

FINAL TRANSCRIPT

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ONNN - Q1 2008 ON Semiconductor Corporation Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Laurie, and I will be your conference operator. At this time, I would like to welcome everyone to the ON Semiconductor First Quarter Earnings conference call. (OPERATOR INSTRUCTIONS.)

Thank you. I will now turn the call over to Ken Rizvi. You may begin your conference.

Ken Rizvi - *ON Semiconductor Corporation - IR Director*

Thank you, Laurie. Good morning. Thank you for joining ON Semiconductor's First Quarter 2008 conference call. I am joined today by Keith Jackson, our CEO, and Donald Colvin, our CFO. This call is being webcast on the investor relations section of our website at www.onsemi.com and will be available for approximately 30 days following this conference call, along with our earnings release for the first quarter of 2008. The script for today's call is posted on our website and will be furnished via a Form 8-K filing.

Our earnings release and this presentation include certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most directly comparable measures under GAAP are in our earnings release and posted separately on our website in the investor relations section. In the upcoming quarter, we will present at the JP Morgan Technology Conference

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on May 19th, the Cowen and Company Technology and Media Conference on May 28th and the FBR Investor Conference on May 29th. We will also be hosting our Annual Analyst Day in Phoenix on May 16th.

During the course of this conference call, we will make projections or other forward-looking statements regarding future events or the future financial performance of the company. The words "believe", "estimate", "anticipate", "intend", "expect", "plan", or similar expressions are intended to identify forward-looking statements. We wish to caution that such statements are subject to risks and uncertainties that could cause actual events or results to differ materially. Important factors relating to our business, including factors that could cause actual results to differ from our forward-looking statements, are described in our Form 10-K, and other filings with the SEC. The company assumes no obligation to update forward-looking statements to reflect actual results, changed assumptions or other factors.

Now, let's hear from Donald Colvin, our CFO, who will provide an overview of first quarter 2008 results, Donald.

Donald Colvin - ON Semiconductor Corporation - CFO

Thank you, Ken, and thanks to everyone who is joining us today.

ON Semiconductor Corporation today announced that total revenues in the first quarter of 2008 were \$421.9 million, an increase of approximately 3% from the fourth quarter of 2007. Total revenues during the quarter included approximately \$396.4 million of standalone ON Semiconductor revenues and approximately \$25.5 million of revenues from the acquisition of AMIS Holdings, Inc. that closed on March 17, 2008. During the first quarter of 2008, the company reported GAAP net income of \$20.8 million, or \$0.07 per share on a fully diluted basis. First quarter 2008 GAAP net income included net charges of \$44.6 million, or \$0.14 per share on a fully diluted basis from special items.

First quarter 2008 non-GAAP total net income was \$65.4 million, or \$0.21 per share on a fully diluted basis. On a mix-adjusted basis, average selling prices in the first quarter of 2008 were down less than 2% from the fourth quarter of 2007. The company's total gross margin in the first quarter was 34.7%. Non-GAAP total gross margin in the first quarter of 2008 was 37.6%.

Excluding the impact of the AMIS acquisition, ON Semiconductor had standalone gross margin of approximately 35.7% in the first quarter of 2008. Standalone non-GAAP gross margin in the first quarter was 37%. ON Semiconductor standalone GAAP gross margin in the first quarter included a net charge of approximately \$5.1 million or 130 basis points from special items. On a standalone basis, first quarter 2008 gross margin was also impacted from the increase in overall manufacturing costs associated with the weak dollar and increases in direct material costs as anticipated.

First quarter standalone ON Semiconductor non-GAAP net income excluding the acquisition of AMIS was \$59.2 million, or \$0.20 per share on a fully diluted basis.

Adjusted EBITDA for the first quarter was \$97.2 million. During the first quarter the company retired AMIS Holdings' \$277 million senior bank facility. After paying off this \$277 million of bank facility, we exited the first quarter with cash and cash equivalents of approximately \$308 million or approximately \$33 million more than the fourth quarter of 2007. This includes cash acquired at the closing of the AMIS transaction.

At the end of the first quarter, total days sales outstanding were approximately 53 days. The increase in days sales outstanding was due to the acquisition of AMIS. In the second quarter, days sales outstanding should normalize in the 40 day range. ON Semiconductor standalone inventory was approximately \$224 million, or 80 days. The acquisition of AMIS added approximately \$142 million of inventory.

Of the \$142 million, approximately \$66 million was associated with the write-up to fair value. Based on our second quarter 2008 non-GAAP guidance and adjusting for the \$66 million write-up of inventories due to the purchase accounting rules, we would

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expect that our normalized inventory days should be less than 85 days at the end of the second quarter. Our objective is to run the combined businesses at approximately 78 to 82 days of inventory valued at standard costs. Distribution inventories were down to approximately 10.5 weeks at the end of the first quarter. Cash capital expenditures during the first quarter were approximately \$16 million.

Now I would like to turn it over to Keith Jackson for additional comments on the business environment, Keith.

