Q4 2020 Earnings Call

Company Participants

- Beatrice Russotto, Director of Investor Relations
- Hock Tan, President and Chief Executive Officer
- Kirsten Spears, Chief Financial Officer
- Tom Krause, President, Infrastructure Software Group

Other Participants

- Craig Hettenbach, Analyst
- Harlan Sur, Analyst
- John Pitzer, Analyst
- Ross Seymore, Analyst
- Stacy Rasgon, Analyst
- Timothy Arcuri, Analyst
- Toshiya Hari, Analyst
- Vivek Arya, Analyst

Presentation

Operator

Welcome to Broadcom Inc's Fourth quarter and Fiscal Year 2020 Financial Results Conference Call. At this time for opening remarks and introductions, I would like to turn the call over to Beatrice Russotto, Director of Investor Relations for Broadcom Inc. Please go ahead, ma'am.

Beatrice Russotto {BIO 20827438 <GO>}

Thank you, operator and good afternoon everyone. Joining me on today's call are Hock Tan, President and CEO, as well as the senior leadership team as announced this afternoon including Tom Krause, President, Infrastructure Software Group; Charlie Kawwas, Chief Operating Officer and Kirsten Spears, Chief Financial Officer. Broadcom also distributed a press release and financial tables after the market closed, describing our financial performance for the fourth quarter and fiscal year 2020. If you did not receive a copy, you may obtain the information from the Investor section of Broadcom's website at broadcom.com.

This conference call is being webcast live and a recording will be available via telephone playback for one week. It will also be archived in the Investor section of our website at broadcom.com. During the prepared comments, Hock, Kierstan, and Tom will be providing details of our fourth quarter and fiscal year 2020 results, guidance for our first quarter, as well as commentary regarding the business environment. We'll take questions after the end of our prepared comments. Please refer to our press release today and our filings with the SEC for information on the specific risk factors that could cause our actual results to differ materially from the forward-looking statements made on this call.

In addition to US GAAP reporting, Broadcom reports certain financial measures on a non-GAAP basis, a reconciliation between GAAP and non-GAAP measures is included in the tables attached to today's press release. Comments made during today's call will primarily refer to our non-GAAP financial results.

And with that, I'll turn the call over to Hock.

Hock Tan {BIO 1460567 <GO>}

Thank you, Bea. Before I discuss our results, I do want to highlight the senior leadership appointments we just made around the same time this afternoon, which is all about ensuring continued growth and success of Broadcom. But first and foremost as you see here, I'm not going anyway, I'm as committed and engaged as I have. But while you often see me and Tom, behind us we have a very strong bench that has gotten us to where we are today. So today we are elevating some of this deep bench into critical positions that will strength our organization going forward. Tom, Charlie and Kirsten are among the people who sustain the platform and make the phenomenal numbers I'm about to announce happened. And to showcase our deep bench of talent at Broadcom starting in fiscal year '21, we plan to organize series of Analyst Days on the various businesses where you can hear from our respective general managers about their businesses and to kick this off, the first will occur this January where Ram Velaga and Alexis Bjorlin will review our networking franchise.

With this less, let me now turn to a very strong fourth quarter results. We came off fiscal 2020 with record quarterly revenue and profitability despite the ongoing pandemic and macroeconomic uncertainties. We delivered net revenue of $6.5 billion, above the midpoint of our guidance and up 11% sequentially and 12% -- up 12% year-on-year. Semiconductor solutions revenue was $4.8 billion, increasing 6% year-on-year and most notably representing a return to year-on-year revenue growth. Infrastructure software revenue was 1.6 billion, up 36% year-on-year, which of course includes the contribution from Symantec.

Let me now turn first to semiconductors, networking which represented approximately 35% of our Semiconductor solution revenue in the quarter was up 17% year-on-year, driven by the continued strength in cloud data center spending, as well as continued spending by telcos in upgrading EDGE and core networks.

Moving on to Q1, we expect this trend of double-digit percentage year-on-year revenue growth to continue even as we expect enterprise campus spending to continue to soften.

