Q4 2019 Earnings Call

Company Participants

- Beatrice Russotto, Director of Investor Relations
- Hock E. Tan, President and Chief Executive Officer
- Thomas Krause, Chief Financial Officer

Other Participants

- C.J. Muse, Analyst
- Craig Hettenbach, Analyst
- Edward Snyder, Analyst
- Harlan Sur, Analyst
- Matt Ramsay, Analyst
- Mitch Steves, Analyst
- Ross Seymore, Analyst
- Vivek Arya, Analyst
- William Stein, Analyst

Presentation

Operator

Welcome to Broadcom's Fourth Quarter and Fiscal Year 2019 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 of Broadcom. Please go ahead, ma'am.

Beatrice Russotto {BIO 20827438 <GO>}

Thank you, operator. And good afternoon, everyone. Joining me today are Hock Tan, President and CEO; and Tom Krause, Chief Financial Officer of Broadcom.

After the market closed, Broadcom distributed a press release and financial tables describing our financial performance for the fourth quarter and fiscal year 2019. If you did not receive a copy, you may obtain the information from the Investors 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 Investors section of our website at broadcom.com.

During the prepared comments section of this call, Hock and Tom will be providing details of our fourth quarter and fiscal year 2019 results, guidance for fiscal year 2020, and

commentary regarding the business environment. We will take questions after the end of our prepared comments.

Please refer to our press release today and our recent 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.

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

Hock E. Tan {BIO 1460567 <GO>}

Thank you, Beat. Good afternoon, everyone, and thank you for joining today. Now we concluded fiscal year 2019 with record revenue of $22.6 billion, growing 8% year-over-year, despite a challenging environment. Our semiconductor solutions segment declined 8% year-over-year, but this was more than offset by our infrastructure software segment benefiting from the integration and healthy results from the CA business.

In semiconductors, almost all product lines were down year-on-year, with one clear exception, and that's networking. While the existing growth drivers continued their strong momentum, in infrastructure software, renewals in our core accounts grew double-digits, which more than offset the expected attrition in our non-core accounts.

Now as we embark on fiscal 2020, I want to provide you some insight into our latest strategic assessment of our semiconductor businesses and our current view of the market. I also want to give you an update on our software business, including our latest Symantec acquisition. I'm sure you have seen the guidance in our earnings release today that we are headed towards $25 billion in revenue -- $25 billion in revenue in 2020, and I'll let Tom go through the details on how we get there. But before I turn this over to him, let me now give you the broader picture.

So when we look at our semiconductor segment today, we are increasingly thinking about it as a core and surplus semiconductor business, that consists of networking, broadband, and storage connectivity products, focus on enterprise service providers and cloud infrastructure. Here we get a lot of strategic synergies and scale across our end markets with our customers and with our core silicon technology. This in turn drives efficiencies in our sales, R&D, and supply chain activities.

Our infrastructure software businesses, which focus primarily on large enterprises are in fact quite complementary, enhance this core semi businesses by bringing us closer to our end customers. This gives us a natural barrier to entry and gives us comfort that we can drive sustainable revenue growth and improve profitability long-term. Alongside these core semiconductor businesses, we have several valuable semiconductor businesses that are much more standalone in nature, due to their unique customers, technology and

supply chain characteristics. Now this will include our wireless businesses and our industrial businesses.

We don't have the same kind of synergies with this as we do in our core semi business. Increasingly, we view this business as small financial assets, especially in terms of capital allocation, balance sheet optimization, and how we chose to leverage resources and manage the Company.

Turning to our current assessment for our core semi business, it's extremely positive. We believe we are uniquely positioned with an industry-leading portfolio extending connectivity across enterprise, telcos and cloud. In data center switching and routing, we're enabling the cloud with the transition to 400-gigabit per second. We also just announced 800-gigabit per second, which further demonstrates our leadership in this space by far.