Keith Jackson - *ON Semiconductor Corporation - CEO*

Thanks, Don. Now for an overview of our standalone ON Semiconductor end-markets.

During the first quarter of 2008, we saw strong growth in our Computing end-market which grew by approximately 5% sequentially and represented 29% of our standalone ON Semiconductor product sales. The growth in this end-market was helped by our acquisition of the CPU Voltage and PC Thermal Products Group from Analog Devices. During the first quarter, we also saw strength in our standalone Automotive, Industrial and Networking end-markets.

Our standalone Automotive end-market revenues grew sequentially by approximately \$4 million in the first quarter and represented approximately 17% of standalone product sales. Industrial represented approximately 12% of product sales and Networking grew by approximately \$4 million sequentially in the first quarter of 2008 and represented approximately 7% of ON Semiconductor standalone product sales.

In the first quarter of 2008, we saw a slow down in our standalone Consumer Electronics and Wireless end-markets as anticipated. The Consumer Electronics and Wireless end-markets represented approximately 20% and 15% of the first quarter 2008 ON Semiconductor standalone product sales, respectively.

In the Wireless end-market, we saw a significant slowdown from sales to indigenous Chinese handset manufacturers during the quarter. And in the Consumer Electronics end-market, we saw a seasonal slowdown in applications such as MP3 players, game consoles and TVs.

During the first quarter on a direct billings basis, no standalone ON Semiconductor product OEM customer was more than 5% of product sales and our top five standalone product OEM customers were Continental, Delta, LG Electronics, Motorola and Samsung.

On a geographic basis, our contribution this quarter from ON Semiconductor standalone product sales in Asia, excluding Japan, were down 100 basis points and represented approximately 64% of product sales. Our product sales in the Americas were flat at approximately 17% of product sales. Sales in Europe were up approximately 100 basis points and represented approximately 16% of product sales during the quarter, and sales in Japan were flat at approximately 3% of product sales.

Looking across the channels, sales to the distribution channel were up by 200 basis points to approximately 52% of ON Semiconductor Standalone product sales. Direct sales OEMs were decreased by approximately 100 basis points to approximately 39% of product sales, and the EMS channel decreased by approximately 100 basis points to 9% of product sales.

During the first quarter, ON Semiconductor standalone product revenues broken out by our divisions were as follows. The Standard Products Group represented approximately 32% of product sales. The Automotive and Power Regulation Group represented approximately 28% of product sales. The Computing Products Group represented approximately 29% of product sales, and the Digital and Consumer Products Group represented approximately 11% of product sales.

We will publish the quarterly revenue, gross margin, and operating margin break-out of these divisions in our 10Q filing.

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Now, I would like to provide you with some details on other progress we have made.

The first quarter of 2008 marks the next phase in the successful transformation of ON Semiconductor. Since December, we have closed on two critical acquisitions that expand our mindshare and market share with leading customers in the Automotive, Computing, Industrial, Military and Aerospace and Medical end-markets.

We are already seeing the benefits from these acquisitions of utilizing ON Semiconductor's historical strengths in manufacturing, operations, supply chain and sales channels. We are on track to see over \$20 million of revenue from our acquisition of the CPU Voltage and PC Thermal Products Group from Analog Devices in the third quarter of this year. These acquired products greatly expand our presence in the computing end-market and specifically with leading notebook customers.

The AMIS acquisition, which closed on March 17, accelerates our Analog transformation and rebalances our end-market exposure. The AMIS acquisition expands our engineering, field application and design resources by over 300 people.

As promised, we are also delivering on our synergy targets. Since the transaction closed, we already exited the first quarter with a run-rate of approximately \$6 million in quarterly synergies and are on track to exit this year with synergies north of \$12 million on a quarterly basis or approximately \$50 million on an annual basis entering 2009. I am also happy to announce that the acquisition is accretive to non-GAAP net income per fully diluted share in the first quarter of 2008.

In the Computing end-market, we continue to see strong growth of our power management products and integrated solutions including power factor controllers, regulators, multi-phase controllers and MOSFET drivers for desktop, notebook and power supply markets.

Our acquisition of Analog Devices CPU Voltage and PC Thermal monitoring business has significantly expanded our SAM opportunities. The first quarter of 2008, represented the highest quarterly revenue in the computing end-market in the company's history and our new power management design wins position us for strong growth in the second half of this year.

We have expanded our design wins substantially on the latest generation of desktop motherboards and have moved into a leadership position in desktop power management.

As demand for notebook computers increase, we are also well positioned in our Vcore controllers, thermal managers, power regulators and MOSFET families to maximize growth and continue to provide solutions to our customers that optimize battery life and efficiently manage computer peripherals. We are expecting to see significant growth in our notebook power management business in the second half of this year from our new design wins on the most recent notebook platform.

