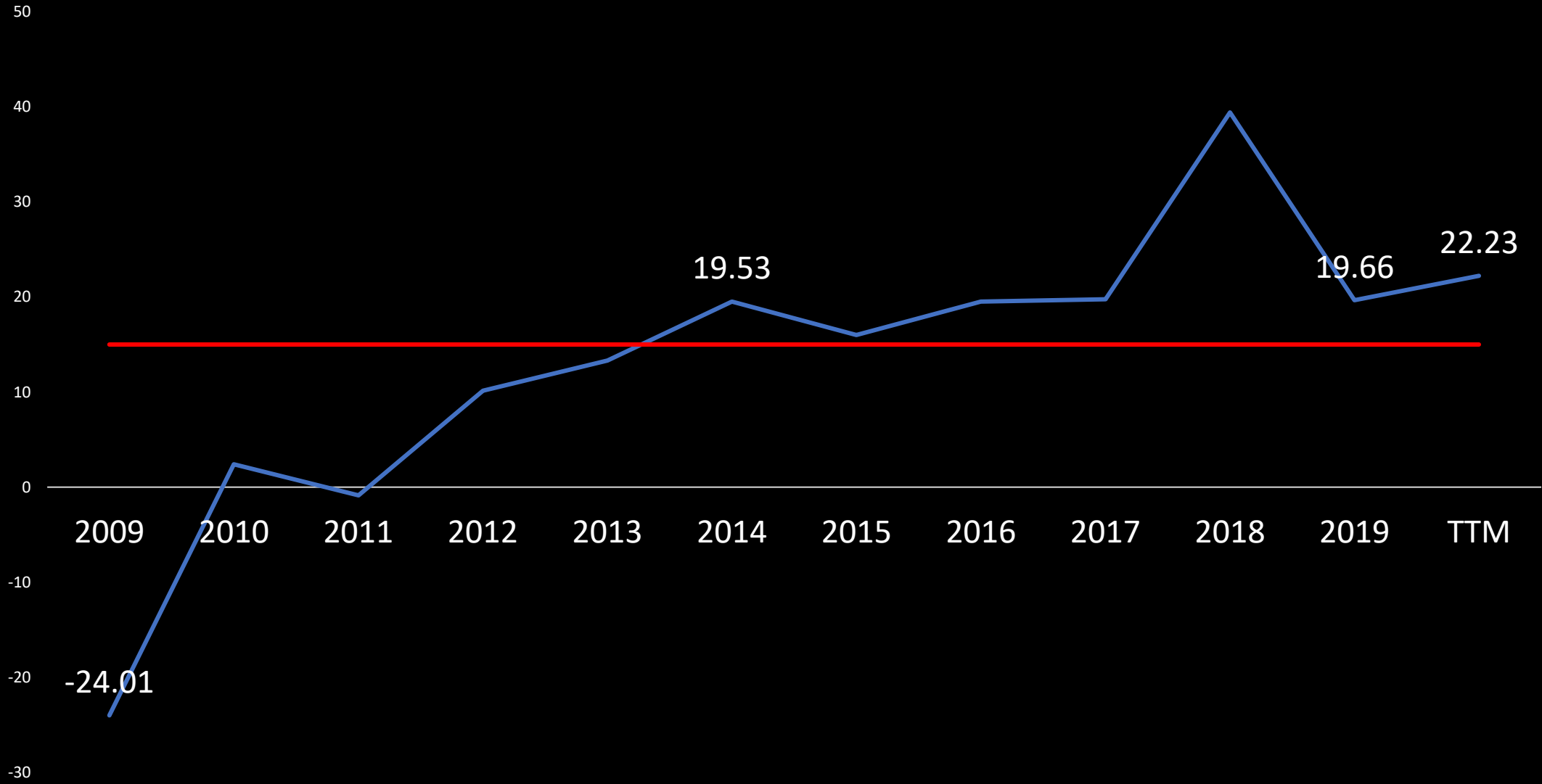








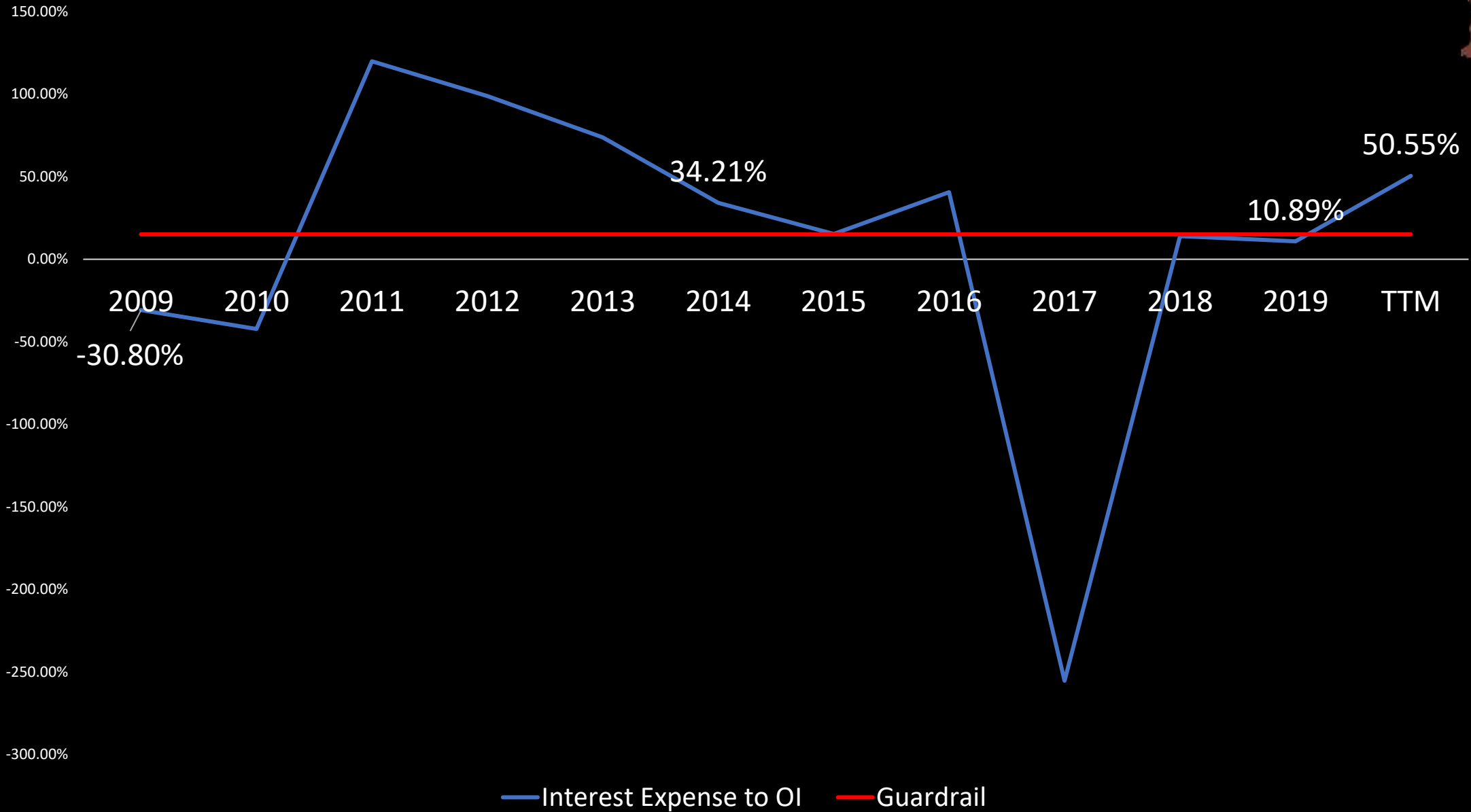
— Net Margin — Guardrail



— FCF Margin — Guardrail

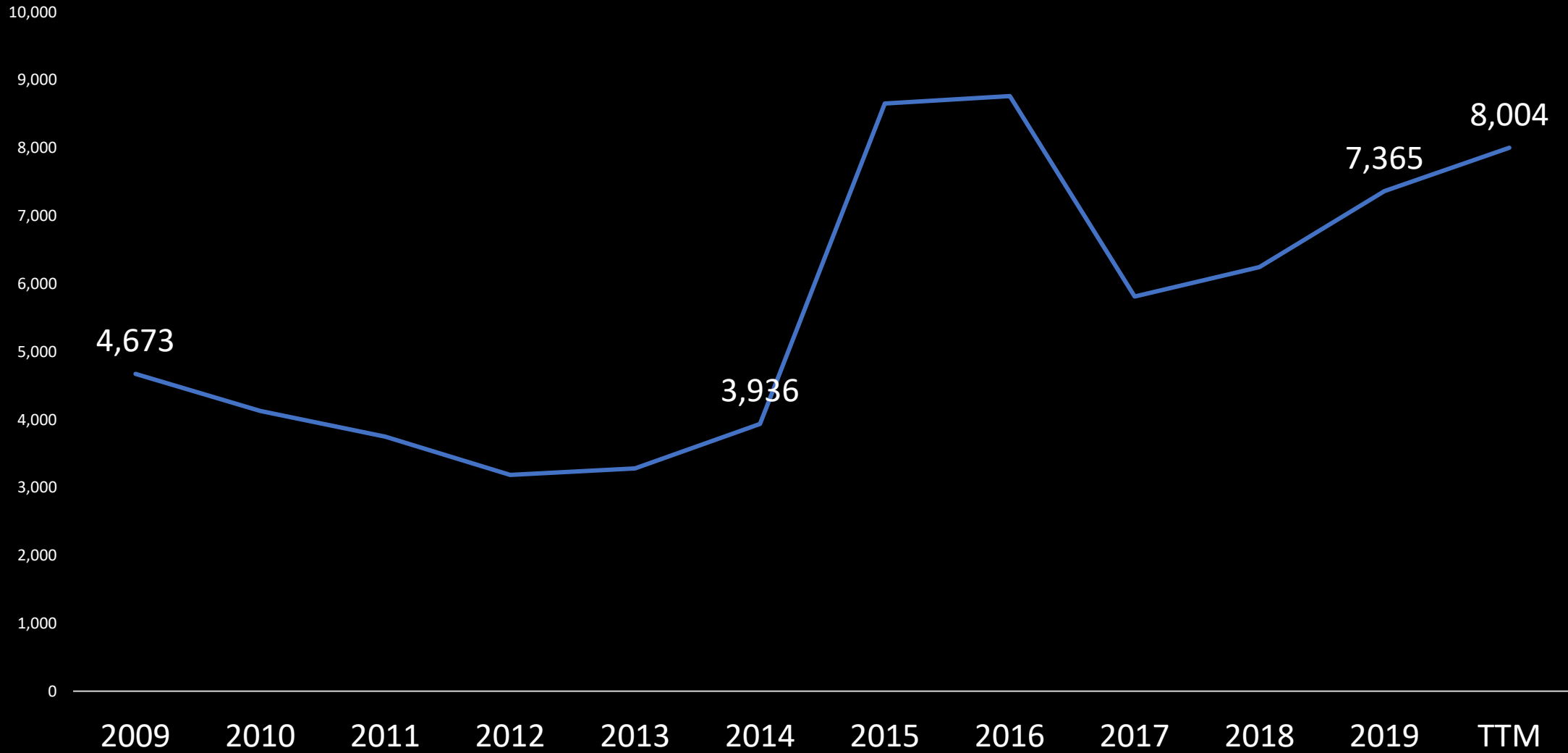






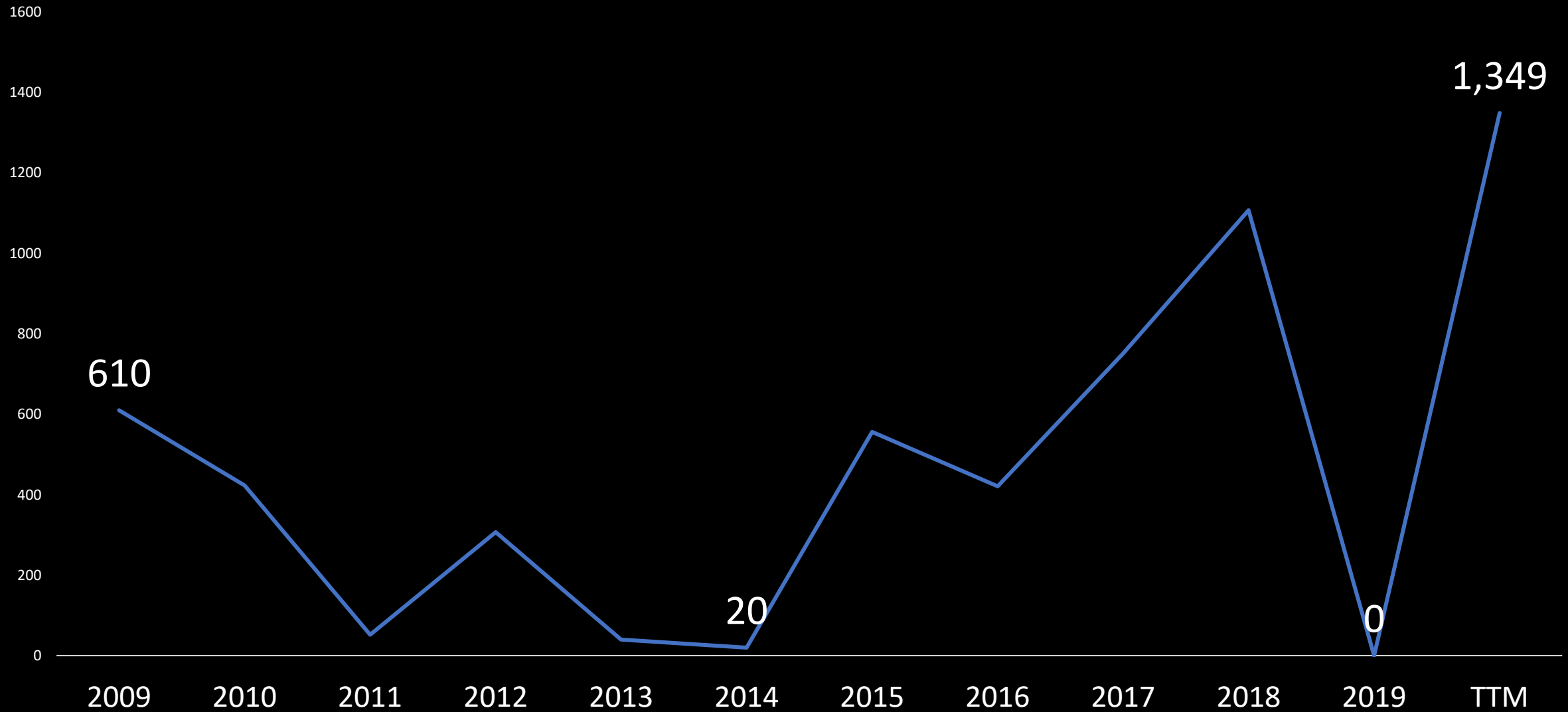


# Long-Term Debt



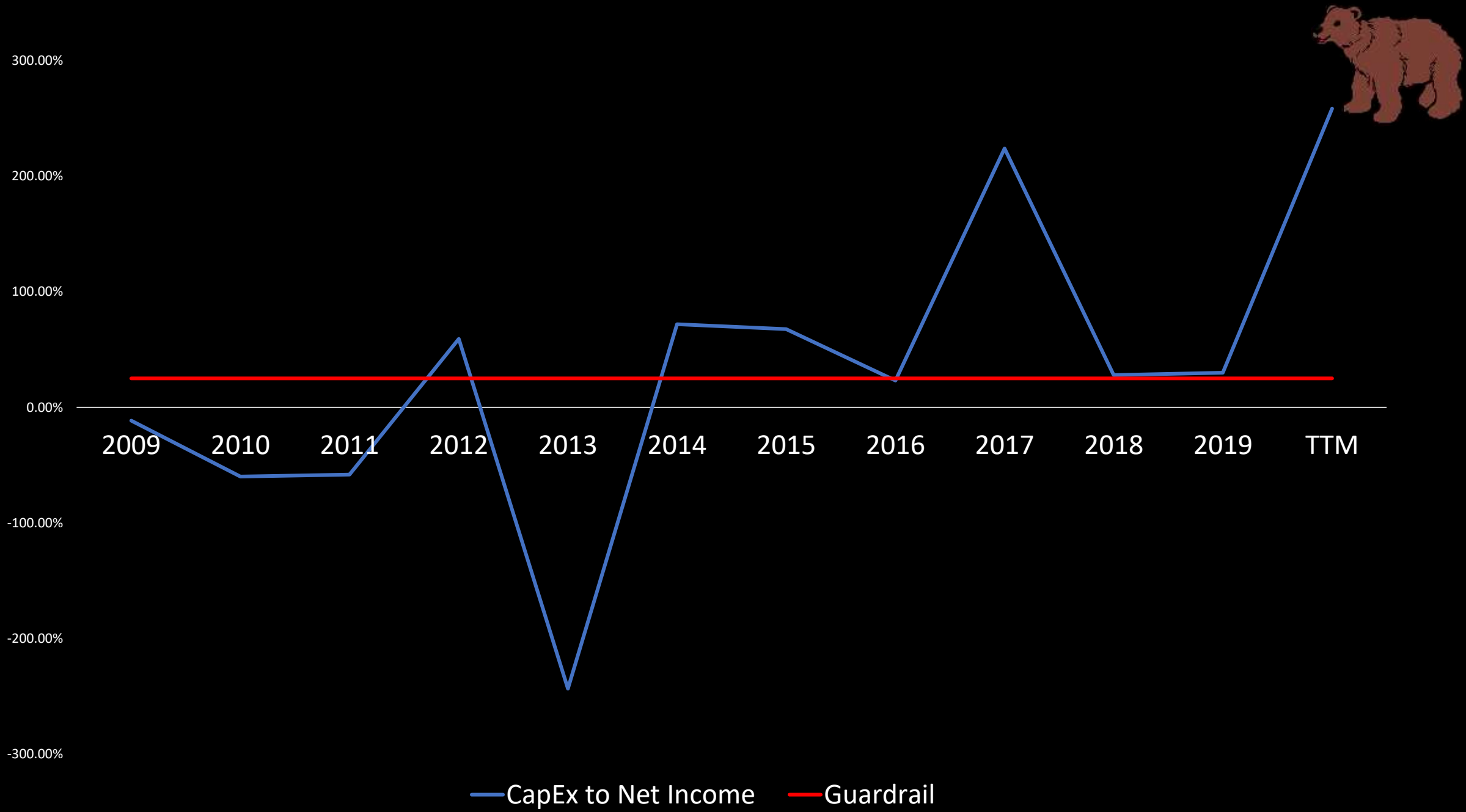