In 5G cellular infrastructure, we are leveraging our Ethernet technology to bring the network to the edge in OpenRAN or Radio Access Networks through a combination of custom and standard products across both analog and digital domains.

And as we know, a smallest loss for computing starts to slow down as it has. We continue to gain momentum in developing and delivering Hawk [ph] WAN accelerators to offload computing for the cloud service providers across an increasing variety of workloads. Initially with virtualization, hypervisors and expanding today to AI, security encryption and video transcoding.

And in the wireless access, in enterprise and home gateways, we are of course leading the market transition to WiFi 6. And finally, we actually do have now an organic Integrated Silicon Photonics effort underway combining our capabilities in switching, with our strong legacy in fiber optics for next-generation cloud and networking architectures.

So in summary, we plan to increase our investment in our core semiconductor businesses to position ourselves for expected future growth opportunities, where we can leverage our scale of investment, industry-leading focus execution and breadth of IP. Now we all know, it has been a tough year for semiconductors in general. With our semiconductor segment down approximately 8% as I indicated, but if you look at our core semi business as I define it, it has held up reasonably well. To put some numbers around it, this business did a little over $11 billion in sales in 2019, which was down just less than 4% from 2018.

We think this business is stabilizing, and we believe given the growth drivers I just highlighted over the next several years that this business can actually grow 6% to 8% annually.

Turning to infrastructure software, we started a few years ago with Brocade, storage area networking switch business. Then we acquired CA, which is the leading independent provider of mainframe tools, and we just closed on Symantec, the leading enterprise security software provider in November.

Our Brocade acquisition was predicated on view that the fiber channel SAN switching market for large enterprises was sustainable, and then we could just grow our leadership position with additional investment. And after a couple of years now, it's fairly clear this investment thesis was right. Similarly, we bought CA, because we sell the mainframe market for the largest enterprises was stable, and in fact growing. And the CA was critical to customers, who are relying on mainframe to run their business. It's still early innings, one year now, just over one year but mainframe compute is growing with our target customers. We are increasing investment in mainframes to support our leadership position.

The CA customer transition continues with core accounts growing double-digits, while non-core accounts attrit [ph] as we had planned. We expect Symantec to start with $1.8 billion of core sustainable incremental annual run rate revenue that we believe we can grow to over $2 billion over the next three years. Our infrastructure software segment is becoming more predictable, with ratable, recurring revenue contribution from CA and now also with Symantec. And we anticipate over $7 billion infrastructure software revenue in fiscal 2020.

In summary, therefore, our long-term plan for this Company is to advance inorganic growth in our core semi business, while continuing to scale up our infrastructure software business through disciplined and highly accretive acquisitions. Now let me turn the call over to Tom.

Thomas Krause {BIO 17978469 <GO>}

Thank you. Hock. Let me start with a review of our fourth quarter and fiscal 2019 results. I'll then spend some time discussing our outlook for fiscal 2020, after which we will open up the call for questions. Consolidated net revenue for the fourth quarter was $5.8 billion, a 6% increase from a year-ago. Semiconductor solutions revenue was $4.6 billion, and represented 79% of our total revenue this quarter. This was down 7% year-on-year and up 5% quarter-over-quarter. On a sequential basis, networking sustained driven by an uptick in our custom silicon solutions. Storage also held up driven by increased demand for high-capacity drives.

This was offset by increased volatility in broadband, especially as the market prepares for the WiFi 6 transition. And as is typical in our fourth fiscal quarter, wireless was seasonally up.

Revenue for the infrastructure software segment was $1.2 billion and represented 21% of revenue. The CA business continues to perform well. SAN switching demand remains muted as our partner OEM supply chain continues to compress. That being said, the SAN switching business was up from the Q3 low points and the market for these products looks to be stabilizing.

Looking down the P&L sequentially, gross margins dropped given the seasonal mix shift to wireless in our semi business, while operating expenses remained relatively flat at just over $1 billion. Operating income from continuous operations was $3 billion and represented 52.3% of net revenue.