In the Automotive market, our revenue was up approximately 7% sequentially driven by our continued penetration of infotainment platforms in autos. With our recently acquired custom capabilities from AMIS, we can now better service our automotive customers in virtually every major system from powertrain and safety to lighting and infotainment applications.

The Wireless end market in the first quarter was down sequentially as expected primarily due to regional softness with the China indigenous customers. As we look into the second quarter, we are beginning to see stabilization in the region's customers. On the positive side, we continue to see expansion of revenue opportunity with four of the five leading global handset vendors driven by our analog switch and circuit protection products and solutions.

In the Consumer end market, incremental design wins and production ramps in products from GPS navigation to LCD and Digital TV's are expected to contribute to our future growth. Solutions including our new GreenPoint power supply reference design for the digital to analog converter boxes help enable designers to meet the governmental and regulatory requirements of the upcoming conversion from analog to digital TV signals.

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Our products and solutions continue to win awards within the industry. We recently won first place in the Digital ASSP category of EDN's 18th annual Innovation awards for our Ezairo Hearing Aid IC, a product from our recent acquisition of AMIS. We also continue to win service awards from our customers and global partners including recent awards from customers such as, Murata, Asustek-Pegatron and Bennywave, with multi-year "Best Supplier" awards being awarded from ZTE and Longcheer.

Now, I would like to turn it back over to Donald for other comments and our other forward-looking guidance, Donald?

Donald Colvin - *ON Semiconductor Corporation - CFO*

Thank you, Keith. Second Quarter 2008 Outlook.

Based upon product booking trends, backlog levels, anticipated manufacturing services revenue decline of approximately \$8 million sequentially and estimated turns levels, we anticipate that total revenues will be approximately \$545 million to \$560 million in the second quarter of 2008.

Included in our total revenue guidance, is the expectation of sequential product revenue growth of approximately 2% to 6% for ON Semiconductor standalone and approximately \$150 million of revenue associated with the completed acquisition of AMIS.

Backlog levels at the beginning of the second quarter of 2008 were up from backlog levels at the beginning of the first quarter of 2008 and represent over 85% of our anticipated second quarter 2008 revenues. We expect that average selling prices for the second quarter of 2008 will be down approximately 2% sequentially.

We expect cash capital expenditures of approximately \$40 million in the second quarter, total cash capital expenditures of approximately \$130 million for the year. This includes cash capital expenditures from our acquisition of AMIS.

For the second quarter, we expect GAAP gross margin of approximately 32% to 34%. Our GAAP gross margin in the second quarter will be impacted from the write-up of inventories to fair market value associated with the acquisition of AMIS. We also expect non-GAAP gross margin of approximately 40% to 41.5%. Non-GAAP gross margin excludes special items of approximately \$42 million to \$44 million.

For the second quarter we also expect total GAAP operating expenses of approximately \$136 million to \$141 million or approximately 25% of sales, with GAAP SG&A expenses at 12% to 13% and R&D expenses at 11% to 12%. We also expect total non-GAAP operating expenses of approximately \$124 million to \$128 million or approximately 23%. Non-GAAP operating expenses exclude special items of approximately \$12 million to \$13 million. We anticipate that net interest expense will be approximately \$9 million for the second quarter of 2008 and cash taxes to be approximately \$4 million.

As a reminder, we have over \$800 million of net operating losses in the U.S. and expect our cash taxes to average less than \$5 million a quarter for the next two years. Taking into account the build up of cash balances over time in the U.S. and offshore, our projected effective tax rate should be approximately 10% to 12% after 2010.

We also project to have ample cash to meet our U.S. debt amortization requirement. Our current fully diluted share count is approximately 410 million shares based on stock prices below \$10, which includes approximately 396 million of common stock and approximately 14 million shares related to options, convertibles and RSUs. Further details on share count and EPS calculations are provided regularly in our 10Qs and Ks.

With that, I would like to start the question-and-answer session.

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QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS.)

Craig Ellis of Citi.

Craig Ellis - Citigroup - Analyst

Thanks, and good morning, guys. Congratulations on the strong results.

The first question, Keith, you mentioned the synergies that you are already starting to harvest, can you just give us a little more color on where that is coming from whether it be cost of goods or the operating expense lines.

Keith Jackson - ON Semiconductor Corporation - CEO

It comes from both. Right now the first couple of weeks that are reported in this quarter it was more from OpEx savings than cogs, but as we get through the end of the year, I expect the cogs line will be the dominant line ...

Craig Ellis - Citigroup - Analyst

Okay. And then as the follow question, we have been looking for the Gresham fab to ramp us with on product this year. Keith, can you give us an update on how we should look at that as we think about 2Q through 4Q?

Keith Jackson - ON Semiconductor Corporation - CEO

Yes. It should continue to ramp. We have gotten now two of our analog processes in there and we are indeed adding new products every day from the ON portfolio. And so, that track is on track from the last comments I made. The acquisitions from AMIS and ADI really kick in in Q1. So, everything we have put forward before on the on basis remains intact.

