SKYWORKS SOLUTIONS, INC.
Form 10-Q
May 04, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________to__________

Commission file number 001-05560
SKYWORKS SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-2302115
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20 Sylvan Road, Woburn, Massachusetts	01801
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (781) 376-3000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company," in Rule 12b-2 of the Exchange Act.

Large Accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 30, 2018
Common Stock, par value $.25 per share	182,074,657

SKYWORKS SOLUTIONS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 30, 2018

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

SKYWORKS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Net revenue	$913.4	$ 851.7	$1,965.3	$1,766.0
Cost of goods sold	454.7	426.3	969.8	876.7
Gross profit	458.7	425.4	995.5	889.3
Operating expenses:				
Research and development	106.7	89.4	204.7	171.4
Selling, general and administrative	57.5	47.8	108.8	98.7
Amortization of acquisition-related intangibles	4.1	7.0	8.1	15.5
Restructuring and other charges	1.0	—	1.0	0.6
Total operating expenses	169.3	144.2	322.6	286.2
Operating income	289.4	281.2	672.9	603.1
Other income (expense), net	2.9	0.2	5.0	(0.6)
Income before income taxes	292.3	281.4	677.9	602.5
Provision for income taxes	16.3	56.5	331.5	119.8
Net income	$276.0	$ 224.9	$346.4	$482.7
Earnings per share:				
Basic	$1.51	$ 1.22	$1.89	$2.61
Diluted	$1.50	$ 1.20	$1.87	$2.58
Weighted average shares:				
Basic	182.5	184.8	182.8	184.8
Diluted	184.3	187.1	184.9	187.2
Cash dividends declared and paid per share	$0.32	$ 0.28	$0.64	$0.56

See accompanying Notes to Consolidated Financial Statements.

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SKYWORKS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in millions)

	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Net income	$276.0	$ 224.9	$346.4	$ 482.7
Other comprehensive income				
Change in fair value of investments	—	—	—	0.9
Foreign currency translation adjustment	(0.3)	(0.3)	(0.3)	0.7
Comprehensive income	$275.7	$ 224.6	$346.1	$ 484.3

See accompanying Notes to Consolidated Financial Statements.

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SKYWORKS SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	As of March 30, 2018 (unaudited)	September 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$1,881.3	$ 1,616.8
Receivables, net of allowance for doubtful accounts of $0.5 and $0.5, respectively	367.2	454.7
Inventory	466.4	493.5
Other current assets	96.0	68.7
Total current assets	2,810.9	2,633.7
Property, plant and equipment, net	907.1	882.3
Goodwill	883.0	883.0
Intangible assets, net	62.7	67.8
Deferred tax assets, net	41.2	66.5
Other assets	40.2	40.3
Total assets	$4,745.1	$ 4,573.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$198.4	$ 258.4
Accrued compensation and benefits	66.5	68.1
Other current liabilities	53.6	61.4
Total current liabilities	318.5	387.9
Long-term tax liabilities	321.2	92.9
Other long-term liabilities	35.2	27.1
Total liabilities	674.9	507.9
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, no par value: 25.0 shares authorized, no shares issued	—	—
Common stock, $0.25 par value; 525.0 shares authorized; 228.0 shares issued and 182.1 shares outstanding at March 30, 2018, and 226.0 shares issued and 183.1 shares outstanding at September 29, 2017	45.5	45.8
Additional paid-in capital	3,002.4	2,893.8
Treasury stock, at cost	(2,255.7)	(1,925.0)
Retained earnings	3,286.8	3,059.6
Accumulated other comprehensive loss	(8.8)	(8.5)
Total stockholders' equity	4,070.2	4,065.7
Total liabilities and stockholders' equity	$4,745.1	$ 4,573.6

See accompanying Notes to Consolidated Financial Statements.