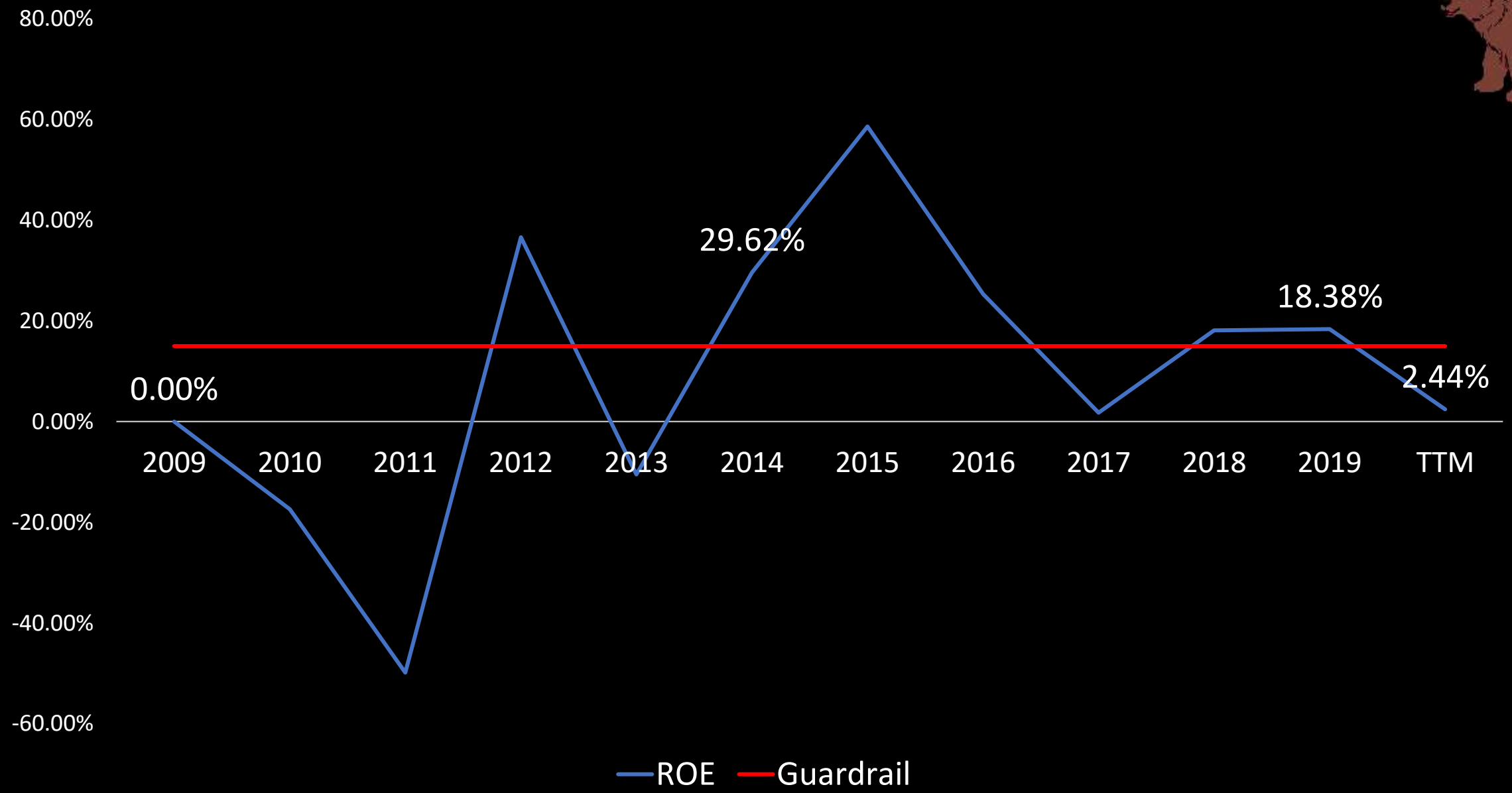
# Short-Term Debt

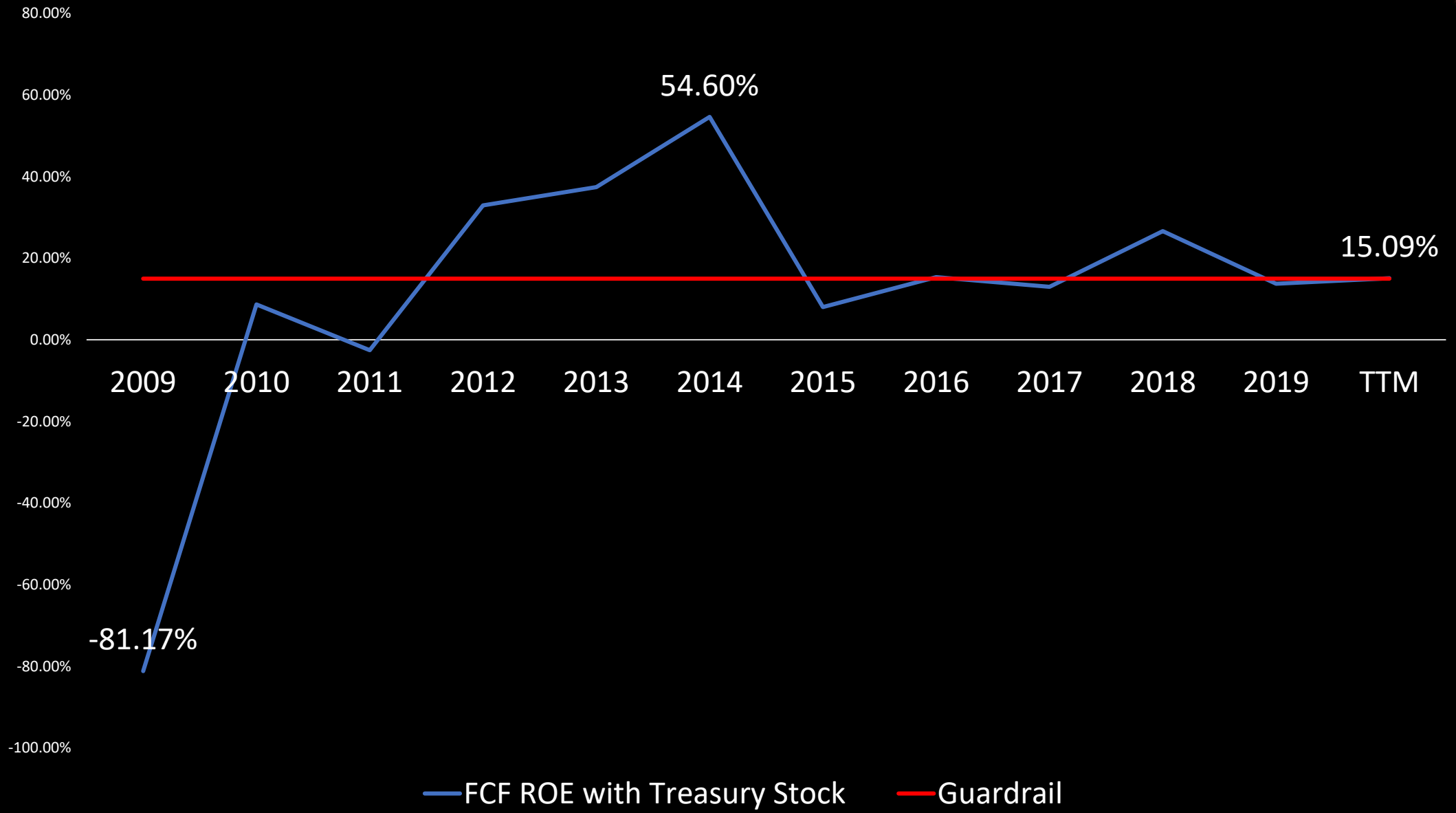




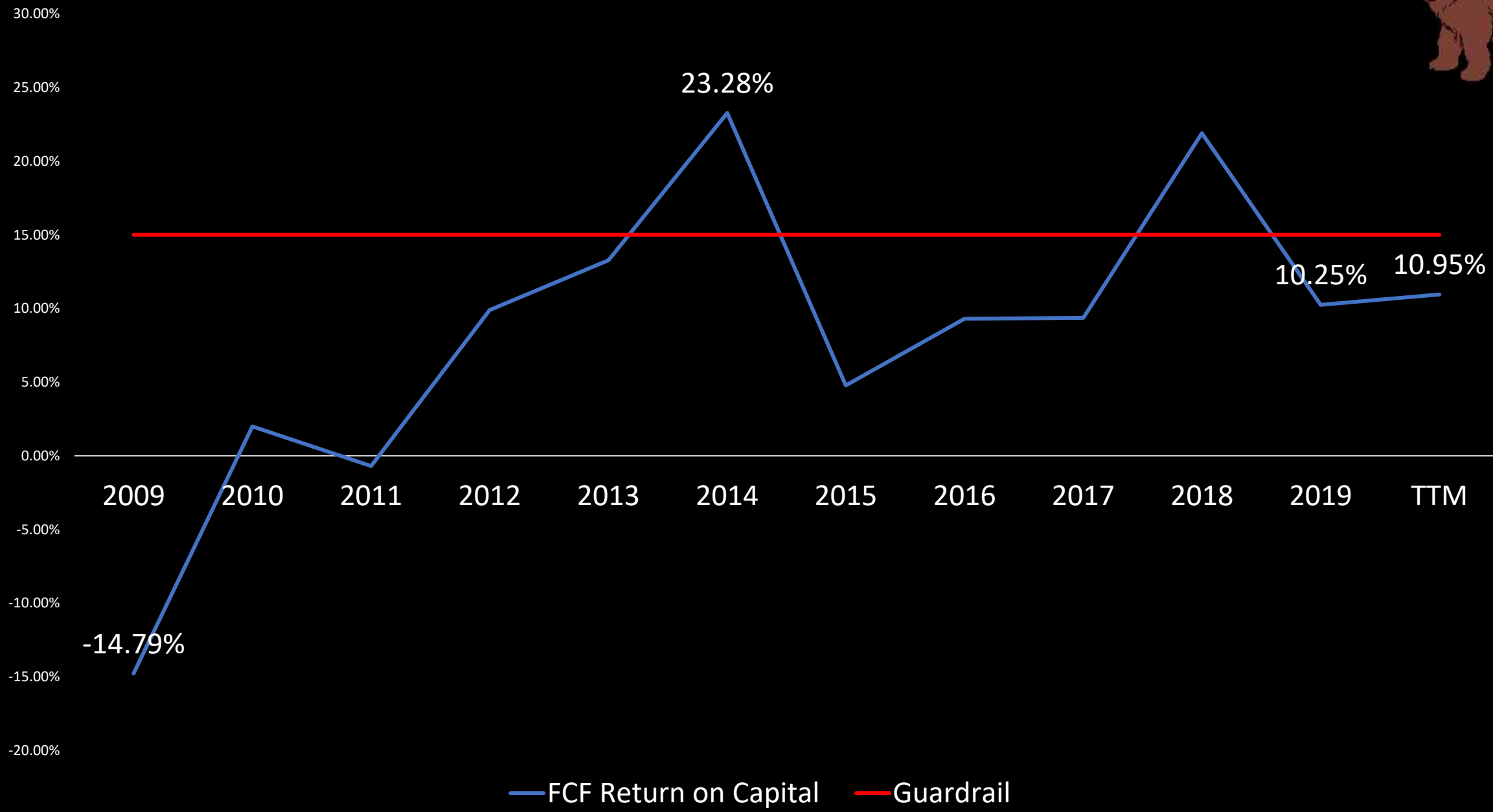
<b>Obligation Ratio</b>			
	<b>LT Debt</b>	\$ 8,004	
	<b>ST Debt</b>	\$ 1,349	
	<b>Leases * 7</b>	\$ 301	