Turning to broadband, which represented approximately 14% of Semiconductor solutions in the quarter, that was up 22% year-on-year. Growth was driven by the work from home environment and the need among service providers, as well as consumers to upgrade broadband connectivity to, as well as within the home. We experienced strong adoption of WiFi 6 in next generation access gateways in telcos and consumers.

In fact, in this environment, Wifi where we are very well positioned as a leader has turned into a substantial and growing business for the company. Beyond WiFi, we also experienced strong investment by service providers in EPON as fiber to the home and digital subscriber line copper, as well as cable modems among the cable operators. All this more than offset a decline in video. We expect low to mid teens percentage year-on-year growth, revenue growth in broadband for Q1 as demand continues to remain strong.

Moving on, wireless revenue which represented approximately 31% of semiconductor revenue in this quarter was up 43% sequentially in Q4, with the launch of new generation flagship phone by our large North American OEM customer. Still this was down 9% year-on-year given the one quarter delay in the ramp of production of that program. Accordingly, we expect Q1 fiscal '21 to now be the big quarter of this sessional realm and revenue will compare extremely favorably with the same quarter a year ago and we expect that to be up over 50% year-on-year.

Turning to server storage connectivity that represented approximately 14% of Q4 semiconductor revenue and was down 9% year-on-year as expected, reflecting softness in enterprise demand. Turning to Q1, we expect revenue to continue to decline and given a strong Q1 compare in fiscal '20, we expect this to be down double-digit even as much as perhaps 20%.

Last turning to industrial, which represented approximately 3% of Q4 semiconductor solution revenue, we're seeing demand recovery especially out of China and consolidated resales and here we sell through distributors of course, were up 4% year-on-year and we forecast such resales in Q1 to start to accelerate to mid teens year-on-year growth, as the recovery in industrial and auto continues.

So in summary, our Semiconductor solutions segment was up 6% year-on-year in Q4, driven primarily by the ramp in wireless, as well as continued strength in networking and broadband. Forecasting Q1, we expect this ramp in wireless to peak and broadband and networking working demand to remain strong. This will drive revenue in the Semiconductor segment to increase in Q1 by high-teens percentage year-on-year.

Turning to software, let me reiterate our business model here. We focus as we have said many times only on the largest enterprise customers and seek to increase the adoption of the software products to a hybrid model about 90% of which are recurring subscription revenue. We'll step up investment in R&D, focus on just this core custom and we are able to do that by spending much less on our go-to-market outside of our large core enterprise customers.

Unlike obviously the other software companies who are chasing every last dollar of revenue to matter how much it cost. So let me tell you, with two years of CA under our belt, let me tell you how we have done. Revenue wise after two years integrating CA onto our platform, Q4 '20 revenue was up 5% year-on-year. For Symantec, if you exclude services and hardware, Q4 product revenue of 380 million was up 10% from Q1 fiscal '20, which was obviously our first quarter after acquisition. But if we just look at revenue from our core accounts in CA, this was in fact up double digit closer to 12% year-on-year, driven by bookings which have continued to grow double-digits on an annualized.

This has obviously -- this growth in core accounts has obviously more than offset the planned decline in services and attrition of account outside our core enterprise customers. That's how we expect to sustain our core software business long-term, albeit at low to mid single digit percentage revenue growth, but we intend to drive to a financial outcome that is consistent with the Broadcom model. You'll hear more on that from Kirsten when she talks about our financial model.

So looking ahead to next quarter, on a year-on-year basis, we expect CA and Symantec software revenue to continue to grow in the mid-single digit. However, in Q1 fiscal '21 we expect Brocade to decline high-single digit, consistent with softness in enterprise markets resulting in our infrastructure, software segment revenue to be flat to perhaps up low-single digit percentage year-over-year.

In summary, we expect Q1 consolidated net revenue of $6.6 billion, up approximately 13% year-over-year, all derived organically. Today we are in a unique situation, we started fiscal 2021 with record backlog that has now grown to over $14 billion today, but the timing of this conversion of backlog to revenue will be driven by supply chain, which continues to be tight. Finally, I want to take the opportunity to thank our team for all their work in fiscal 2020. This has undoubtedly been a challenging year and through it all, all of our employees have demonstrated unwavering focus and resilience because of their hard work, our mission critical technologies have never been more relevant than they are today.