Adjusted EBITDA was $3.2 billion and represented 54.8% of net revenue. This figure excludes $143 million of depreciation.

I would also note that we accrued $119 million of restructuring integration expenses and made $115 million of cash restructuring integration payments in the quarter. These expenses and payments are primarily related to CA.

We spent $96 million on capital expenditures, and free cash flow represented 41% of revenue or $2.4 billion. In the quarter, we returned $1.6 billion to our common stockholders, including $1.1 billion of cash dividends. As we previewed when we announced the Symantec deal in Q4, we initiated the transition from stock buybacks to debt repayment. In the quarter, we invested $587 million for the repurchase and elimination of 2.1 million AVGO shares, however, we also paid down $4.8 billion of debt with proceeds from our preferred stock offering and excess cash flow.

We ended the quarter with $5.1 billion of cash, $32.8 billion of total debt, 398 million outstanding common shares and 444 million fully diluted shares for the quarter.

Now let's recap performance for the full fiscal year 2019. Our revenue hit a new record of $22.6 billion, growing 8% year-on-year. Semiconductor solutions revenue was $17.4 billion, down 8% year-over-year. As Hock reviewed, revenue from our core semiconductor business, which does not include wireless and industrial was down 4%.

Infrastructure software revenue was $5.2 billion, which included $3.4 billion from CA Mainframe and Enterprise, and $1.8 billion from Brocade and SAN switching. Gross margin for the year was a record high of 71%, up from 67% a year ago. The addition of CA, as well as the beneficial mix in semiconductor product sales drove the gross margin expansion. Additionally, operating expenses expanded to $4.1 billion with the addition of CA offset by lower annual performance bonus amounts relative to 2018.

Operating income from continuing operations was $11.9 billion, up 18.4% year-over-year and represented 52.8% of net revenue. Adjusted EBITDA was $12.6 billion, up 13.5% year-over-year, and represented 55.7% of net revenue. This figure excludes $569 million of depreciation.

I would also note that we accrued $1.1 billion of restructuring and integration expenses and made $883 million of cash restructuring integration payments in fiscal 2019. We spent $432 million on capital expenditures, and free cash flow represented 41% of revenue or $9.3 billion. Free cash flow grew 12.4% year-over-year.

For the year, we returned $10.6 billion to our common stockholders, consisting of $4.2 billion in the form of cash dividends and $6.4 billion for the repurchase and elimination of 24.5 million AVGO shares.

Okay. So now let's look ahead to fiscal 2020. The outlook for our business is as follows. In the semiconductor solutions segment, we expect to achieve approximately $18 billion in

revenue. Let me unpack this a bit. We expect our core semiconductor business to deliver approximately $12 billion in revenues in 2020 which would represent approximately 7% growth compared to 2019.

Our wireless businesses, which let me remind everybody consist of three primary product lines. One is RF, the other is WiFi-Bluetooth combos, and finally, our mixed signal custom products, which we sell almost exclusively to one of our large smartphone customers. RF, which represented approximately $2.2 billion of revenues in fiscal 2019 is expected to grow high single digits, given the initial ramp in 5G phones.

WiFi-Bluetooth combos, which is approximately $2.2 billion in fiscal 2019 is expected to be down low-single digits. The adoption of new WiFi 6 solutions at our two large smartphone customers will be offset by the completion of our movement away from non-core to lower margin legacy WiFi business, which will adversely impact these product lines' 2022 revenues.

Finally, our mixed signal custom product line, which was approximately $1.1 billion in fiscal 2019 is expected to drop to less than $500 million in fiscal 2020. The reduction in revenues here is driven by a change in architecture at our primary smartphone customer as well as our decision to reduce our investment in this area and focus our engineering resources on more sustainable and profitable activities in our core semi business.