	<b>Pen Shortfall</b>	\$ -	
	<b>Cash Assets</b>	\$ 1,079	
2019	<b>Non-GAAP Net Income</b>	\$ 2,168	3.96
2020	<b>Non-GAAP Net Income</b>	\$ 1,280	6.70
2021	<b>Non-GAAP Net Income</b>	\$ 1,885	4.55













# Competitors

TTM

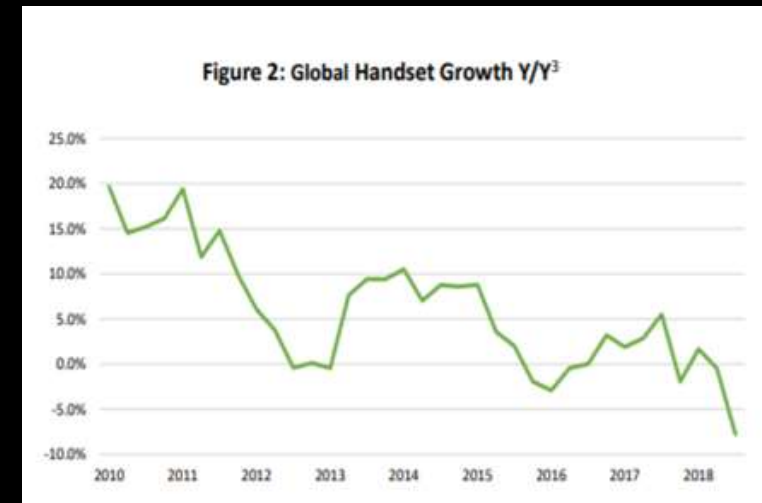