And with that, let me turn you over to Kirsten.

Kirsten Spears {BIO 19712531 <GO>}

Thank you, Hock. By way of background while I've been a part of Broadcom for more than six years, my history in accounting and reporting roles from legacy companies of AVGO and LSI dates back over 20 years. I'm proud of the strong finance organization that Broadcom has built and I look forward to working together. I know Hock just gave you the details on revenue which I'll recap before moving down the P&L to discuss our fourth quarter performance, which clearly demonstrates our strong foundation for future growth.

Consolidated net revenue for the fourth quarter was $6.5 billion, a 12% increase from a year ago. Semiconductor solutions revenue was $4.8 billion and represented 75% of our total revenue this quarter. This was up 6% year-on-year. Revenue for the infrastructure software segment was $1.6 billion and represented 25% of revenue. This was up 36% year-on-year given the inclusion of Symantec.

Continuing down the P&L, gross margins were 74% of revenue in the quarter up approximately 370 basis points year-on-year. The expansion in gross margin year-on-year was driven by favorable product mix in semiconductors and a higher percentage of software revenue. Operating expenses were $1.1 billion, up 10% year-on-year due primarily to the addition of Symantec.

Operating income from continuing operations was $3.6 billion and represented 56% of revenue. Operating margins were up approximately 400 basis points year-on-year. Adjusted EBITDA was $3.8 billion and represented 59% of revenue. This figure excludes 139 million of depreciation. Gross margins for our semiconductor solutions segment were approximately 68% in Q4, up 320 basis points year-over-year driven by an improved product mix. This mix included more networking products and less wireless. As you know, wireless carries around 10 points less margin on product profitability than the rest of our semiconductor portfolio.

Operating expenses were $777 million in Q4 or 16% of semiconductor solutions revenue, compared to $727 million in the prior year period, as we continue to invest in our business. R&D cost as a percentage of revenue for Q4 was approximately 14% and SG&A as a percentage of revenue was 2%. Operating margins for our semiconductor solutions segment were 52% in Q4, up 290 basis points year-on-year. Also in semiconductor solutions, revenue was up 6% and operating profit grew 12%. Gross margin for our infrastructure software segment were 90% in Q4, up 130 basis points year-over-year.

Cost of revenue primarily includes cost of product support, hosting for our SaaS products, professional services and hardware. Operating expenses were $338 million in Q4 or 21% of infrastructure software revenue, compared to $290 million or 24% of revenue in the prior year period as we generate scale through the acquisition of Symantec.

R&D cost as a percentage of revenue for Q4 was approximately 12% and SG&A as a percentage of infrastructure software revenue was 9%. Operating margin was 69% in Q4 up 480 basis points year-over-year. Our operating margins reflect our model, which is about focusing on the largest enterprise customers and increasing our share of their wallet in terms of our software portfolio. Given this model, we are able to focus our R&D investments on a strategic group of customers and by doing so reduce cost primarily on go to market. This is how we get to operating margin of about 69%, which we believe we can sustain.

Looking at cash flow, we had quarterly free cash flow of $3.2 billion representing 50% of revenue. This is up 36% year-on-year as we managed our working capital more tightly during this pandemic. Moving on to capital allocation for Q4, we paid our common stockholders $1.3 billion of cash dividends. We also paid $185 million in withholding taxes due on vesting of employee equity, resulting in the elimination of approximately 500,000 AVGO shares. We ended the quarter with 407 million outstanding common shares and 451 million diluted shares.

Note that we expect the diluted share count to be 450 million in Q1. On the financing and balance sheet front, we reduced total debt by $3 billion in the quarter. All told, we ended the quarter with $7.6 billion of cash and currently have $12.6 billion of liquidity, including our $5 billion revolver. We ended the quarter with $41.1 billion of total debt, of which approximately $800 million in short-term.

I'll now turn the call over to Tom.

Tom Krause {BIO 17978469 <GO>}

Thank you, Kirsten. Let me now recap our financial performance for fiscal year 2020. Our revenue hit a new record of $23.9 billion, growing 6% year-on-year. Semiconductor solutions revenue was $17.3 billion, down 1% year-over-year. Infrastructure software revenue was $6.6 billion, which included $1.5 billion from Brocade which was down 17% year-on-year, $3.5 billion from CA, which was up 4% year-on-year, in addition to Symantec, which was $1.6 billion.