Finally, industrial, which consist primarily of optoelectronic power management and sensing product lines, we expect business will stabilize and recover in fiscal '20 after a challenging fiscal 2019 and it contributed approximately $1 billion in revenues.

Switching to the software segment. As Hock reviewed, we expect the business to grow to approximately $7 billion. Symantec is expected to contribute approximately $1.8 billion, including the effects of purchase accounting, while CA and Brocade are expected to be relatively flat to up slightly.

So on a consolidated basis, we are forecasting net revenue to be approximately $20 billion -- $25 billion, excuse me, plus or minus $500 million for fiscal 2020. One housekeeping item, our IP, Intellectual Property segment will be included in our semi solutions segment going forward, given this business represents an immaterial amount of revenue. We will therefore have two reporting segments in fiscal '20 semiconductor solutions and infrastructure software.

Turning to our fiscal year 2020 guidance on a non-GAAP basis, operating margins and adjusted EBITDA margins are expected to be relatively flat in fiscal '20. There are a number of specific headwinds, as Hock discussed, we are increasing our investment near-term in our core semi business to take advantage of growth opportunities we see there. We are also in a transition year with Symantec given effects of purchase accounting near term and one-time expenses tied to the transition services agreement in place with NortonLifeLock. And finally, we will have a headwind from our bonus accrual we are setting to target, which impacts 2020. Looking beyond fiscal '20, we expect to continue to expand our operating margins organically and are targeting 55% by fiscal 2022.

Now on to capital allocation. We remain committed to returning approximately 50% of our prior year free cash flow to stockholders in the form of cash dividends. With that on the dividend based on approximately $9 billion of free cash flow after M&A and related items that we generated in fiscal 2019, we are increasing our target quarterly common stock cash dividends starting this quarter for $3.25 per share. This constitutes an increase of 23%.

We plan to maintain this dividend payout throughout the year subject to quarterly Board approval, which means we plan to pay out just over $5 billion in cash dividends in fiscal '20.

Consistent with our capital allocation policy, we will reassess the dividend this time next year based on our fiscal '20 free cash flow from operations results. In addition, we plan to pay down approximately $4 billion in debt in fiscal '20 as part of our commitment to maintain our investment grade credit rating.

That concludes my prepared remarks. During the Q&A portion of today's call, please limit yourselves to one question each, so we can accommodate as many analysts as possible. Operator, please open up the call for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions). Our first question comes from Harlan Sur with JPMorgan.

Q - Harlan Sur {BIO 6539622 <GO>}

Good afternoon, and thanks for taking my question. One of the areas, obviously, which has been a strong growth driver for the team in 2019, as you mentioned Hock, has been cloud and hyperscale datacenter networking and compute acceleration that Tomahawk, Trident and Jericho, your compute and security acceleration ASICs and the new optical connectivity portfolio. There was a bit of pause in cloud spending in the first half of this year, but it looks like that, that is starting to reaccelerate and looking to be strong in 2020. You also have the start of the 400 gig upgrade cycle. So for fiscal '20, how do you see the datacenter part of your semi franchise performing relative to 2019? Is this going to be another strong year?

And then just secondarily, one of your customers, Cisco just announced that they're getting into the merchant silicon market for cloud networking. You guys have a strong position here and in fact have helped these guys both merchant and ASICs on their networking platforms, would be great to get your views on this customer now as a potential competitor?

A - Hock E. Tan {BIO 1460567 <GO>}

Well, let's start with the first part of your question, which is how do we see 2020 business for networking. And there are two parts to each of these as you know. There is the cloud

guys -- service provider in the cloud guys, and there is the more traditional enterprise. And we see spending in the cloud guys as you correctly pointed out, stepping up more and more in 2020. We've seen some of it this year calendar -- in the latter part of calendar '19 in investment in storage, and we will start to see in 2020 spending on networking to start ramping up, especially with regard to 200-gigabit and 400-gigabit especially in the second half of the year, which would be great for us, because of our product portfolio Tomahawk 3 and even Trident 4 in these areas as well as of course the SPY [ph].