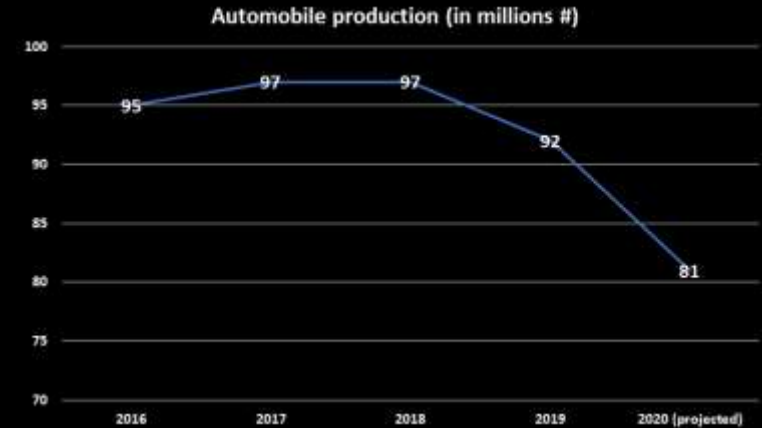


	NXP	MICROCHIP	Qualcomm	maxim integrated.	ANALOG DEVICES
Gross Profit Margin	50.59%	61%	57%	65%	65%
Operating Margin	4%	14%	18%	32%	27%
Net Margin	-0.14%	12%	14%	30%	20%
ROE	-0.13%	12%	65%	38%	9%
ROC	48%	14%	14%	41%	7%