Gross margin for the year was a record high of 73.5% up from 71% a year ago. The addition of Symantec, as well as a beneficial mix in semiconductor product sales drove the gross margin expansion. Additionally, operating expenses were $4.6 billion, which included the addition of Symantec. Operating income from continuing operations was $12.9 billion up 8% year-over-year and represented 54% of net revenue. Adjusted EBITDA was $13.6 billion up 8% year-over-year and represented 57% of net revenue. This figure excludes $570 million in depreciation. We accrued $644 million of restructuring integration expenses and made $583 million of cash restructuring integration payments in fiscal 2020.

We spent $463 million on capital expenditures and free cash flow represented 49% of revenue or $11.6 billion. Free cash flow grew 25% year-over-year. Now on to capital allocation. For the year, we returned $6 billion to our common stockholders, consisting of $5.2 billion in the form of cash dividends and $800 million for the elimination of $2.6 million AVGO shares. We also paid $299 million in dividends to our preferred stockholders.

I would also note through the refinancing and liability management activities we've undertaken this year, our weighted average debt maturity it is now approximately six years with a weighted average interest rate of approximately 3.5%. Looking ahead to fiscal 2021, we remain committed to returning approximately 50% of our prior year normalized free cash flow to stockholders in the form of cash dividends.

With that on the dividend based on approximately $12 billion of free cash flow in fiscal year 2020, we are increasing our target quarterly common stock cash dividend starting this quarter to $3.60 per share. This constitutes an increase of 11% and assumes a basic outstanding share count of 413 million shares at the end of fiscal 2021. We plan to maintain this dividend payout throughout this year subject to quarterly Board approval.

Consistent with our capital allocation policy, we would also -- we will reassess the dividend this time next year based on our fiscal '21 free cash result.

With that, I'll turn the call back over to Bea.

Beatrice Russotto {BIO 20827438 <GO>}

Thank you, Tom. At this time, we'll open the call for questions. We have Hock, Tom, Kristen and Charlie available to answer any questions. So, operator, please go ahead and kick us off.

Questions And Answers

Operator

Thank you so much. (Operator Instructions) Our first question will come from Craig Hettenbach with Morgan Stanley. Please go ahead.

Q - Craig Hettenbach {BIO 6185428 <GO>}

Yes, thank you. A question for Hock, I think on the call a year ago you talked about an increase in R&D investment and those areas in cloud, photonics I think wireless infrastructure. So just wanted to get an update on how that's progressing and the visibility into kind of revenue from that R&D investment?

A - Hock Tan {BIO 1460567 <GO>}

Okay. That's a very good question and the investment we -- the cadence of investment we're doing continues in areas that we see as very strategic in various businesses and you've seen some of that coming out as we continue to do so. For instance, last week we announced the introduction availability of the our 800 gig platform for switching, routing and connect and basic (31:48) retirements and all that goes hand-in-hand with it. So all our launching 800 gig platform and then comes in the form of our new product Tomahawk 4.

And it's pretty interesting that we are launching it now because our previous generation which is that 400 gig platform, Tomahawk 3, which we introduced over a year ago, of course, year and half ago is just starting to ramp in terms of into a larger market and we are ready launching in 800 gig. So the speed, the regularity and the speed at which we are pushing this product is definitely something we intend to keep where we're coming out, we have a newer generation probably that is probably to act throughput capacity and a regularity of 18 months to two years on a consistent basis, because that's one our HyperCloud customers one.

And it makes sense because we need to scale out data centers as CPU starts to hit the limitation the Moore's Law, that's one example. As part of that, as we indicated a year ago, we're stepping our investment in areas of silicon photonics basically to enable interconnects at very high throughput, at very high bandwidth and that has been going very, very well. It's a multi-year investment and as we indicated from the last time, we talked about it, we are now only on the second year, but we expect to have something short that will make sense -- that will be out to the marketplace within a generation of true of our platforms in switching and routing on that aspect of it. In terms of further investments, we have stepped our investment as I indicated in my report.