So to us, we see 2020 as continue growth momentum in -- basically in our datacenter business, especially when it relates to cloud. In enterprise, we are not so sure. Enterprise has clearly taken a pause second half of '19, calendar '19, and we see that pause probably continuing for a while into '20 before possibly in our thinking slowly recovering later half of 2020 for enterprise and that's -- and maybe it's a -- there is a clear difference in their spending. And with respect to one of our very good customers turning into -- coming into merchant silicon with the recent announcement I think yesterday on one silicon or the Silicon One and router 8000, I think it's -- we welcome that, because it validates a couple of things we've been pushing for years. One of which is that there will be -- and there has been and will be more and more disaggregation of software, the operating system from hardware, the silicon, the chip that supports it. There will be more and more disaggregation. As you know, traditionally, it's all wrapped into a black box as one.

That disaggregation path has obviously been pushed, and we have enabled that by the cloud guys, the hyper cloud guys. And we have been very successful enabling it and that's great.

So the fact that Cisco has joined it, we now view -- validate the model, the trend we have been pushing, and it's great to see that we're right in that regard. So we will welcome the competition. I just want to add, it's more than cloud that we're seeing that happen. It's also in enterprise, traditional enterprise, particularly some of the large telcos, who you classify as cloud too, and I don't need to mention names, but a couple of -- a few of the very large telcos, both in North America and in Europe are also pushing down that path with us very, very closely.

And some of them are very far along, especially, and we using our Jericho 2 router to enable it and talking of which that Jericho 2 router, which we're using today to enable the path of those telcos, enterprises towards disaggregation of hardware and software has been around, and we have been shipping it for over a year, and that runs 10 terabit per second, the same bandwidth as Silicon One announced yesterday. And earlier this week, we announced as a future successor 25.6 terabit per second switching and routing. And that's where we're pushing now 2.5x the performance of what just came out.

Operator

Thank you. Our next question comes from Craig Hettenbach with Morgan Stanley.

Q - Craig Hettenbach {BIO 6185428 <GO>}

Yes, thank you. Question on the Symantec business, there is the $1.8 billion starting point. Can you talk about if there is any impact there of any divestitures, you might be

considering. And then once getting past that, just the comment around, do you think you can grow it from that level, what are some of the growth drivers that you see in the Symantec side of the business?

A - Thomas Krause {BIO 17978469 <GO>}

Hey, Craig, it's Tom. I think we talked about this in the past. We take the original run rate, which is about a $2.4 billion run rate on the enterprise business. We're going to focus on core accounts in terms of the investment and where we're going to try to drive our combined strategy with CA and Symantec. We're also going to rationalize the portfolio around some of the non-core businesses, especially in the areas of services. And so when we take that into account as well as some of the effects on purchase accounting, which is a couple of hundred million dollars, we're going to start a run rate of about $1.8 billion, and then we think we can grow that and it's obviously a growing market. We've talked a lot about the growth of the market. We've talked about the three core franchises, the endpoint protection, the LPe and the web proxy area, we think those three areas, focused on core large accounts will allow us to continue to grow the business over the next several years and we should comfortably exit year three at a run rate over $2 billion.

Operator

Thank you. Our next question comes from Vivek Arya with Bank of America.

Q - Vivek Arya {BIO 6781604 <GO>}

Thanks for taking my question. I actually wanted to dig into the fiscal '20 guidance and the two aspects of what Hock are you baking in for trade tensions and kind of the return of shipments to Huawei or other Chinese customers? And the other aspect, you are now classifying wireless as a financial asset rather than what has been a kind of a core strategic asset, and I'm not sure what the implications are longer term for Broadcom?