# Risk Factors

- Covid led to significant slowdown in automotive, the bread and butter of NXP's business
- Possible second wave of the virus
- Slower-than-expected recovery
- Lower demand for the future
- Cyclicity exacerbated
  - Downturn already occurring before pandemic



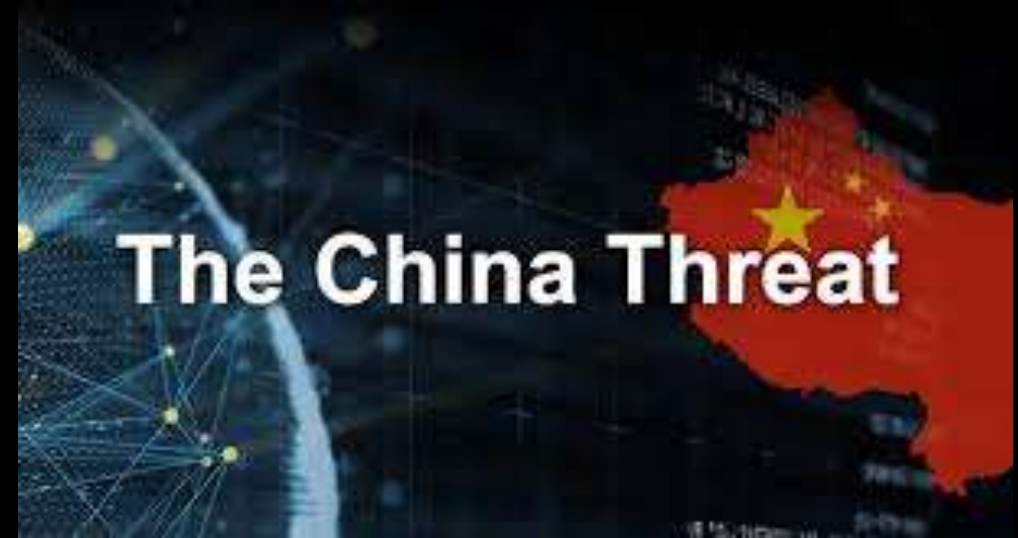
# Risk Factors

- Heavily Unionized
- Buildup of Inventory
- Debt levels creeping up, especially short-term debt
- Intense competition (especially in non-automotive segments)



# Risk Factors - China

- Significant player in the semiconductor market overall
- 56% of NXP's sales come from China
- Unrest/government interference in the region could hamper production





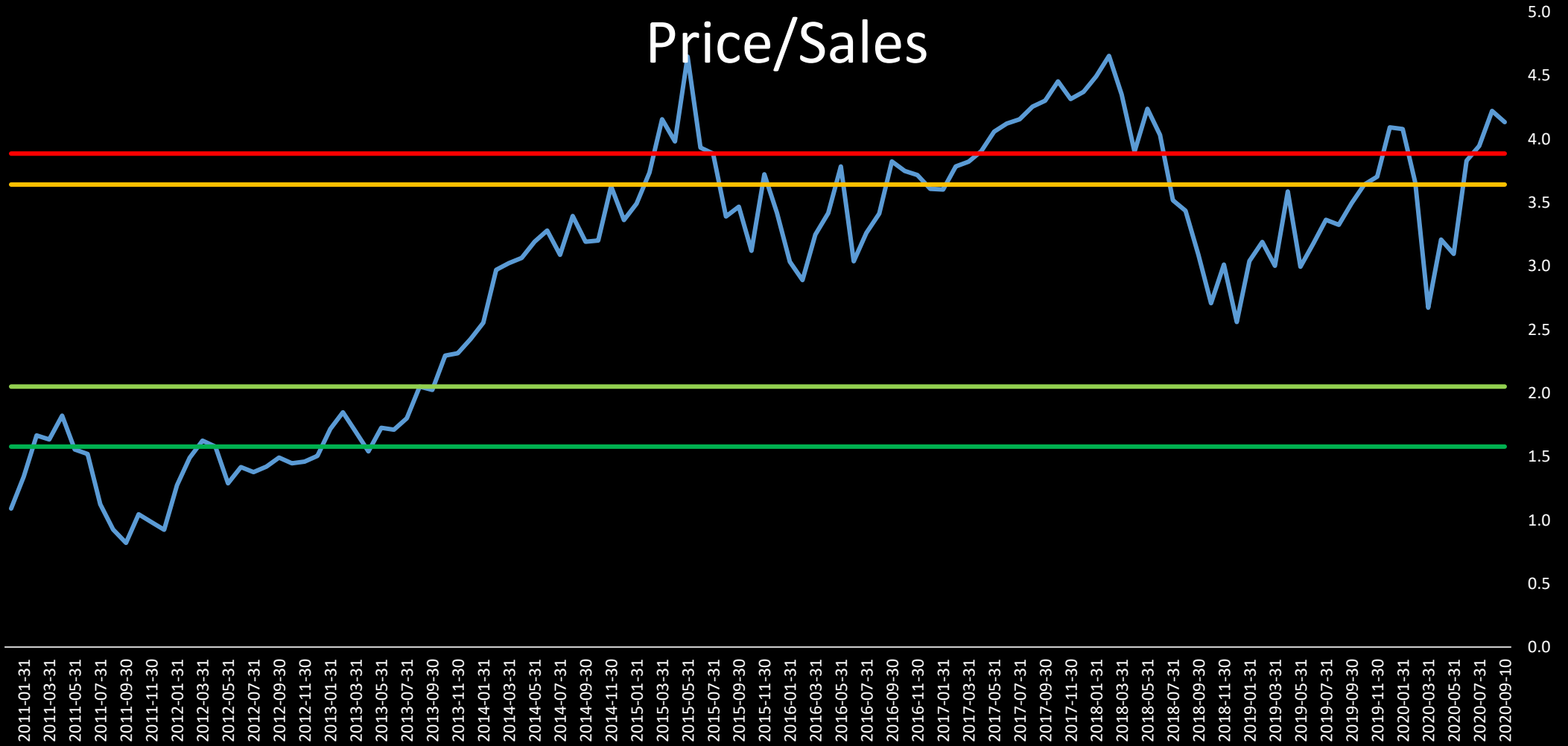
# Valuation

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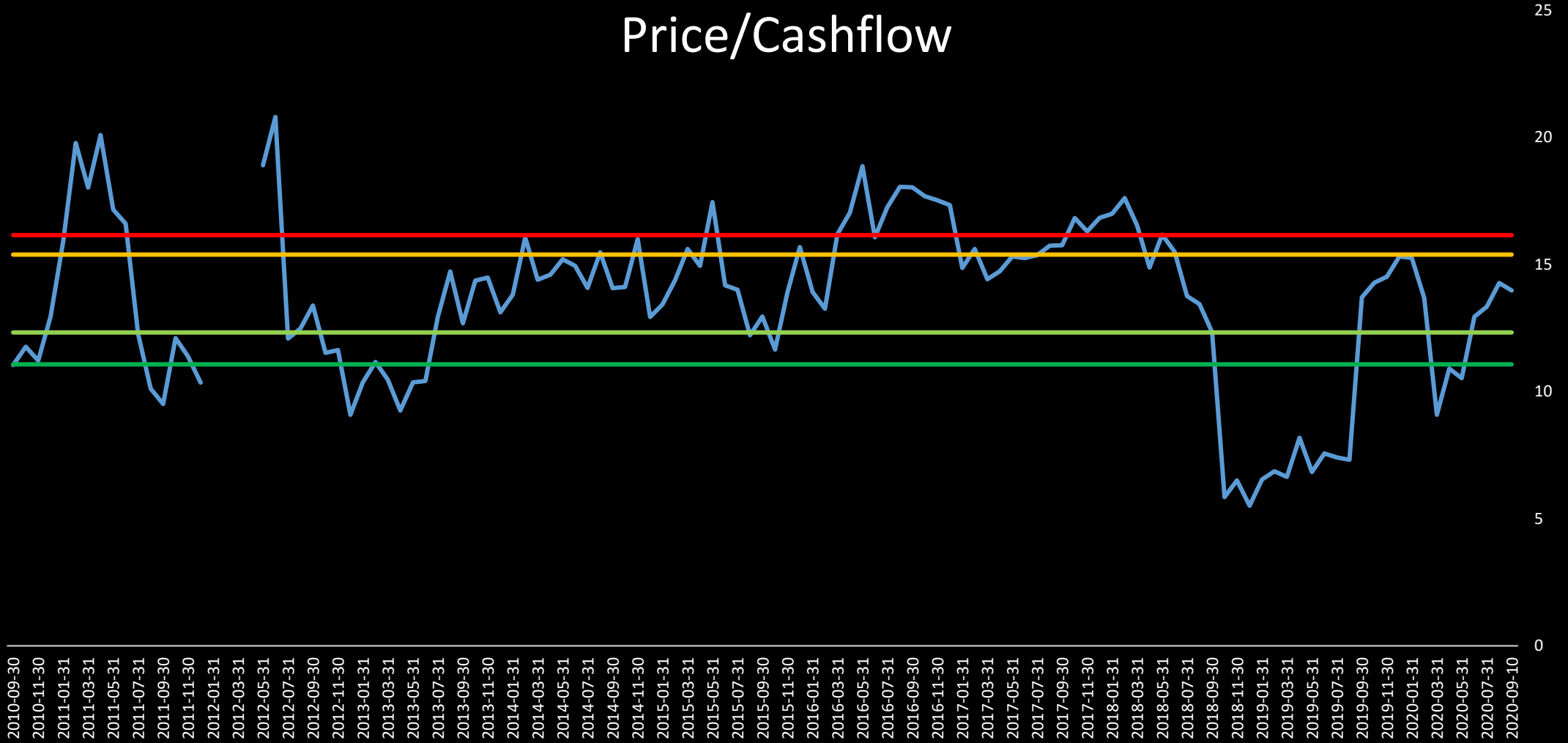