On WiFi, on connectivity of basically 802.11ax now and we launched that platform two years ago, very successful and we are already working on and we have invested a lot on the next generation WiFi 7 successor to this WiFi 6. In between, we're putting out six gigahertz WiFi that's WiFi 6E which the spectrum bandwidth recently was approved by the FCC not a long ago. And we really have our first product certified by the FCC recently, we're the first out there.

So, we intend to be in the lead for instance in this wireless connectivity which by the way today as I indicated represents a very substantial and growing part of our business and is a testimonial through out the level of investment and success we've gotten in this area. And so these are some of the things that we have and most of this investment are multi-year, but you do start to see some of the product, some of the launches, some of the revenue starting to come in with this level of investment we are making here.

Operator

Thank you. Our next question will come from Vivek Arya with Bank of America Securities. Please go ahead.

Q - Vivek Arya {BIO 6781604 <GO>}

Thanks for taking my question and good luck to Tom and Kristen and Charlie in your new roles. Hock, the question is for you on supply constraints that several of your peers in semiconductors have mentioned whether it's in substrates or wafers or foundry capacity. I'm curious where does Broadcom stand on this, you supply a factor in your reported results or your Q1 outlook or something that you think can constrain the growth in fiscal ' 21, just what steps are you taking to make sure it doesn't constraint growth. And also on the other side make sure customers are not double ordering because of all these supply issues. Thank you.

A - Hock Tan {BIO 1460567 <GO>}

Well, interesting question. We reported on -- by the way we reported on the supply constraint at least three months ago when we did our earnings call, in fact, were probably even earlier than that. We have probably even two quarters ago, we have seen that supply constraint and we were one of us to report on it. And that supply constraint continues from when we first touched on it six months ago and in some area it just seems to revolve in different specific areas where it is, we talk about wafers then since then it is over. As you correctly pointed out and we are hearing the news, substrate is a consideration and believe me beyond that wire bonding is even a possible constraint depending on where the like more and more automotive legacy products come in.

So, we operate in an environment and I mentioned in my remarks that is fairly unique. Yeah, we are in the middle of pandemic, here we are where there are winners and losers even in the product lines, even in the industry we're in where there are some businesses where demand is just booming and we touched on that, in networking, in broadband and in some areas particularly in enterprise where they're not so strong. But what we also see is supply -- capacity from supply chain that is tight that we have to do in. And we have seen that for months and we have taken a lot of actions to have address it and we continue to do that. We're also one of the largest consumer of those third-party manufacturers in semiconductors out there, be they wafers, be they substrates, be they back-end assembly or test capacity, we are all in there and we've been seeing it for six months.

So best answer is, we're managing that. We have having said that, we have the backlog in place and we have also very early on in our fiscal '20 stretch out a supply chain not only based on what we are seeing, but based on what we anticipate happening. And that's has also enable us to be able to in a more orderly manner and what I consider in a more appropriate manner, put products in the hands of end users who need it at appropriate time, we have done that very well.

And having said all that, even as we do it, our backlog continues to grow. To give you a sense, I mentioned we have over 14 billion of backlog today when we started the quarter, our backlog and we're shipping in between and since then beginning of the quarter, our backlog was 12. So it's accelerating, but having said that, please don't get carried away in the other aspect. As you know, wireless business that we have is seasonal, so we are seeing obviously with wireless, wireless backlog is a significant part of our total backlog, but given the seasonality of it, we obviously have seen deceleration in the order, in the bookings that are coming in from our wireless business. But we are seeing on the other side acceleration and continued strength in all those coming in from the other parts of our business, networking that's always remained strong, broadband continues to be very strong and now we start to see the smaller part of our business industrial coming in very, very strong. So one side offsetting the other and we continue to see the strong backlog which in a way makes our planning in our supply chain easier, but in some way poses other challenges making sure we are delivering products to the right customers at the right time.

Operator

Thank you. Our next question will come from Harlan Sur with JP Morgan. Please go ahead.

