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Skyworks Solutions, Inc. (SWKS) CEO Liam Griffin on Q4 2019 Results - Earnings Call Transcript

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FQ4: 11-12-19 Earnings Summary

Press Release SEC *10-K*

EPS of $1.52 beats by $0.02 | Revenue of $827.4M (-17.95% Y/Y) beats by $3.33M

Earning Call Audio

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Skyworks Solutions, Inc. (NASDAQ:SWKS) Q4 2019 Earnings Conference Call November 12, 2019 5:00 PM ET

Company Representatives

Liam Griffin - President, Chief Executive Officer

Kris Sennesael - Chief Financial Officer

Mitch Haws - Investor Relations

Conference Call Participants

Karl Ackerman - Cowen

Vivek Arya - Bank of America Merrill Lynch

Jamison Crone - BMO

Blayne Curtis - Barclays

Craig Ellis - B. Riley FBR

Craig Hettenbach - Morgan Stanley

Chris Caso - Raymond James

Edward Snyder - Charter Equity

Bill Peterson - J.P. Morgan

Operator

Good afternoon, and welcome to Skyworks Solutions, Fourth Quarter and Fiscal Year 2019 Earnings Call. This call is being recorded.

At this time I will turn the call over to Mitch Haws, Investor Relations for Skyworks. Mr. Haws, please go ahead.

Mitch Haws

Thank you, Rob. Good afternoon everyone and welcome to Skyworks' fourth fiscal quarter and year-end 2019 conference call. With me on the call today are Liam Griffin, our President and Chief Executive Officer; and Kris Sennesael, our Chief Financial Officer.

Before we begin, I would like to remind everyone that our discussion will include statements relating to future results and expectations that are or may be considered forward-looking statements. Please refer to our earnings press release and recent SEC filings, including our Annual Report on Form 10-K for information on certain risks that could cause actual outcomes to differ materially and adversely from any forward-looking statements made today.

Additionally, the results and guidance we will discuss include non-GAAP financial measures consistent with our prior practice. Please refer to our press release within the Investor Relations section of our company website for a complete reconciliation to GAAP.

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

Liam Griffin

Thanks Mitch, and welcome everyone. The Skyworks team delivered solid profitability and strong cash flow in Q4 and throughout the fiscal year, demonstrating our technology leadership and the resilience of our business model, despite a challenging end market.

During the fourth fiscal quarter we grew revenue 8% sequentially, and excluding Huawei revenue was up 20% sequentially. We produced gross margin of 50.3% and operating margin of 34%. We posted earnings per share of $1.52, ahead of our guidance and up 13% sequentially, and we generated exceptional operating cash flow totaling $472 million.

For the 2019 fiscal year we delivered revenue of $3.4 billion, earnings per share of $6.17 and operating cash flow of $1.4 billion. We generate free cash flow of nearly $1 billion, up 16% from the prior year, representing a free cash flow margin of 29%, approaching our model target of 30%, and we returned nearly $1 billion to shareholders through buybacks and dividends.

At a higher level, the 5G upgrade cycle is now fully underway, expanding across four continents with over 80 carriers and an expanding set of smartphone and IoT customers. We expect a substantial upgrade cycle as the 5 billion mobile subscribers today migrate from their 3G and 4G devices to 5G, creating a significant opportunity for Skyworks.

Stakeholders are now seeing the compelling economics that this substantial technology inflection brings, with the momentum building into 2020 and beyond. As we said in the previous calls 5G is a technology, not a product. It offers gigabit speeds, ultra-low latency and greatly enhanced network capacity catalyzing a wide set of usage cases, while becoming be the universal connector.

Although the smartphone will lead the transition to 5G, we see an even more compelling opportunity in new markets and applications, including industrial IoT, autonomous transport, smart cities, artificial intelligence and the proliferation of high definition streaming media. More importantly, highly integrated connectivity engines will play a pivotal role in the deployment of this next generation standard, by resolving the daunting analog and RF complexities that challenge the capabilities of existing hardware and networks.

Skyworks is squarely at the forefront of this sea change in connectivity. We have a rich heritage in the design and execution of highly integrated and customizable system solutions, earning the trust of market leaders as they cross the chasm from 4G to 5G.

Our operational footprint goes far beyond units and scale. It is centered on unique strategic technologies, crafted in our own fabs, while creating sustainable competitive advantage. Our technology strength is fortified by world class performance in scale across a broad array of capabilities, including TC-SAW and Bulk Acoustic Wave filters, an expanded family of MIMO Solutions and ultra-high band and diversity receive module.