# Price/Sales





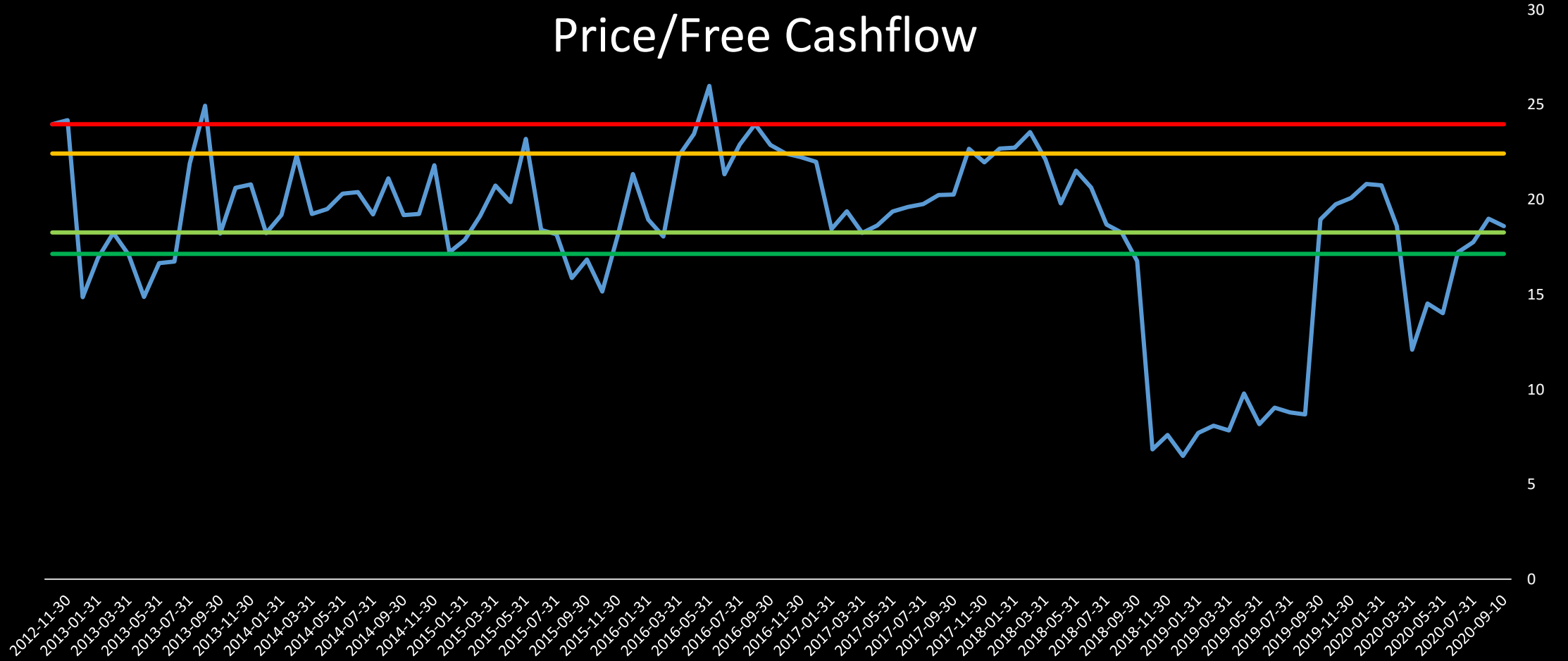
# Price/Cashflow





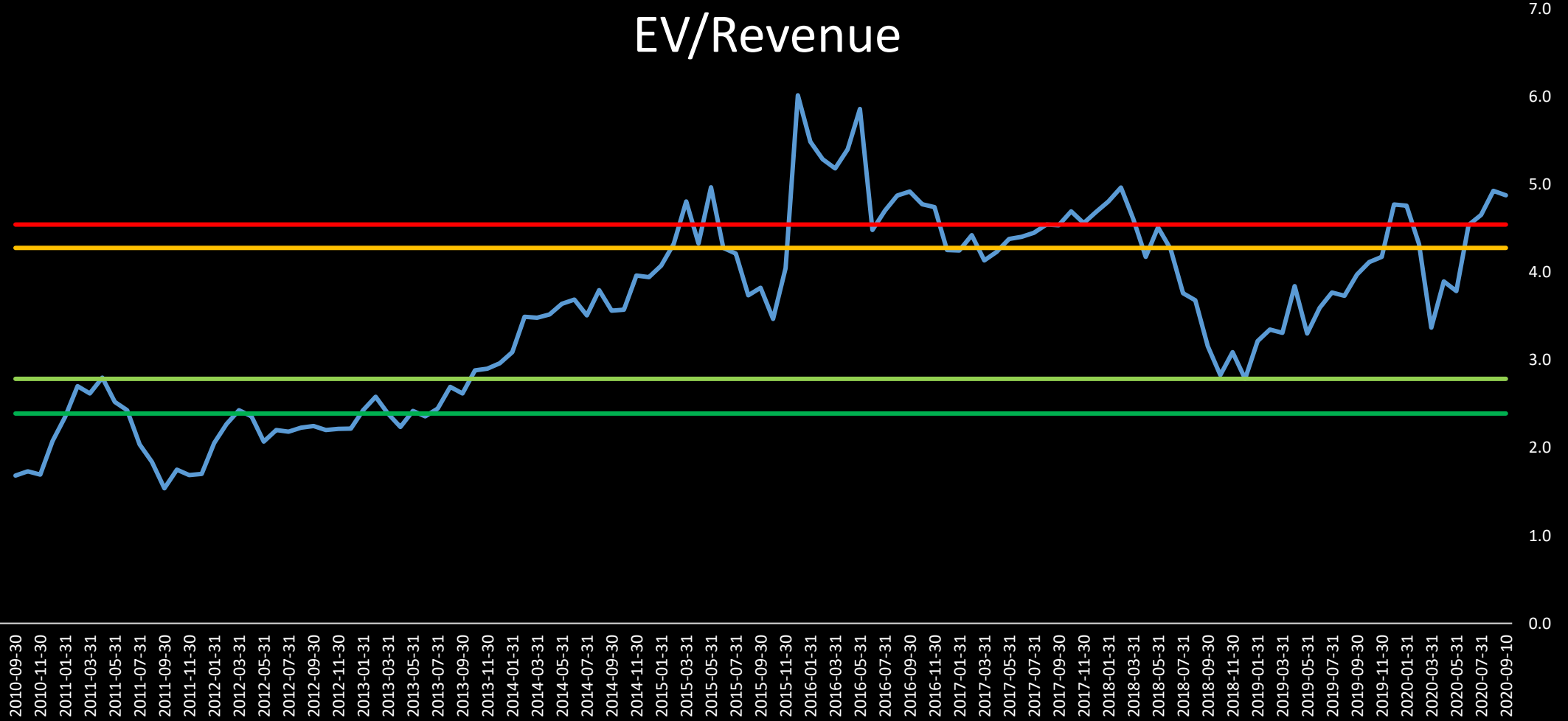


# Price/Free Cashflow



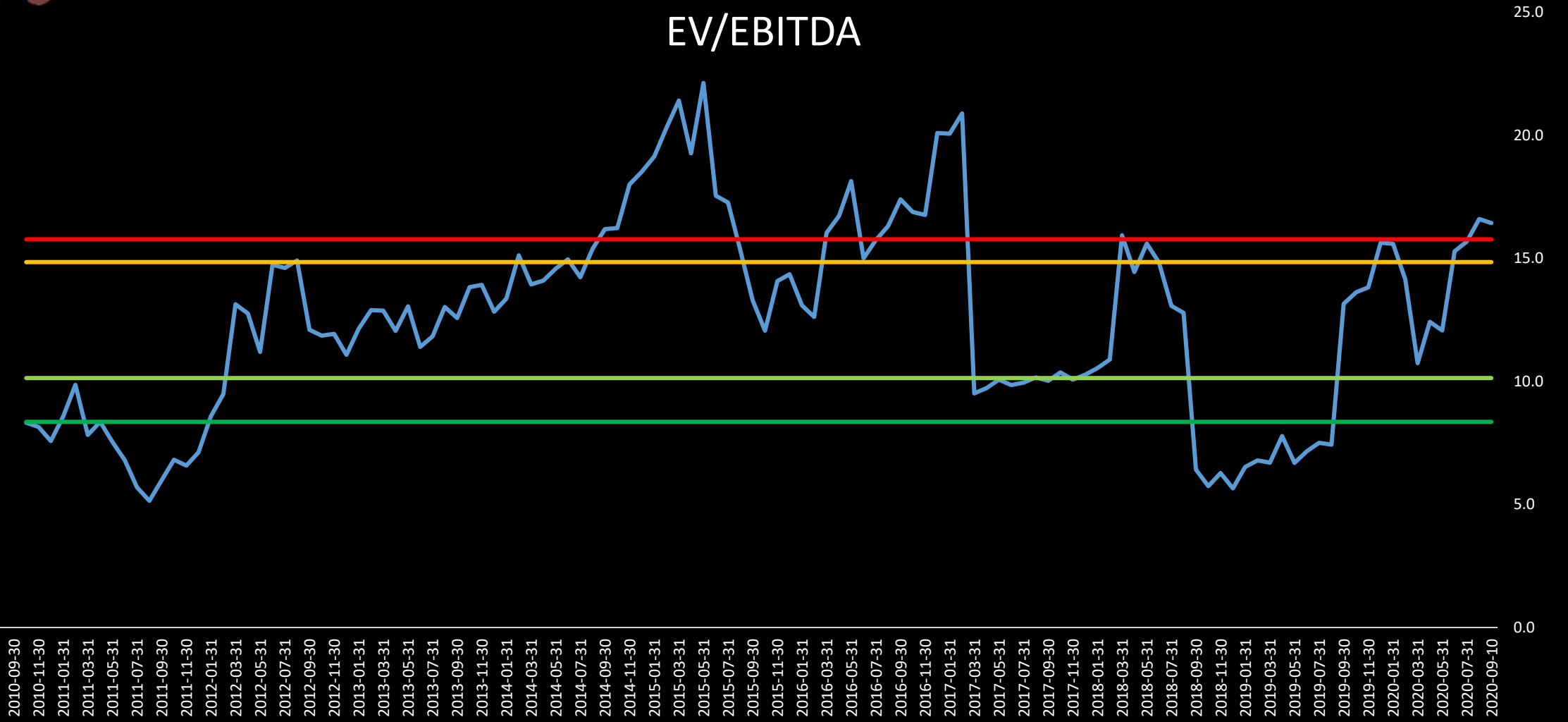


# EV/Revenue



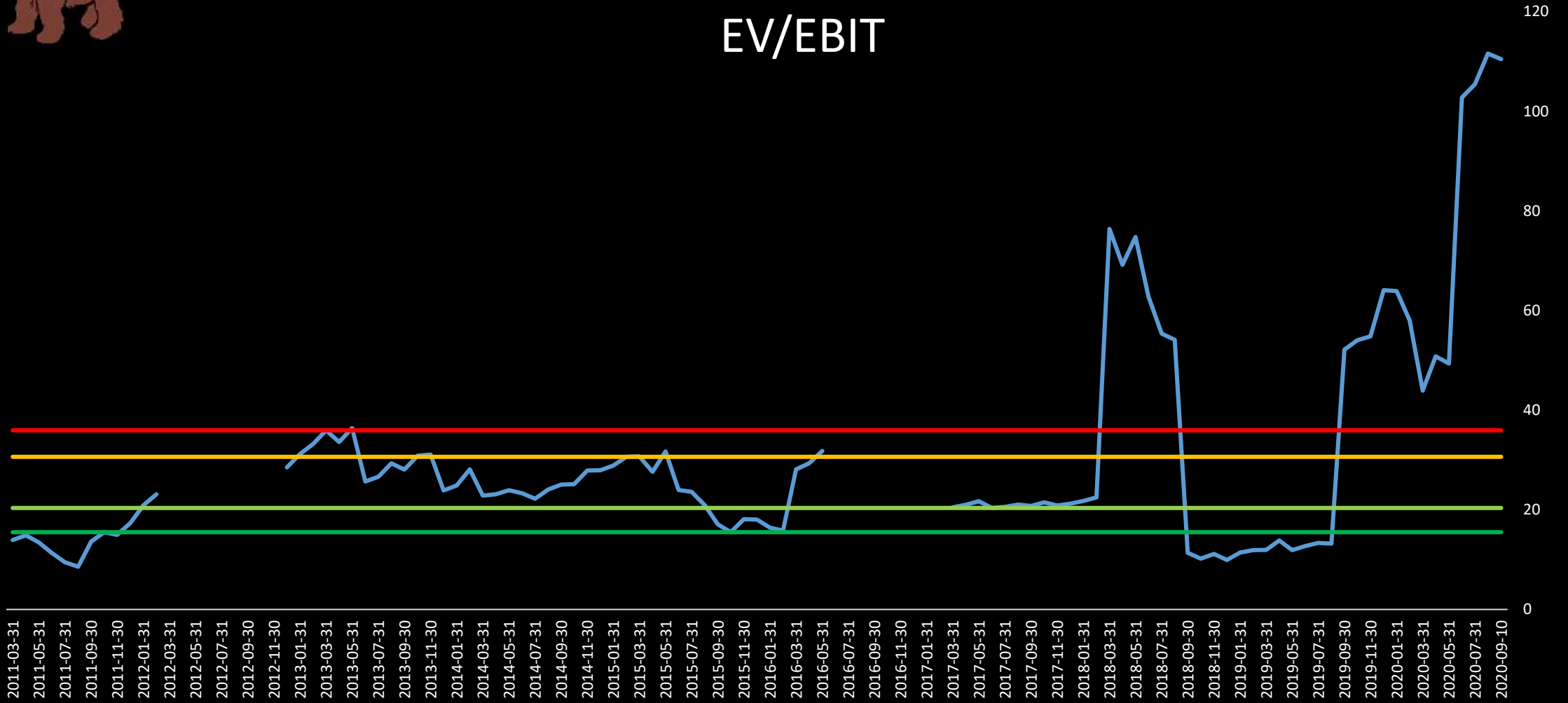


# EV/EBITDA



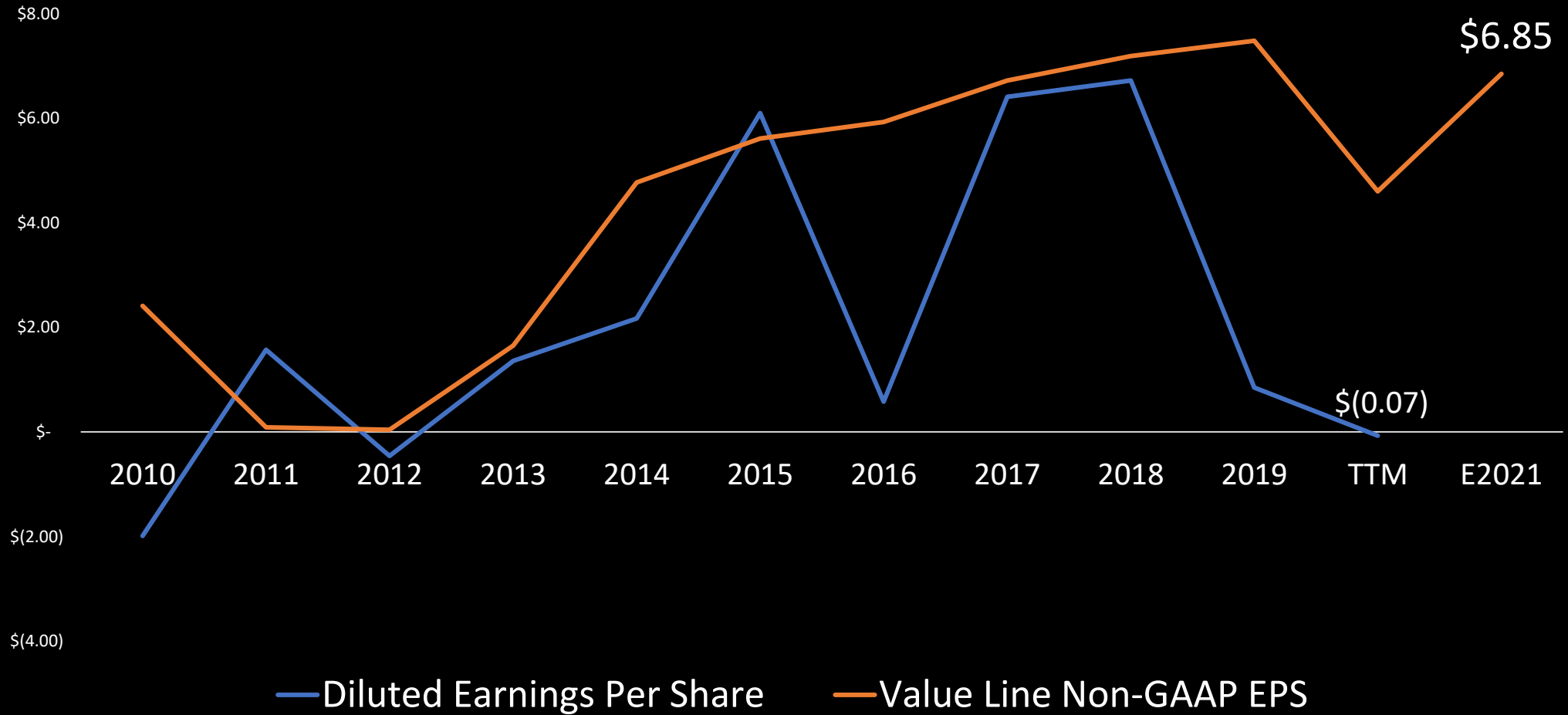


# EV/EBIT





# EPS GAAP and Non-GAAP





Bear Case	