Q - Harlan Sur {BIO 6539622 <GO>}

Good afternoon. Great job on the quarterly execution and congratulations to all on the executive appointments. Hock, we're still at the very start of the 400 gig networking upgrade cycle with your Hyperscale customers, it seems like telco service providers are also starting to adopt the white box switching and routing model, which is good for your Tomahawk and Jericho chipsets. And then you guys are also benefiting from the optical connectivity that goes along with your switching solutions. Beyond this quarter, do you see sustainability of the networking upgrade and spending cycle through next year? And then given the wafer and substrate constraints, are your lead times in networking expanding beyond six month now?

A - Hock Tan {BIO 1460567 <GO>}

Very good question, Harlan and thank you for your kind words. To answer the first part, yeah, we -- our new product generation in 400-g platform as I mentioned earlier is starting to ramp up in a big way this coming, this fiscal '21. Started in '20, we have a couple large hyperscale customers and is ramping up with many more fiscal '21 and I'm sure it goes under '22. And we do not see slowdown in the demand and you're correct, service providers and operators are also adopting this merchant silicon in their routing platforms on their networks as I mentioned particularly in call, as well as EDGE. And we are seeing extremely -- very, very good demand and success as evident by the backlog and orders we're getting from service providers and not just HyperCloud, particularly service providers on our merchant silicon Jericho family.

So that's good and do I see that continuing? Probably as far as you can see '21, we have our lead times is now beyond six months that is where your question. So and just to add a further thought, we have a policy in this country that we and it's adhere to very, very strictly both because of financial governance. Any orders placed on those we do not allow to be canceled. All our customers know that, all our partners know that. So we're actually seeing real demand out there at least six months. And that brings us pretty close to on the second -- that brings us in fact to the second half of fiscal '21 at that point. And I guess as many of you will know, just in time for the beginning of seasonal ramp of the next-generation wireless product. So our '21 visibility appears to be remarkably better than we usually have at this point in the beginning of our fiscal year.

Operator

Thank you. Our next question will come from Stacy Rasgon with Bernstein Research. Please go ahead.

Q - Stacy Rasgon {BIO 16423886 <GO>}

Hi, guys, thanks for taking my questions. I had a question on the wireless trajectory. Last quarter just given the change in seasonality, you had given us some, a little bit of color -- actually on this quarter you said it would probably still grow sequentially. How should we think about the seasonality into I guess is it the May quarter, just especially given that since you're going to push out, it looks like wireless in Q4 was actually came in little lower than you had expected and it sounds like some of that's pushing into Q1. So can you I guess given those dynamics and given that's the seasonal peak in Q1, can you give us some idea similar to what you did last quarter on what to expect for the wireless trajectory into fiscal Q2?

A - Hock Tan {BIO 1460567 <GO>}

While that's a tough question and to begin with, we generally don't talk much about Q2, though I did not give you guys some indication based on backlog we're sitting today are likely to flow. But I mean it's, you're right, I mean we have this $14 billion of backlog which continues to grow and substantially most of it, a lot of it will be filled within Q1 and Q2 to begin with and a bigger picture. But the way you asked in respect of wireless, you're correct also in pointing out when we do year-on-year comparisons now, it's all interesting because the Q4 fiscal '20 the quarter we just finished and reporting on becomes the first quarterly ramp of our wireless business. And it compares to Q4 fiscal ' 19 which in typical cycles in the past, if you see the peak quarter of revenue seasonally for our wireless business.

So you're comparing an initial ramp against a peak quarter and that's down as I indicated 9% year-on-year. The big ramp now for this current generation of phones in our wireless business will be our Q1, the quarter we're in now and that compares to the Q1 of fiscal '20 now which is post peak of the last generation and which is why I also indicated we're likely to see north of -- around 50% year-on-year step up in our wireless revenue. Now we've gone to Q2 and I think probably things get back to a more normalcy and that's always expect wireless to demonstrate a seasonality as probably the bottom quarter of an annual cycle.