SKYWORKS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Six Months Ended March 30, 2018			March 31, 2017		
Cash flows from operating activities:						
Net income	$	346.4		$	482.7	
Adjustments to reconcile net income to net cash provided by operating activities:						
Share-based compensation	66.8			43.7		
Depreciation	129.6			111.2		
Amortization of intangible assets	11.1			15.5		
Deferred income taxes	25.6			0.9		
Excess tax benefit from share-based compensation	—			(28.2		)
Changes in assets and liabilities net of acquired balances:						
Receivables, net	87.5			48.8		
Inventory	26.3			(21.3		)
Other current and long-term assets	(27.1		)	(18.1		)
Accounts payable	(82.2		)	53.2		
Other current and long-term liabilities	211.0			36.2		
Net cash provided by operating activities	795.0			724.6		
Cash flows from investing activities:						
Capital expenditures	(118.5		)	(105.0		)
Payments for acquisitions, net of cash acquired	—			(13.7		)
Purchased intangibles	(6.0		)	—		
Maturity of investments	—			3.2		
Net cash used in investing activities	(124.5		)	(115.5		)
Cash flows from financing activities:						
Excess tax benefit from share-based	—			28.2		

compensation						
Repurchase of common stock - payroll tax withholdings on equity awards	(46.5		)	(44.6		)
Repurchase of common stock - stock repurchase program	(284.2		)	(201.7		)
Dividends paid	(117.5		)	(104.1		)
Net proceeds from exercise of stock options	32.3			31.9		
Contribution of common shares to employee savings plan	9.9			7.2		
Payments of contingent consideration	—			(2.9		)
Net cash used in financing activities	(406.0		)	(286.0		)
Net increase in cash and cash equivalents	264.5			323.1		
Cash and cash equivalents at beginning of period	1,616.8			1,083.8		
Cash and cash equivalents at end of period	$	1,881.3		$	1,406.9	
Supplemental cash flow disclosures:						
Income taxes paid	$	76.2		$	82.0	

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Skyworks Solutions, Inc., together with its consolidated subsidiaries (“Skyworks” or the “Company”), is empowering the wireless networking revolution. The Company’s highly innovative analog semiconductors are connecting people, places, and things, spanning a number of new and previously unimagined applications within the automotive, broadband, cellular infrastructure, connected home, industrial, medical, military, smartphone, tablet and wearable markets.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting. Certain information and footnote disclosures, normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), have been condensed or omitted pursuant to those rules and regulations. However, in management’s opinion, the financial information reflects all adjustments, including those of a normal recurring nature, necessary to present fairly the results of operations, financial position, and cash flows of the Company for the periods presented. The results of operations, financial position, and cash flows for the Company during the interim periods are not necessarily indicative of those expected for the full year. This information should be read in conjunction with the Company’s financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended September 29, 2017, filed with the SEC on November 13, 2017, as amended by Amendment No. 1 to such Annual Report on Form 10-K, filed with the SEC on January 26, 2018 (the “2017 10-K”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, expenses, comprehensive income and accumulated other comprehensive loss that are reported in these unaudited consolidated financial statements and accompanying disclosures. The Company evaluates its estimates on an ongoing basis using historical experience and other factors, including the current economic environment. Significant judgment is required in determining the reserves for and fair value of items such as overall fair value assessments of assets and liabilities, particularly those classified as Level 2 or Level 3 in the fair value hierarchy, inventory, intangible assets associated with business combinations, share-based compensation, loss contingencies, and income taxes. In addition, significant judgment is required in determining whether a potential indicator of impairment of long-lived assets exists and in estimating future cash flows for any necessary impairment testing. Actual results could differ significantly from these estimates.

The Company’s fiscal year ends on the Friday closest to September 30. Fiscal year 2018 consists of 52 weeks and ends on September 28, 2018. Fiscal year 2017 consisted of 52 weeks and ended on September 29, 2017. The second quarters of fiscal year 2018 and fiscal year 2017 each consisted of 13 weeks and ended on March 30, 2018, and March 31, 2017, respectively.