Our highly customized system solutions support a broad set of wireless protocols, including GPS, Wi-Fi, Bluetooth, LoRa, Zigbee and of course 4G and 5G. From our breakthrough Sky5 unifying platform, our 5G small cell solution, Skyworks comprehensive approach across both infrastructure and user equipment facilitates powerful, high speed, end-to-end connectivity.

Now in our mobile business, traction in 5G is accelerating, with design wins at leading OEMs leveraging our broad and growing set of platforms. Our solutions are purpose built to offer interoperability and customization across all baseband suppliers including Qualcomm, MediaTek, Samsung LSI and HiSilicon, and with the successful launch and expanding capabilities of our BAW filter portfolio, we are positioned to extend our reach across a broader spectrum of 4G and 5G bands.

Moving to the internet-of-things, we are ramping more than 10 new LTE based design wins, supporting Tier 1 automotive customers. We are powering Sonos' first all-in-one indoor/outdoor portable smart speakers, delivering LTE powered IoT engines to Sierra Wireless for their industrial and transportation gateways, enabling a range of wearable devices leveraging our GPS, Wi-Fi and cellular connectivity engines, expanding our reach into high performance audio with the introduction of our cognitive chipsets, and we are executing on the launch of our Wi-Fi 6 platforms, expanding our customer set with leaders including Amazon, Arris, AT&T, Juniper, Linksys and Netgear.

Now moving to the infrastructure markets Skyworks is leveraging its vast capability in gallium arsenide, BAW technology and Ceramics to support strategic customers as they deploy their 5G networks. 5G infrastructure requires new technologies and capabilities, which drive the need for a unique set of complex solutions. For example, massive MIMO increases RF content up to 8x per base station, with new antenna systems utilizing multiple channels and beam steering to deliver gigabit speeds.

As a company we remain focused on driving diversification across high value markets, while our customer set continues to expand and is now numbered in thousands. In addition, we are gaining momentum in new verticals, enabling wins with automotive leaders like Continental, Audi and BMW, along with industrial players including Honeywell, Siemens, GE, Phillips and Rockwell.

So in summary, Skyworks has strategic partnerships with the leading smartphone and IoT providers, along with a burgeoning set of entirely new customers enabled by the capabilities of 5G. Differentiated system solutions with unmatched levels of integration and performance, focused and strategic investments, expanding our product portfolio, IP and scale, and finally a predictable business model that yields premium profitability and strong cash flow. The strength of our design win pipeline coupled with our experience across multiple technology generations positions us well to convert these market opportunities into sustainable growth.

With that, I will turn the call over to Kris for a discussion of our Q4 and fiscal year performance as well as our outlook for Q1.

Kris Sennesael

Thanks Liam. Skyworks' revenue for the fourth fiscal quarter of 2019 was $827 million, up 8% sequentially and $2 million above the midpoint of the outlook we provided in August. When excluding the revenue from Huawei, in both the June and September quarter, our revenue increased 20% sequentially. This represents one of the strongest sequential growth rates for Skyworks.

Gross profit in the fourth quarter was $416 million, resulting in a gross margin of 50.3% in line with expectations. Operating expenses were $135 million, flatish through the March and June quarters. Going forward, operating expenses will come down as we implemented certain cost reductions during the fourth fiscal quarter.

We generated $281 million of operating income, translating into an operating margin of 34%, up 110 basis points from fiscal Q3. Other income was $3 million and our effective tax rate was 7.7%, driving net income of $262 million or $1.52 of diluted earnings per share, up 13% sequentially.

Turning to the balance sheet and cash flow; fourth fiscal quarter cash flow from operations was $417 million and capital expenditures were $84 million, resulting in $333 million of free cash flow, translating into a free cash flow margin of 40%. We paid $75 million in dividends, and repurchase 1.9 million shares of our common stock for a total of $146 million.

As this is the fourth quarter of fiscal 2019, let’s also review our annual results. We generated $3.4 billion of revenue with gross profit of $1.7 billion, resulting in a gross margin of 50.6%. Operating income was $1.2 billion. We have an operating margin of 34.5%.

Full year effective tax rate was 8.5% and net income was $1.1 billion, translating into $6.17 of diluted earnings per share. Cash flow from operations was $1.4 billion, up 8.5% from last year, with CapEx at $398 million, resulting in a strong free cash flow of close to $1 billion and our target free cash flow margin of 30%.

We returned $932 million to shareholders in fiscal 2019, just under 100% of our free cash flow, with $274 million of dividend payments, and $658 million in share buybacks as we repurchased 8.9 million shares throughout the fiscal year. We ended the fiscal year ‘19 with cash and investments of $1 billion and we have no debt.

Now, let's move on to our outlook for Q1 of fiscal 2020. The initial launch of 5G and gains across a diverse set of high-performance mobile solutions, matched with solid traction in growth markets, are driving accelerated growth into the December quarter.