Operator

Thank you. Our next question will come from John Pitzer with Credit Suisse. Please go ahead

Q - John Pitzer {BIO 1541792 <GO>}

Yeah, good afternoon, Hock. Glad to see that you're sticking around, I guess I want to ask some of the questions around the management change and specifically Tom's new position. I'm just kind of curious what that might mean for the software infrastructure business longer-term and whether or not you sort of plan to potentially actually spin that business out. And I ask the question because clearly, when you look at the core IP, you have in your silicon business around IO, around acceleration and how important those IP blocks are, when you look at the sum of the part valuation of overall Broadcom, it just looks dirt-cheap, you've doubled the operating margins in the software businesses since you acquired those companies and you've got great franchises in silicon and yet you're trading at a big discount, is there a belief that perhaps the best way to get value longer-term for these businesses might be a spin. And is that part of the rationale behind Tom's new position?

A - Hock Tan {BIO 1460567 <GO>}

A lot of speculates, all vividly here, but no, there is no plan. Well, I think it's just that the software businesses especially go to market is a very interesting play for this company because Broadcom as a whole and you look at us, we have around $25 billion roughly give or take a few billion in revenues each around one year. We're technology company, purveyors out technology suppliers to an ecosystem and by that I mean an ecosystem that addresses end users be they HyperCloud, be they service providers or be they basic large well within the focus large enterprises out there like the banks, insurance company, travel agency whatever the end user, we look at these as eventual end use customer, that's our ecosystem and as key partner ecosystem we have partners with the OEM's, some distributors, but largely our key partners are the OEM's and these are our partners.

These are in a way important partners that we often sell our products with and through we look at that way. So when you look at it that way the end use software infrastructure software, no different than the silicon solutions hardware and software tied to it we sell out there. It's just that we tend to sell silicon software through partners, with partners, will wrap it in the system and go to end users versus infrastructure software where we tend to go direct, do not all the time, sometimes we go with MS, GS service providers like IBM, GTS or VXE that sells through, but ultimately goes to end users who uses our software and we look an ecosystem that way, it makes total logical sense that we have a unified platform that does everything across. So at the end of the day, we are still fulfilling to the same end users, whether they are semiconductor hardware solutions with software developers, SDK or other operating system, all straight infrastructure software, some with appliances I could add. And so there is to us long-term, it's very logical, they stay together.

Operator

Thank you. Our next question will come from Ross Seymore with Deutsche Bank. Please go ahead.

Q - Ross Seymore {BIO 20902787 <GO>}

Hi, thanks for letting me ask a question and congrats to all the senior appointments. I guess this one could be for Hock, Tom or Kirsten, I want to talk about the capital allocation side versus a year ago, you delevered the balance sheet, pushed out the maturities, locked in some good rates. So there doesn't seem to be an issue there, you're comfortable enough to raise your dividend significantly. So I wanted to hear what your thoughts are especially given the pandemics and what's going on with the backlog being as large as it is. As far as, how are you thinking about the other half of your capital, any sort of update given the environment or is it is simple as you're just going to focus on either giving it back with shareholder returns via buybacks or do a deal?

A - Tom Krause {BIO 17978469 <GO>}

Hey, Ross, it's Tom. I'll take that one. I think it's very much back to business as usual and obviously 2020 we got into the crisis mode earlier in the year. I think we focused a lot on pushing out maturities we had at the balance sheet from a liquidity standpoint, which we continue to do. And you know the markets were very favorable and we will do all of that. I think obviously business also came back and performed quite well and as Hock talked about, we've got a decent amount of visibility in the first half and we'll see what happens in the second half, but it seems like this the year set up for a reasonable amount of success. And so I think with that in mind, we're comfortable with our investment grade credit rating. We have delevered, we paid down $3 billion of debt in Q4.

We're up in the dividend as you mentioned and sticking to the policy of giving back about 50% of free cash flow, so that's going to leave us with some excess cash. And we always look at it is one of the right relative returns and what's best for shareholders and that usually means buying back stock. We're doing M&A and I think we'll certainly look at doing both. We're biased toward acquisitions historically, I think we'll continue to be so as long as we can find the right targets and generate the right returns because this is our business model. So I'd really say business as usual.

Operator

Thank you. Our next question will come from Timothy Arcuri with UBS. Please go ahead.