Current Price	\$123.14
Fair Value	\$92.83
MOS	-32.7%
EPS	\$6.85
GR	5%
DR	9%
Years	10
Terminal	4%



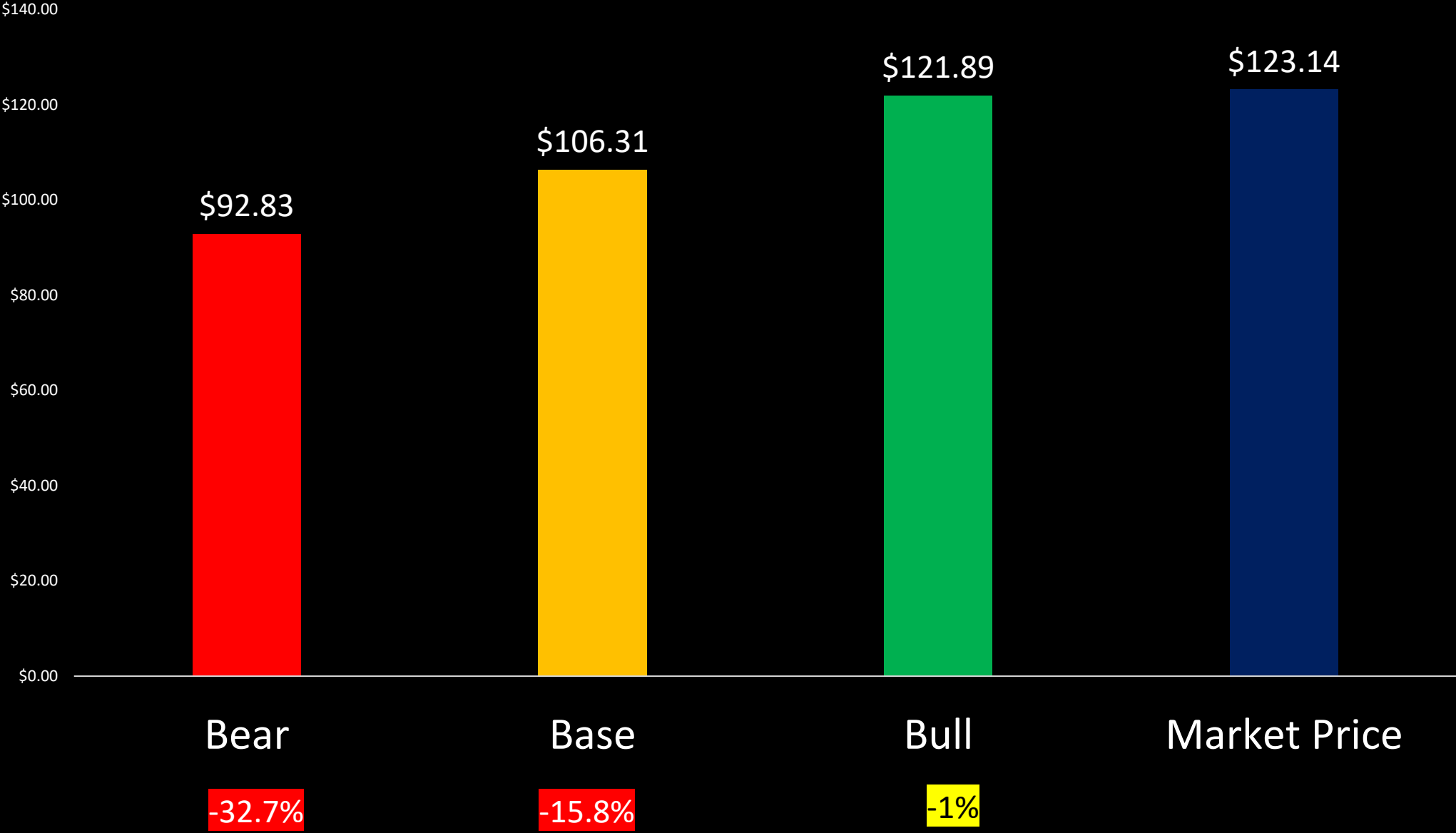
Base Case	
Current Price	\$ 123.14
Fair Value	\$ 106.32
MOS	-15.8%
EPS	\$6.85
GR	7%
DR	9%
Years	10
Terminal	4%



Bull Case	
Current Price	\$ 123.14
Fair Value	\$ 121.89
MOS	-1.0%
EPS	\$6.85
GR	9%
DR	9%
Years	10
Terminal	4%