For the first fiscal quarter of 2020 we anticipate revenue to be between $870 million and $890 million, representing sequential growth of 6.5% at the midpoint of the range. We expect gross margin at approximately 50% and operating expenses of approximately $132 million, which is $7 million below Q1 of last year as we continue to manage our operating expense level.

Below the line we anticipate roughly $2.5 million in other income and a tax rate of 9%. We expect our diluted share count to further reduce to approximately $171 million shares. Accordingly at the midpoint of these ranges, we intend to deliver diluted earnings per share of $1.65.

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

Liam Griffin

Thanks Chris. Skyworks continues to deliver consistently solid profitability, while generating strong cash flow. Looking ahead, our market leading solutions are at the forefront of the next major cycle in connectivity. However, unlike the prior 3G and 4G upgrades which were largely paced by smartphone unit, we see 5G as a transformational technology that will impact, disrupt, and fuel a connected economy that we have not yet seen or comprehended in our markets today.

We addressed this opportunity with a proven culture of success, driven by a talented team, deep customer relationships, strategic investments and global scale, positioning us to succeed at this very important stage of technology inflection, while executing the financial discipline to ensure shareholder value.

That concludes our prepared remarks. Operator, lets open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. And your first question comes from a line of Karl Ackerman from Cowen. Your line is open.

Karl Ackerman

Hey, good afternoon gentlemen. Thanks for letting me ask a question. I want to focus on 5G for a moment. So some of your peers have got at least 200 million 5G phones for next year. I would appreciate how you are thinking about your opportunity for 5G with regard to geography and whether or not we should anticipate the 40% content uplift that you've alluded to from 4G to 5G. Should that be realized over the duration of the ramp or is that recognized more immediately on initial devices; and I have a follow up.

Liam Griffin

Sure, well 5G of course is going to impact multiple markets, multiple customers and the timing of that could be different depending on the geography and the specific OEM. We are 100% engaged with all the leading players, we have a really significant opportunity to gain content, we are rolling that out now. The reach of our portfolio continues to expand and we have some really significant customers that are in production now. We also have some really big customers, they're going to be launching next year.

So we are in great shape, we are demonstrating the capabilities that we discussed in prior calls. I will tell you that the 5G implementation is incredibly powerful for the consumer, but very challenging for the OEM and our job is to get in there and do the hard work with our customers, and deliver the right kind of technology to make their systems work, and that's what we're doing.

Karl Ackerman

I appreciate that. On 5G infrastructure, you reference some design wins for massive MIMO and the content being nearly 8x higher than 4G. Do you see the revenue inflection more of a 2021 event or is that something that can ramp in the back half of 2020? Thank you.

Liam Griffin

Yeah, no that's a great question. So the infrastructure side of 5G is still a little bit behind schedule, so we are seeing some great adoption with the handset players and they'll be ready to roll, but infrastructure has been a little bit slower.

We've made some great progress specifically with Nokia and with Ericsson. On Nokia’s platforms we’ve got opportunities that are you know measured in the $10 to $15 per base station, significant opportunity. We're looking at antenna arrays that are very rich, high content, complex high margin, going to be pivotal to that, and they use a lot of unique technologies that we also bring to market, including some ceramic technologies and other filtering technologies, as well as our gallium arsenide expertise. So we do have a great hand in the infrastructure side that will work adjacent to what we see in the mobile phone.

Operator

Your next question comes from a line of Vivek Arya from Bank of America Merrill Lynch. Your line is open.

Vivek Arya

Thanks for taking my question. Liam for my first one, how are you positioned OpEx and CapEx wise when it comes to addressing the 5G market? I think you mentioned some OpEx right sizing in the quarter, which areas did you right size? And just overall, you know and where my question is coming from is that in the past you had one really large customer, but as we come to the 5G opportunity, you'll probably need to address a much wider range of customers I imagine over a much wider range of a products. So how are you managing OpEx and CapEx going into the 5G cycle?

Liam Griffin

Sure, great question. So just to start, you know some of the reductions in OpEx were more around 2G, 3G products and legacy devices and moving R&D resources to higher end platforms, like Sky5 and the 5G rollout, so that’s one part of it.

We are addressing all the customers and working across our market to deliver the right technology. Also you know when you mention CapEx, you know one of the things that we do at Skyworks is we craft our technology and build it in house. We very rarely outsource. We do it in house; we have incredible capabilities to customize a wide range of TC-SAW products, TC-SAW base products with that filter inside and also our Bulk Acoustic Wave portfolio.

So the CapEx that we have is actually strategic technology investments. These are not filters that we could buy in the open market, they are filters that we craft and customize and work customer by customer to implement. It’s a very different business dynamic, a business model than some of our peers.