Q - Timothy Arcuri {BIO 3824613 <GO>}

Hi. I guess I wanted to follow-on John's question. So in addition to the management changes, you're pretty much giving us a full segment P&L which you've never done before. So I guess the question is why now, is there some investor feedback on maybe that the segmentation will drive a better multiple, I mean for sure the stock is very inexpensive and it seems like some of the parts would be a better way to value it, but is there some feedback it's giving you the, driving you to sort of break out segment P&L. Thanks?

A - Hock Tan {BIO 1460567 <GO>}

Tim, you answered your own question perfectly. Yes, we're doing it because we feel that we should give more disclosures, more specifics of various businesses. As you noticed in addition to giving full P&L, almost full P&L to the extent there is because there is also some amount of allocation, but we try to be very representative of our two launches, of our two segments semiconductors and infrastructure software. You will notice that we did it especially in semiconductors. We give you a lot now more color and break down on what drives, what -- which are the particular end market applications in semiconductors and the behavior and the dynamics in each of those verticals and something we understand we have been perhaps more lacking in the past and which we try to remedy now by giving you much more details.

And it's also in this particular environment, it is very, very important, I think we give it because I cannot say that all cylinders are firing like crazy because as you all know, we all know they are not in this environment. We have some cylinder and as we indicated very largely, there are some areas where we're -- way is performing very, very well and is performing very well, very well I should quickly hasten to add, not because we are super good in it, which we are, but we're also super good in the other areas that are not performing as well also, it's just the economy, the macro economy, the demand and unusual situation we all in. And so we felt it is appropriate to give you guys more specifics what's driving the overall revenue and what has changed because as I also indicated in my last earnings call, when we began this year, we had $0.07 of expectations, which has dramatically changed now that we finished the year.

I had expected semiconductor as an industry to recover from downturns of 2019 obviously and that 2020 will be a slow steady recovery, accelerating into the backend. What we didn't expect is in actual numbers it did recover, but not everything recovered. And it's in a sense is a response to the requirement the situation of a pandemic and work from home environment. And so we see those businesses that are doing it, doing superbly. And to really explain it, we felt we have given more disclosures and which we are. And we start giving disclosure and I think if you go all the way and show you where even how the segment, the two broad segment P&L look like.

And one of the other things we want to also demonstrate to you guys loud and clear is that we have a business model in mind a thesis, investment thesis when we go and buy this specific software companies, some of which may not be in favor when we bought them, but what we are looking at as we look at semiconductors is that these are very sustainable franchises, which with the right approach, with the right model and the right focus which we like to think what we described to you is the approach we're taking that we can make them into real sustainable franchises and generate the kind of cash and profit returns that we are demonstrating to you today and that those are sustainable.

Operator

Thank you. And our final question today will come from Toshiya Hari with Goldman Sachs. Please go ahead.

Q - Toshiya Hari {BIO 6770302 <GO>}

Hi, guys. Thank you so much for squeezing me in. I had a follow-up question for Tom, now that you will be leading the software business going forward, what are the one or two top priorities for you in running that business? And a clarification question, I think Hock in your prepared remarks you talked about the long-term growth rate in your software business being in the low to mid single digit. Is that an organic number or does that include M&A? And then on M&A, Tom, if you can speak to the pipeline in software and your thoughts on valuation today that would be helpful. Thank you so much.

A - Tom Krause {BIO 17978469 <GO>}

Toshiya so many questions I can barely remember, the first one, but look I'm excited. I think we've got a great team bringing together the go to market and the business units under one umbrella, I think will allow us to scale, continue to grow, which we've been doing. We've had some early success, we've got a lot to learn and so I think this positions us well and I'm looking forward to it. Beyond that, we'll take all the other follow-up questions on the call back, but thanks very much.

Operator

Ladies and gentlemen, thank you for participating in today's question-and-answer session. I would now like to turn the call back over to Ms. Beatrice Russotto for any closing remarks.

A - Beatrice Russotto {BIO 20827438 <GO>}

Thank you, operator. So in closing, we did want to note that we'll be kicking off the presentations by our general managers at the JP Morgan Tech Forum on Tuesday, January 12. Hock will be joined by Ram Velaga and Alexis Bjorlin from our networking division to present at that event. So, thank you. That will conclude our earnings call today and operator, you may end the call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.