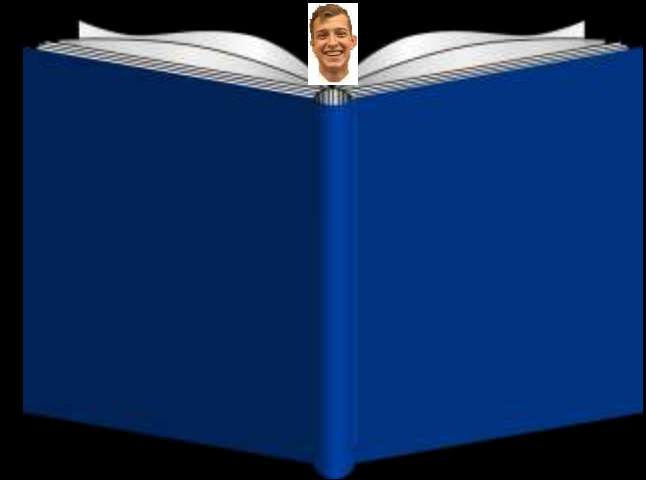
# DCF Scenarios





# Conclusion

- We acknowledge the long-term opportunities that NXP and the semiconductor industry will benefit from.
- However the numbers have not told the story.
- We recognize that this isn't necessarily a long-term compounder, but we will put it up to majority vote decision.



## Majority Vote