A - Hock E. Tan {BIO 1460567 <GO>}

To answer the latter question, not -- short-term, nothing has changed, it's available asset and it's still there. We are still investing and making sure it sustains itself. It's just that we are highlighting in as a fact that it's differentiated from the core semiconductor sets of products and -- portfolio of products, we're highlighting, there is a difference, and because those are standalone franchises. And it gives you a sense of how powerful those technology and franchises are that they can standalone fairly large size in these markets. But as we look at all our portfolio companies, they are assets and franchises, and where we particularly highlight for this -- purposes of this review, why we pull out core semis is, there's a lot of synergies, there is a lot of push in datacenters, networking -- networking and it covers both cloud and enterprises and covers both hardware and increasingly software operating systems like eventually even infrastructure software.

And we want to highlight that difference, and highlight the difference in particular to show you that in those core areas of datacenters, we don't drop as much as the marketplace as we saw in 2019, where year-on-year, organically we are down only 4%, and that we expect at some point in 2020 to actually grow, recover fairly quickly to mid to high single digits year-on-year, very fast in this end market, because the environment is -- and the market, the environment is good and we lead it by a long shot. We lead in providing the

technology, which is another interesting thing between selling the systems and selling components. Components be it software, be it semiconductor solution, it's driven a lot by technology, good strong technology, which can be applied to allow customers to create differentiated systems.

Selling systems as we probably [ph] know in software is a very much a relationship business, a very embedded software, where you've -- the key is service and support, that supports technology to get little [ph] different, but that's really what we're trying to show here. That's why we highlight the strength of our core semiconductor franchise.

Operator

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

Q - Ross Seymore {BIO 20902787 <GO>}

Hi guys, thanks for letting me ask question and thanks for all the details. I guess a two pronged question. The 7% growth you're talking about what you are now calling core. From an answer to an earlier question, it seems like networking is a big portion of that, but can you talk through a little bit about the other moving parts broadband et cetera. And then within the WiFi-Bluetooth combo side of the -- I guess, wireless business, can you give us a little more color on what's happening with why that's going down low-single digits year-over-year? And when you bought that asset people thought you might have gotten rid of it and divested it, then you seem to really like the differentiation and sustainability. Now it seems like it might be somewhere between those two viewpoints. So a little color would be helpful.

A - Hock E. Tan {BIO 1460567 <GO>}

That's a good point. On our core semiconductor business, touching on your first part of it, obviously, networking is especially merchant silicon in networking, has been a very strong driver, and particularly so in the latter part of '19, when enterprise spending slowed down, and it has stabilized. But it had definitely slowed down and -- but cloud starts to recover and the various, the portfolio, the various positions, we have product portfolio, we have in all these areas allows us on balance to mitigate quite a bit this slowdown. And the big -- one of the biggest areas that allows mitigation to any slowdown in networking, resourcing is compute offload. Here, this is a very much a cloud spend and the biggest area of mitigation, continues to be AI.

We probably -- we ship AI chips, provides one of the biggest segment for opportunities such as for compute offload business and this is real business. Now we are shipping several hundred million dollars a year and growing of this AI chips. We are also starting to merge in a few other areas as in virtualization, hypervisor and we all typically call SmartNIC, that we are starting to happen, and that's also in cloud. And in enterprise, the move towards higher bandwidth performance NIC is also helping drive that. So there is a whole slew of things and datacenters that mitigate each other.

Having said that in 2019, especially second half broadband and we are very big in this area. The video delivery and cable, in which DSL, Digital Subscriber Line copper or PON

fiber to the home slowed down second half of '19, we're now seeing as we approach the end of the year a lot of reach -- momentum as telcos seem to recover their spending in broadband, and we're seeing a very sharp recovery. When all these mixed and put together, broadband, we see as fast -- as a market that's very stable cycle -- goes through a cycle with an underlying push on WiFi access.

As more and more of this access gateways are now deploying, while a WiFi, as I say especially the next-generation WiFi 6.