Craig Ellis - Citigroup - Analyst

Thanks, guys.

Operator

Craig Berger of FBR Capital Market.

Craig Berger - FBR Capital Market - Analyst

Hey, guys, good morning.

Keith Jackson - ON Semiconductor Corporation - CEO

Good morning.

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Craig Berger - *FBR Capital Market - Analyst*

Nice job. A few questions here. First of all, on the PC side it looks like even excluding the ADI acquisition that business was flatter, slightly up sequentially in Q1. Could you tell us what is driving that and also talk about some of your SEC investments?

Keith Jackson - *ON Semiconductor Corporation - CEO*

Sure. So, yes, we continue to gain share basically in computing without question. In the desktop, we are expecting to have the significant majority of next generation motherboards that will be ramping in the second half for our Vcore controllers and continued good penetration on all the other products. So, we are actually pretty excited about that and so, it was flat up for the base business and that was entirely new designs ramping.

The SECs have been very successful for us. I am very excited about that. In each of the areas we put those, the design win count in the new products that flow into those markets have accelerated dramatically. We will be talking about some of those specifics in numbers in our Analyst Day upcoming presentations.

Craig Berger - *FBR Capital Market - Analyst*

And then just as a follow up, can you tell us how much cost savings is assumed in your 2Q guidance in cogs and OpEx so we can understand where we are at, what is assumed, and how much we can model on a go forward basis beyond the second quarter?

Donald Colvin - *ON Semiconductor Corporation - CFO*

It is Donald here. Obviously as we integrate both the manufacturing structures and the OpEx structures, savings will continue to accrue in the seven manufacturing consolidations that have been planned and that will start to kick in in the second half. But, I think it is safe to say that the kind of savings we are projecting in the second quarter would be in the \$6 million to \$8 million a quarter range.

And as Keith mentioned in the script, we see it on a \$12 million or so third quarter velocity as we exit the year at approximately \$50 million in annualized savings. And so, obviously that is a lot data, as you can imagine for us to get our arms around, but we feel pretty comfortable we can meet these numbers and we will try and do better.

And just to emphasize one of the points that Keith mentioned, is that right now you heard in my script that the foundry services, the manufacturing services business will go down this quarter as we expect, that is the second quarter. The LSI contract is falling off as we projected, but our own business will start to ramp particularly in the second half as more and more of our products are made in Gresham.

And parallel to that, we will be closing some of our facilities, in particular, a smaller factory here will close down in the middle of the year and savings for that will start to kick in in the second half. So, we have a lot of cost reduction expense saving programs that are active and will start to bear the fruit.

Craig Berger - *FBR Capital Market - Analyst*

And then, just a couple housekeeping questions. The \$66 million inventory write-up flows through in the second quarter and how does it progress thereafter? And then also how much was the foundry revenue in the first quarter?

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Donald Colvin - *ON Semiconductor Corporation - CFO*

The manufacturing services in the first quarter, we lumped together. Foundry manufacturing services was about \$22 million. So, I think we know start somewhere in a thousand pieces at least. And as far as the inventory write-up goes that is probably -- most of it is going to flow through probably in the first one to two quarters, but you can see that some slower moving parts will be with us for awhile. So, I would not expect to get rid of the remains for at least a year. It just is quite a long half life of that stuff. But, a lot of it should go in the first one to two quarters, but we will still have this write-up with us for awhile.

Craig Berger - *FBR Capital Market - Analyst*

Thanks a lot.

Operator

(OPERATOR INSTRUCTIONS.)

Romit Shah of Lehman Brothers.

Romit Shah - *Lehman Brothers - Analyst*

Yes. Thanks for taking my question. Do you guys still expect to realize \$40 million in manufacturing cost savings that is separate from AMI?

Keith Jackson - *ON Semiconductor Corporation - CEO*

Yes. Our cost reductions there again those plans remain unchanged. They include, as Donald mentioned earlier, the closure of one of our wafer fabs, significant movement from outside boundaries into Gresham, and our normal cost reduction in dye shrink activities globally.

Romit Shah - *Lehman Brothers - Analyst*

So just to clarify, we have got about \$20 million or so in cost savings from AMI that has not been realized plus an additional \$40 million from manufacturing cost savings that will layer in over the next six quarters?

Donald Colvin - *ON Semiconductor Corporation - CFO*

Yes, but let's not say that. The time period of the additional AMI, let's say of 15 to 20, is probably more in the 18 month time period rather than in the 18 weeks. And then in addition to that, we will have our own savings on, I believe the number is in the region of about \$100 million a quarter or \$40 million a year.

Romit Shah - *Lehman Brothers - Analyst*

Right.

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Donald Colvin - *ON Semiconductor Corporation - CFO*

And AMI additional savings would be over the couple two year period, 15 to 20. Now, the problem is that we cannot really say this is AMI or this is ON, because we have consolidated our manufacturing operations -- are under one management structure now and both teams are working incredibly effectively together under one organization. So, it will be meaningless to talk of AMI or ON certainly, but these are the kind of ballpark numbers that we identified when we were on the road in December, and we do not feel in any way uncomfortable with realizing these numbers.