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 at the beginning of the first quarter of fiscal year 2018. As a result of adoption, the Company recognized a discrete income tax benefit of $22.5 million to the income tax provision for excess tax benefits generated by the settlement of share-based awards for the six months ended March 30, 2018. The adoption also resulted in an increase in cash flow from operations and a decrease of cash flow from financing of $22.5 million for the six months ended

March 30, 2018. Prior periods have not been adjusted. The Company has elected to account for forfeitures as they occur and will no longer estimate future forfeitures. The change in accounting for forfeitures was applied using a modified retrospective transition method and resulted in a cumulative-effect adjustment to retained earnings as of the beginning of the first quarter of fiscal year 2018 in the amount of $1.9 million. Forfeitures in the future will now be recorded as a benefit in the period they are realized.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). This ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. The annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The Company early adopted ASU 2017-04 during the second quarter of 2018 and applied it prospectively, as permitted by the standard. The adoption of this standard did not impact the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. The new guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We will adopt this guidance during the first quarter of fiscal year 2019 and currently expect to apply the modified retrospective approach, with the cumulative effect of applying the new guidance recognized as an adjustment to the opening retained earnings balance. We have established a cross-functional team to assess the potential impact of the new revenue standard. The assessment process consists of reviewing our current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts and identifying appropriate changes to the business processes, systems and controls to support revenue recognition and disclosure requirements under the new standard. We are continuing to evaluate the potential impact on our business processes, systems, controls and our consolidated financial statements of the new revenue standard. Based on our preliminary assessments, we do not expect the new guidance to have a material impact on the nature, amount, and timing of our revenue recognition. As we continue to assess the impact of the new guidance on our revenue contracts with our customers and finalize our evaluation of any changes to our accounting policies, internal controls and footnote disclosures, we may identify additional areas of impact and may revise the results of our preliminary assessment.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). This ASU requires lessees to reflect most leases on their balance sheet as assets and obligations. The effective date for the standard is for fiscal years beginning after December 15, 2018, with early adoption permitted. The standard is to be applied under the modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented. We are currently evaluating the effect that ASU 2016-02 will have on the consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), (“ASU 2016-15”). This ASU provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. The effective date for the standard is for fiscal years beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that ASU 2016-15 will have on the consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740), Intra-entity Transfers of an Asset Other than Inventory (“ASU 2016-16”). This ASU provides guidance that changes the accounting for income tax effects of intra-entity transfers of assets other than inventory. Under the new guidance, the selling (transferring) entity is required to recognize a current tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The effective date for the standard is for fiscal years beginning after December, 15, 2017, on a modified retrospective basis, and early adoption is permitted. We are currently evaluating the effect ASU 2016-16 will have on the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting. This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The effective date for the standard is for interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. We are currently evaluating the potential impact of this standard on the consolidated financial statements.

Supplemental Cash Flow Information

At March 30, 2018, the Company had $13.9 million accrued to other long-term liabilities for capital equipment, and $22.2 million accrued to accounts payable for capital equipment. These amounts accrued for capital equipment purchases have been excluded from the consolidated statements of cash flows for the six months ended March 30, 2018, and are expected to be paid in subsequent periods. Certain prior period amounts in the condensed consolidated statements of cash flows have been reclassified to conform to current period presentation. The description “Contribution of common shares to employee savings plan” has been reclassified from net cash provided by operating activities to net cash used in financing activities.

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2. FAIR VALUE

The Company groups its financial assets and liabilities measured at fair value on a recurring basis in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-driven valuations in which all significant inputs are observable or can be derived principally from, or corroborated with, observable market data.
- Level 3 - Fair value is derived from valuation techniques in which one or more significant inputs are unobservable, including assumptions and judgments made by the Company.

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis
The Company measures certain assets and liabilities at fair value on a recurring basis such as its financial instruments. There have been no transfers between Level 1, 2 or 3 assets or liabilities during the three and six months ended March 30, 2018.