So that creates a little degree of growth but broadband in general is stable. Goes through a cycle and sometimes it offsets it. But the datacenter networking business is a secular growth area and that's why we've talked about stepping up our investment in this area. And that's the other reason we want to highlight in the call that we are actually investing, increasing a level of investment as a percent of revenue as an example in this particular area. And that includes our foray into silicon photonics, which is intended to enable integration of the silicon switch together with fiber optic interconnects, as we move from 25.6 gigabit per second routing to -- as I mentioned two years from now, 51 terabit per second. It's so high density. I think we need that integration and we're preparing towards that direction. Okay.

Operator

Thank you. Our next question comes from Mitch Steves with RBC Capital Markets.

Q - Mitch Steves {BIO 19155169 <GO>}

Hey guys, thanks for taking my question. I kind of wanted to go into the operating margin side of the equation, you guys were talking about 55%. But given the fact that you guys have got more software assets, and it seems like your integration is going well -- as well. Is there any reason why that couldn't be higher? I guess why is it so I guess muted relative to the mix improvement in the software side?

A - Hock E. Tan {BIO 1460567 <GO>}

I think as -- one way, I thought 55% sounds pretty good. I mean, we're moving from what is around 52% getting to 53% over the next three years to 55%, it's like something out three years is a trajectory. And we believe we are well on that trajectory. And you're right, we will get more than 55% but we figured 55% is a nice target milestone to land at and we may get there in two years instead of three.

Operator

Thank you. Our next question comes from Edward Snyder with Charter Equity Research.

Q - Edward Snyder {BIO 2498283 <GO>}

Thank you very much. Hock, in terms of the Symantec acquisition, it seems to be you kind of surface that a little bit differently, where a lot of the cost savings that we've done before you get there in terms of kind of downsizing some of the asset that you don't need. Should we expect that some of the -- that you should see synergies from this accelerate or

not accelerate but show up sooner than we have as like CA and some of the other ones. I know it's not looking for guidance. I'm just trying to get a feel for how you're seeing the synergies play out for CA. I know you talked about the revenue side of it, too, but what we can expect to strengthen the quarterly models, now, trying to get an idea of what that impact would be on cash flow in the second half of your fiscal year. Thanks.

A - Hock E. Tan {BIO 1460567 <GO>}

Okay. That's a very good question. And to show the difference between the CA and Symantec, because there is a clear difference . To begin with the structure of the deal, CA, we bought the whole company. And then we have to sit there, watch you guys -- you guys watch us as we restructure. And that does take longer to get to an end state, which we're not quite there yet by the way, by getting closer instead of the CA integration unlike Symantec. Symantec is a (inaudible) of an essence. So you're right, it will get us to the end state quicker and it will -- but in the short term, we have to handle transition services agreements from the remaining NortonLifeLock, while we work through that and there'll be probably six months of transition services arrangements before we are out of it, but then we get to, because we only take the access we really want and the people we really want, you'll see us get there faster. And that's why we expect to be able to do that.

Operator

Thank you. Our next question comes from Matt Ramsay with Cowen.

Q - Matt Ramsay {BIO 17978411 <GO>}

Yes, thank you very much. Good afternoon. Hock, in some of your comments, you talked about the new Cisco platform and the performance level that your switching and routing solutions have that are significantly higher than that. I wonder if you might talk a little bit about the mix of business in your switching and routing business, which pieces of revenue are at the highest performance points and what the tiering looks like within that stack? Just to understand a little bit about what percentage of your business there might be competition with and which parts are super differentiated at those highest performance points? Thank you.