Romit Shah - *Lehman Brothers - Analyst*

Okay. And then Keith, it sounds like you are seeing a healthy pick up in your core business. When did orders bottom? Are customers trying to build inventory? Just a bit more color on what is happening.

Keith Jackson - *ON Semiconductor Corporation - CEO*

Yes. Actually, the inventories as we have alluded to are actually extraordinarily lean. The channel at 10.5 is about as lean as we have ever been, and on an OEM basis, we are not detecting any build at this point. So, what has really happened is, we kept the inventories in a very good range throughout this cycle, customers are now ordering to what we believe to be run rates and, of course, those order rates picked up very nicely in March. We had a very strong March and we had a very strong April for new orders. So, we really think it is demand drive. There is no inventory to burn off, and so you are seeing pretty much manufacturing run rates of our customers.

Romit Shah - *Lehman Brothers - Analyst*

And is it tied to one particular end-market?

Keith Jackson - *ON Semiconductor Corporation - CEO*

It is not one end-market. I mean, we are seeing some recovery now in the wireless handsets. We think that that is kind of behind us, and we are seeing good strength in several of the large players there plus the indigenous Chinese starting to order again. That has definitely changed the computing side building nicely as we would expect for the second quarter, and General Automotive also picking up for us despite some of the turmoil here in North America.

Romit Shah - *Lehman Brothers - Analyst*

Terrific. Thank you.

Operator

Chris Danelly of JP Morgan.

Chris Danelly - *J.P. Morgan - Analyst*

Congratulations on making this start to work. Hey, Keith, just to follow along with Romit's question, can you just talk about what you expect from the end-markets generally this year in terms of which do you think is better, where are you more concerned, and then how does your end-market exposure change with the AMI acquisition?

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Keith Jackson - *ON Semiconductor Corporation - CEO*

So, end-market exposure will increase our automotive percentage as we go through time. Very, very strong auto business at AMI. I do think that will be a strong market for ON Semiconductor this year and that is all about new design wins and not about end automotive sales. So, despite the fact I think the automobile sales this year will be flat to down around the world, we do expect to see a very nice gain for ON in our electronic sales there.

Computing will also be very, very strong for us as we go through the year. We are expecting significant share gains in the second half with the new platform ramps and our customers. And so, that will be kind of the other market that will look very, very strong from the company perspective again.

Yes, and then the balance of the markets I would expect to be seasonal. The consumer driven markets and consumer related markets will pick up in the second half, but overall not show the robustness that we talked about in automotive and in computing.

Chris Danelly - *J.P. Morgan - Analyst*

Got it. And then my follow up for Donald. So, Donald, when the dust has settled, where do you see ON's normalized gross margins and operating margins, and how long do you think it will take to get there?

Donald Colvin - *ON Semiconductor Corporation - CFO*

Well, I think we have already shown we believe the dust is moving in the right direction, Chris. We have had some pretty significant headwinds because of the currencies and inflation and that had held us back a little bit, and we announced that on the last call and I know just a lot of other companies address the same issues. But, right now the dollar looks like it is stabilizing and hopefully prices are also stabilizing, and we can have a stable environment. So, that our -- the things we can impact through operating efficiencies can drive our margins stronger.

But, we are looking at between 40% to 41.5% gross margin in the second quarter, that is for guidance, and when you strip out the 1 off in the accounting charges. And as we move forward through the year as business holds up, we should be able to add to that as we ramp up Gresham and we ramp up revenue, as Keith mentioned, added to our design wins and the strength of the end-market.

I cannot make a macro call. We only give guidance from one quarter out, but if business holds up as we see from our backlog and then we can certainly add a few points to gross margin as we go through the second half. And as you know, normally the second half shows stronger revenue and stronger gross margin for our business, which is seasonally better in the second half.

As far as our longer term models are concerned, we will present them to you next week. Previously, we stated that we believe we should a 45% gross margin company with an operating income in the 21% to 22% range. I do not see any reason why we should not continue to believe that. Obviously our revenue outlook will be stronger than we had previously indicated because of the acquisitions of both AMI and ADI.

So, to answer your question specifically, we believe this business is totally capable of operating a 45% gross margin and an operating margin above 20%.

Chris Danelly - *J.P. Morgan - Analyst*

Perfect. Thanks guys.

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Operator

Ramesh Misra of Collins Stewart.

Ramesh Misra - Collins Stewart - Analyst

Good mornings, guys. Good numbers. My first question is related to the equipment overlap at the AMI side versus your Gresham and [Czech] fabs. Is there a similar tool set, or is it drastically different?

Keith Jackson - ON Semiconductor Corporation - CEO

The AMI, I have to split them into a couple of fabs here. Their six inch fab in Belgium looks pretty similar to our other 6 inch mostly bipolar factories. And that will be a very good cornerstone for us as we continue to consolidate that six inch platform around the world.