Contingent consideration related to business combinations is recorded as a Level 3 liability because management uses significant judgments and unobservable inputs to determine the fair value. The Company reassesses the fair value of its contingent consideration liabilities on a quarterly basis and records any fair value adjustments to earnings in the period that they are determined.

Assets and liabilities recorded at fair value on a recurring basis consisted of the following (in millions):

	As of March 30, 2018				As of September 29, 2017			
		Fair Value Measurements				Fair Value Measurements		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets								
Money market funds	$688.2	$688.2	$ —	$ —	$592.6	$592.6	$ —	$ —
Total	$688.2	$688.2	$ —	$ —	$592.6	$592.6	$ —	$ —
Liabilities								
Contingent consideration liability recorded for business combinations	$9.1	$—	$ —	$9.1	$11.9	$—	$ —	$11.9
Total	$9.1	$—	$ —	$9.1	$11.9	$—	$ —	$11.9

The following table summarizes changes to the fair value of the Level 3 liabilities (in millions):

	Contingent consideration
Balance as of September 29, 2017	$ 11.9
Decreases to contingent consideration liability recorded for business combinations	(2.8)
Balance as of March 30, 2018	$ 9.1

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company’s non-financial assets and liabilities, such as goodwill, intangible assets, and other long-lived assets resulting from business combinations, are measured at fair value using income approach valuation methodologies at the date of acquisition and are subsequently re-measured if there are indicators of impairment. There were no indicators of impairment identified during the three and six months ended March 30, 2018.

3. INVENTORY

Inventory consists of the following (in millions):

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	As of March 30, 2018	September 29, 2017
Raw materials	$19.0	$ 24.6
Work-in-process	262.5	330.6
Finished goods	173.9	123.0
Finished goods held on consignment by customers	11.0	15.3
Total inventory	$466.4	$ 493.5

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consists of the following (in millions):

	As of March 30, 2018	September 29, 2017
Land and improvements	$11.6	$ 11.6
Buildings and improvements	172.3	137.8
Furniture and fixtures	31.2	29.5
Machinery and equipment	1,834.7	1,715.3
Construction in progress	149.0	164.8
Total property, plant and equipment, gross	2,198.8	2,059.0
Accumulated depreciation	(1,291.7)	(1,176.7)
Total property, plant and equipment, net	$907.1	$ 882.3

5. GOODWILL AND INTANGIBLE ASSETS

There were no changes to the carrying amount of goodwill during the three and six months ended March 30, 2018.

The Company tests its goodwill for impairment annually as of the first day of its fourth fiscal quarter and in interim periods if certain events occur indicating the carrying value of goodwill may be impaired. There were no indicators of impairment noted during the three and six months ended March 30, 2018.

Intangible assets consist of the following (in millions):

		As of March 30, 2018			As of September 29, 2017		
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5	$78.5	$ (65.7)	$ 12.8	$78.5	$ (63.4)	$ 15.1
Developed technology and other	5	150.2	(116.4)	33.8	150.2	(110.9)	39.3
Trademarks	3	1.6	(0.5)	1.1	1.6	(0.3)	1.3
Internally developed software	3	18.0	(3.0)	15.0	12.1	—	12.1
Total intangible assets		$248.3	$ (185.6)	$ 62.7	$242.4	$ (174.6)	$ 67.8

Annual amortization expense for the next five fiscal years related to intangible assets is expected to be as follows (in millions):

Remaining 2018	2019	2020	2021	2022	Thereafter

Amortization expense	$ 10.7	$ 20.1	$ 17.4	$ 8.5	$ 0.5	$ 5.5

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6. INCOME TAXES

The provision for income taxes consists of the following components (in millions):

	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
United States income taxes	$7.8	$ 51.7	$312.7	$ 108.2
Foreign income taxes	8.5	4.8	18.8	11.6
Provision for income taxes	$16.3	$ 56.5	$331.5	$ 119.8
Effective tax rate	5.6 %	20.1 %	48.9 %	19.9 %

The difference between the Company’s effective tax rate and the 24.6%