A - Hock E. Tan {BIO 1460567 <GO>}

I'm not technologist to be able to get delving the level you want to, we'd be happy to take it separately. But broadly, let me try to answer the question. We have a pretty broad portfolio in our switching and routing business. And by the way the differentiation between switching and routing, the way we are architecting it is rapidly going away, it's how much more features you put in one versus the other, which is what differentiates between the Tomahawk and the Trident product line. I'm not trying to confuse people, but in broad terms, we have very high -- we are -- we have a whole portfolio that dealt [ph] from very high end spying which is routing, top of the rank switching, very high end throughputs, all the way down to campus, which is more lower end, and we have a whole range of portfolio products that are I would say that are created to match each segment they are in.

And it cuts across the whole range from very high end hyper cloud and even routing for operators like Jericho 2 and beyond, all the way down to very low end campus switching

routing, which are chips that are relatively simpler and our strength is our ability to leverage across this entire portfolio.

Operator

Thank you. Our next question comes from C.J. Muse with Evercore.

Q - C.J. Muse

Yeah, good afternoon, I mean thank you for taking the question. I just wanted to just revisit the operating margin side and if you could speak to I guess the moving parts in terms of how fast do you expect to kind of cost down on Symantec and perhaps what increased investments might look like on the OpEx side to help us really understand the drivers of that flat guide. Thank you.

A - Thomas Krause {BIO 17978469 <GO>}

Hey, CJ, it's Tom, I will take that. So as we outlined on the call, I think the -- there is sort of three major pieces, but we do have a couple of hundred million dollar headwind in our annual performance bonus target because we under accrued in '19 given that we didn't hit our numbers. So that's one that's -- it's a technical one but matters. The others, we are increasing investment to couple hundred million dollars in the semiconductor business as well. So that's another headwind and then from a Symantec perspective, this is a business that was doing a couple of hundred million dollars of EBITDA when we bought it and we're going to enter the year day one with obviously a much more elevated EBITDA figure, which we'll report on next quarter.

But I think when you think about the TSA elements and some of the restructuring items, there you have another couple of hundred million dollars that you have to get through as we work through the year. So I would, I would think of it in those three equal parts and then you get back that out and then you think about some of the organic growth that we're driving in core semis, we still have margin expansion, we've talked about this a lot over the years in terms of where we can take gross margins in our core semiconductor business. And the scale advantages that delivers in terms of the operating margin line, that's how we get to the 50% target over the next three years.

Operator

Thank you. And today's final question will come from William Stein with SunTrust.

Q - William Stein {BIO 15106707 <GO>}

Great. Thank you for squeezing me in. I want to say, I like that 55% margin target. So, thanks for that. But the question relates to 5G. Hock, I think you talked about the pace of growth -- pardon me, the pace of growth as it relates to 5G in handsets. Can you address your exposure to 5G infrastructure?

A - Hock E. Tan {BIO 1460567 <GO>}

Absolutely. Yes, I think a lot of discussion has been on -- a lot on 5G handsets which as Tom mentioned as both especially in RF side, RF division we're very, very much [ph] in it, and straight to the point where we expect to grow '19 to '20 because of content increase on that [ph] but with respect to infrastructure, we are getting a lot of traction and I indicated in my opening remarks and we've been very -- you asked for specific, let me be very specific in the base station, as the best example, I call it radio access networks is relating [ph] another term is base station, and base station for 5G networks to improve latency to improve density throughput, the architects, the operators are pushing the network, the backhaul, all the network that takes the signal from the base station, so pushing that right to the edge, which is into the base station. In other words, Ethernet is likely to be under OpenRAN, the open sort of base RAN will push as far as possible into the radios and you really run the entire line end-to-end as much as you can on Ethernet even (inaudible) which is typically the protocol that's used between the radio and the radio is now being minimized and squeezed out as opposed to just running a common higher bandwidth Ethernet, which is by the way a place right up to our switching strengths, routing and switching strengths.

So we are very engaged now with OEMs in the infrastructure side, in developing, testing and working on the key elements within the base station. That's our push, very hard into 5G infrastructure, which is a little non [ph] small degree part of the increased investment in core semis that Tom indicated of at least $200 million a year, not all of it but a big part of it.

Operator

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