The five inch does not match anything we have and we have announced we will be closing down that five inch factory in Idaho. And then the eight inch equipment is a generation older than our Gresham factory, so we will consolidate our newest products into Gresham and have that eight inch factory be our trailing edge eight inch factory.

Ramesh Misra - Collins Stewart - Analyst

Okay, great.

In regards to your typical trends second half-over-one half, Keith, you have historically seen and said that you expect 10% to 20% growth. Now with the design wins that you have been seeing lately and, of course, taking into consideration softness, at least in the U.S. markets, do you see yourself potentially being meaningfully away from that guideline?

Keith Jackson - ON Semiconductor Corporation - CEO

This will, of course, be clouded by the acquisitions we have done. So, if I just try and imagine life the way it would have been if we were combined last year and imagine life the way it might be second half next year, I still expect to see unit growth in excess of 10%.

Yes, we have got some great design win momentum. We have also got some big unknowns I think in the macro economy. So, I think it is really too soon for me to call substantially more than that at this point, but I am actually pretty positive that we should see at least normal growth this year despite the macroeconomics.

Ramesh Misra - Collins Stewart - Analyst

Okay. Thanks for that. Can I just get two housekeeping questions for Donald, please?

Keith Jackson - ON Semiconductor Corporation - CEO

Um-hmm.

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Ramesh Misra - *Collins Stewart - Analyst*

Okay. How much of the contribution from ADI in Q1 and how much cash did you inherit from AMI?

Donald Colvin - *ON Semiconductor Corporation - CFO*

Well, the contribution we gave on the release on the standalone non-GAAP basis we were \$0.20 and with [AMI] we were \$0.21. So, it was right at \$0.21. I think we got approximately...

Ramesh Misra - *Collins Stewart - Analyst*

I am sorry. That is for ADI, right?

Donald Colvin - *ON Semiconductor Corporation - CFO*

Oh, from AMI I was giving you. Okay...

Ramesh Misra - *Collins Stewart - Analyst*

Yes.

Donald Colvin - *ON Semiconductor Corporation - CFO*

So, from ADI, I have got to sort everything out. It is probably roughly a cent, something in that region.

Ramesh Misra - *Collins Stewart - Analyst*

And what about in revenues from there?

Donald Colvin - *ON Semiconductor Corporation - CFO*

In revenues we came in about 15.

Ramesh Misra - *Collins Stewart - Analyst*

Okay. And the cash from AMI?

Donald Colvin - *ON Semiconductor Corporation - CFO*

About a hundred.

Ramesh Misra - *Collins Stewart - Analyst*

Okay, great. Thanks very much.

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Donald Colvin - *ON Semiconductor Corporation - CFO*

On the cash, we also some short-term borrowing and we give you all the details on that, I think we have at least over a hundred pages of information. So, we also published a [cure] for your edification. And so, basically you should look at borrowing and cash as a combined company because we had to pay off about \$280 million of AMI debt.

Ramesh Misra - *Collins Stewart - Analyst*

Got it. Okay, great. Thanks very much.

Operator

Steve Smigie of Raymond James.

Steve Smigie - *Raymond James - Analyst*

Great, thank you. I was hoping you could help me understand your comments about position on Vcore a little bit better. It sounds like you are saying you believe we will be in a leadership position there. Are you counting that as say on a units basis based on controllers or are you saying if I take revenue of controllers, drivers, sets, add them up, you will be in the lead that way? Is that ...

Keith Jackson - *ON Semiconductor Corporation - CEO*

We think we will be in the lead position in desktop Vcore controllers in the second half. So, we are waiting on our design wins for the latest generation motherboards to start ramping in that May/June timeframe, and we think we will actually just on Vcore, Steve, be the leader there.

Steve Smigie - *Raymond James - Analyst*

Okay. And could you similarly give some thoughts on where you will be on the notebook side.

Keith Jackson - *ON Semiconductor Corporation - CEO*

Notebook side, we have had virtually no penetration on our Vcore controllers and system controllers last year. It was mostly a MOSEF business for us last year, and this year, we are projecting some significant ramps in the second half. Probably not the number one supplier yet, but certainly significant displacement that will occur in the marketplace for share gains.

Steve Smigie - *Raymond James - Analyst*

Okay, great. Congratulations on the nice numbers.

Keith Jackson - *ON Semiconductor Corporation - CEO*

Um-hmm. Thank you.

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Operator

John Pitzer of Credit Suisse.

John Pitzer - *Credit Suisse - Analyst*

Yes, good morning, guys, and let me add my congratulations. A couple of quick questions.

First, you know, any time there is an acquisition there is a level of uncertainty created with the customer base. I am kind of curious how you are managing the AMI customer base and are you worried at all that they are building inventory just as a buffer as just in case? Then I have a follow up.

Keith Jackson - *ON Semiconductor Corporation - CEO*

Yes. We have been out and we have talked to those customers. In general, the reaction has been that they like the acquisition. They like basically ON Semiconductor's supply chain management, and feel very comfortable with that. And as such, we have not seen any build in inventory there or an dramatic change, frankly, in backlog or order rates beyond what we expect for the end-market use. So, we are really not -- we do not believe we are seeing any kind of inventory build up on the AMI side.

John Pitzer - *Credit Suisse - Analyst*

And, Keith, as you consolidate manufacturing, do you think that will hold or do you think customers might want to take a little bit more inventory as you guys consolidate manufacturing?

Keith Jackson - *ON Semiconductor Corporation - CEO*

In general, they do not like taking extra inventory. There may be a little bit toward the end of next year when we start getting to the closure phase of those factories. But, upfront I do not expect any changes whatsoever. So, I think we are kind of a year away from any kind of security builds because we have again put timelines on these things of about 18 months.

John Pitzer - *Credit Suisse - Analyst*

And then last question, Donald, you talked about the foundry services business being down \$8 million in June. How does that tail off after that and can you help me understand the gross margin differential between that business and sort of the core business?

Donald Colvin - *ON Semiconductor Corporation - CFO*

Sure. We always new we had to [take our] peak on track with LSI that was going to terminate this year, and they sold us a factory because we were moving to more advanced technology. So, we have always anticipated this. The revenue will probably fall in the second half to \$10 million to \$12 million per quarter, in that range. The margin on this basically we do not make any profit, it is sold at cost. But, the disadvantage of that is it is a very high cash contributor. And so, it is a margin challenge as that revenue comes down.

I think the good news is that it is kind of bottoming out and 80% or so of the decline is already baked into the guidance numbers we have given for the second quarter. When I mean 80%, I mean the numbers have come down about 80% from their peak. So, I think that we are now taking off the bottom of filling that factory ourselves. The second half of last year our stocks were

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than LSI stocks. As Keith mentioned, we have installed new processes and we are now starting to ramp a lot of our own products in there. And we will also be building stuff we installed last year for our second half computing ramp.

In addition to that, we have identified products from AMI acquisition that will also start to ramp next year. So, we are feeling that we turned the corner there. Acquiring a huge facility like that has never been an easy challenge, but it puts us in an excellent position to be successful in the markets where we operate.

And let me just say one point, that is one thing that is going down well with the AMI customers, having that facility helps a lot as far as our credibility is concerned. And we have integrated our manufacturing and our technology organizations because AMI's technology roadmap was the same as ours. They may need the same kind of technologies that we were installing in Gresham, and as we mentioned in the script, they have many engineers that will compliment our effort there. So, a sort of underpinning efforts toward Gresham and help accelerate the ramp of Gresham.

John Pitzer - *Credit Suisse - Analyst*

Great. Thanks, guys. Appreciate it.

Operator

Patrick Wang of Wedbush.

Steve Park - *Wedbush Morgan Securities - Analyst*

Hi, this is Steve on behalf of Patrick here. Just had a quick question on, is there any end-market ASP weakness? Have you guys seen anything in the quarter there?

Keith Jackson - *ON Semiconductor Corporation - CEO*

You know, there is no significant differentiate on those end-markets from an ASP pressure. They are all looking very similar and relatively benign for our first quarter. Normally our first quarter is the worst quarter of the year. That is when everybody kind of redoes their annual work in addition to the normally quarterly work. So, frankly, it is all looking about the same.

Steve Park - *Wedbush Morgan Securities - Analyst*

Okay, great. Just one last quick question, do you have any -- can you update us on the stock buyback program -- is there -- what is remaining?

Donald Colvin - *ON Semiconductor Corporation - CFO*

I think right now for the first half of the year of the acquisition, we had to pay down the buying debt we said \$280 million or so from AMI. And we now have a certain cash restructuring cost that we are paying in the second quarter. So, I do not think it is fair to talk about immediate action on stock buy back, but we remain attentive and as things settle down, integration progresses well, we will certainly be looking at that in a more benign manner in the second half of the year. Our cash balance will start to build again, and we know we will be able to harvest some other opportunities.

I will remind you that we have been aggressive in stock buy backs in the past having bought back approximately 45 million shares, and we continue to look at ways to enhance shareholder value.

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In the current volatile environment of the first quarter, I think you probably all noticed what our companies were more concentrating on keeping cash rather than rushing to buy back stock. And especially with us doing that acquisition, where we did not go out to the market and raise any expensive debt to complete acquisition, we have been concentrating more on integration and paying off of the AMI debt rather than stock buy back. But, that is something that will be top of our priorities for the second half.

Steve Park - *Wedbush Morgan Securities - Analyst*

Can I ask one more quick question just on the commodity prices, do you expect that to kind of continue in the gross margin and how are you guys seeing that for next quarter?

Keith Jackson - *ON Semiconductor Corporation - CEO*

Yes. I mean, next quarter is again looking at numbers that are not significant. I think we have kind of said the 1%-plus range for those commodities, and what I actually expect there is our lead times are starting to expand. I think the second half will see the industry at large largely sold out in those commodities. So, I am not expecting accelerating price pressure there this year.

Steve Park - *Wedbush Morgan Securities - Analyst*

Okay, terrific. Thank you.

Operator

Craig Ellis of Citi.

Craig Ellis - *Citigroup - Analyst*

Thanks for taking the follow-up. Keith, you mentioned that there are some out source production you can bring into Gresham. Can you just provide some more color on how significant that would be?

Keith Jackson - *ON Semiconductor Corporation - CEO*

It is fairly significantly. So, to put it in terms here in the second quarter, we are looking at bringing in about 400 wafers a week of manufacturing by the end of the quarter from outside to inside. And then that number increases in Q3 and Q4 to somewhere in the 600 or so wafers a week. And so, it is a pretty substantial pull in.

Craig Ellis - *Citigroup - Analyst*

Okay. That is helpful, and then, can you provide us some qualitative color on how significant you think the manufacturing cost differential is between say your Gresham facility and the facilities that you acquired as part of the AMI deal. I know it will take some time to port product over as it is developed, but how should we think about the cost differential that you can arbitrage there?

Keith Jackson - *ON Semiconductor Corporation - CEO*

Yes. So, on an eight inch-to-eight inch basis, the wafer costs are nearly half in Gresham what they were in the acquired assets.

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Craig Ellis - Citigroup - Analyst

Thanks, guys.

Operator

Craig Berger of FBR Capital Market.

Craig Berger - FBR Capital Market - Analyst

Guys, thanks for taking the follow up. Can you just tell us why you did better than expected in the first quarter apart from AMIS?

Donald Colvin - ON Semiconductor Corporation - CFO

I think there were several things. Our core business performed well. We had actually a bit of a disappointing -- how should I say it -- end to the year and finished the year with a dump buying rather than a load buying, particularly related to wireless market in China. And that business recovered in February and continued strong, so we had a very good year-end in sales, particularly through distribution and our distribution inventories came way, way down. So, we ended with a bang on the revenue front and our core business actually came in at the higher end of guidance.

We also tightened the belt on expenses both in OpEx and manufacturing, and our team responded. And our operating expenses on a standalone basis came in well. We took tightened expense controls and they were effective.

Craig Berger - FBR Capital Market - Analyst

Thank you for that. On the cash and the debt, I mean it looks like you are going to be generating \$300 million or \$400 million a year of performer cash flow. How else would you like to pay down your debt or how quickly do you think it is possible?

Donald Colvin - ON Semiconductor Corporation - CFO

I think as I mentioned, the priorities change with the macro environment, but the game plan still remains the same. We will generate more than enough cash to pay down our debt. As I mentioned in my comments on our tax rate, which remains very low, we will have more than enough cash generated even in the U.S. to pay down our debt with the tax rate guidance that we give you. And then we continue to look opportunistically at actions to buy back stock, and once we get over the hurdle, which will be by the middle of the year, of pay to cash restructure costs to pay off the AMI debt, we will be able to look at stock buy backs as I mentioned on the previous question. Our cash balance will start to grow in the second half again, and we will do whatever is best in the most shareholder friendly manner.

Craig Berger - FBR Capital Market - Analyst

Last question.

Donald Colvin - ON Semiconductor Corporation - CFO

We do not have any big debt amortization requirements over the next few years, and the weighted average cost on our debt is in the 2% to 3%. So, we do not have any junk bond type interest rates that we can pay off are very accretive. So, we are always

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looking at that trade off between a minimal interest saving and stock buy back. And one of the ironies is, we raised a few years ago a big convert, which is a zero curtain, and that is the first chunk of debt where the amortization is due. But, as you can understand, you do not have any interest savings when you pay down a zero group in bond. So, it is probably a quality problem, so that is why we have better locked into look at paying down debt.

Craig Berger - FBR Capital Market - Analyst

Donny?

Donald Colvin - ON Semiconductor Corporation - CFO

Yes.

Craig Berger - FBR Capital Market - Analyst

You have done a really good job on that front. Last one, on the taxes, you said you had \$8 million of U.S. NOLs. How much of your income is routed through the U.S.? When do those NOLs expire? And so, when would you actually see moving to the long term tax rate?

Donald Colvin - ON Semiconductor Corporation - CFO

Well, most of our business is offshore, over 80%. Even now it is approximately 80% with the AMI just a little bit under that. And so, our U.S. NOLs we think are going to last for 10 years or whatever more. And so, most of our income is offshore, but we have means to bring that income back to the states, and that is incorporated in the longer term tax rate that I gave, which is 10% to 12%, is incorporating bringing back cash and paying U.S. taxes on that so that we have the cash in the right place when we need it.

Operator

Thank you for participating in today's ON Semiconductor First Quarter Earnings conference call. This concludes today's conference. You may now disconnect.

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