Vivek Arya

Got it. And for my follow-up, on gross margins, I think Kris you mentioned that it would be approximately 50%. So I'm just curious, is it just mix that's driving them, you know perhaps kind of flat to slightly lower, and then how should we think about the trajectory of gross margins getting into March, which tends to be a seasonally down quarter?

Kris Sennesael

Yeah, yeah Vivek. So first of all, I'm pleased with our gross margin performance in the September quarter at 50.3. You also have to take into account that we had some serious headwinds with the export ban on Huawei, which was our second largest customer and most of those products were actually manufactured in-house, so that was a serious headwind for us, but I think the company managed it very well. So we are guiding for December, approximately 50% so we still have some lingering issues there with the Huawei business.

And then of course, when you look ahead into March and June we will go through our normal seasonality, but then in the second half of 2020, as we get back to a sequential growth, growth that is fueled by 5G new, complex, highly integrated products, as well as our [growth] [ph] market business, we will start seeing gross margin improvements all the way up to our target multiple of 53%.

Operator

And your next question comes from the line of Ambrish Srivastava from BMO. Your line is open.

Jamison Crone

Hi guys, this is Jamison calling for Ambrish. So I was hoping that you guys could talk about a little bit more about 5G and piggy backing on Karl’s commentary. Qualcomm has talked about 200 million 5G smartphone in 2020 and assuming you are able to get 50 percent market share and maybe half of the $25 content you talked about in front end value, that would imply about $1.3 billion in 5G revenue possible for you guys in 2020.

So I was wondering if you guys could talk about the revenue and percentage mix of 5G in your mobile segment this quarter and where do you expect revenues and mix to land in 2020 and beyond? Thank you.

A - Liam Griffin

Yeah, we don't – we're not going to guide mix to 5G, but I will tell you that we are at the forefront. As we stated in the prepared remarks, we’re at the forefront of this inflection without question and it's difficult to handicap how many units, but I will tell you, there's a lot of units coming, there's a lot of complexity on the table. Everyone’s going to come to market with a different play, but it's a great opportunity for this industry, it really is, and what we love about our company is the flexibility that we have and the tools that we have to put together configurations with every customer.

And let me also say that you know we are basically technology agnostic or base band agnostic. We will sell with a Qualcomm base band; we’ll work with the MediaTek platform. We have incredible content there. We’ll work with Samsung LSI and if conditions change with Huawei we’ll work with HiSilicon, so we have the tools and technology.

We've been investing in this for years. You know when we talk about decades of technology, it’s real. We've been through 2G, 3G, 4G. We know how hard it is in 5G, but it’s a great opportunity

So we're going to see an increasing level of revenue in 5G and it will not just be smartphone. It will be smartphone, IoT, it will be enterprise, it'll be factory automation and some incredible new avenues that we haven't even explored yet. So there's a lot coming and the business is ready to go. We’ve made great investments in capacity and the right technologies and we’re positioned for growth.

Jamison Crone

Thanks. And for my follow-up I was wondering if you could maybe touch on your plan for millimeter wave solutions, just for your company given where Qualcomm is with theirs. Any thoughts on the market in terms of liability and revenue for handsets will be appreciated? Thank you.

A - Liam Griffin

Sure, sure. Yeah, well millimeter wave is an interesting technology. It does – you know can offer some pretty compelling attributes around speed and performance. The challenge with it though is, it has some technical road blocks right. You need to have some very complex beam steering to implement this. There's some line of sight limitations; there’s some cost limitations to it and what we're seeing is some of our handset partners are just not ready right now to engage in that technology, and often for you know sub 6 gigahertz, 5G technologies where the market is pretty rich and the opportunity is pretty rich.

So I think there's a possibility for millimeter wave to play a role in this industry and you know high capacity environments, sporting events, college campuses where there's a great deal of density. There could be an opportunity for that, but right now it's kind of still on the cusp of whether the adoption will take place or not.

Meanwhile, we're hedging our best; we’re investing in the technology; you know we do a lot of our work internally as I mentioned with the Kelly Marcin filtering. So we know the road map looks like to be a player in millimeter wave, but we're going to take our time as we progress.

Operator

Your next question comes from the line of Blayne Curtis from Barclays. Your line is open.

Blayne Curtis

Hey guys, thanks for my question. I just wanted to get back to the 5G timing. You've seen Qorvo and Qualcomm talk about a March up-tick and I'm just kind of curious because you, you know put that with comments as some of the infrastructure is taking a little bit more time. I know you don't want to guide March, but I’m just kind of curious, would you be able to see an up-tick even as early as the March quarter. Any comments on the direction there and then the pace of the rest of the year will be helpful.

A - Liam Griffin

Sure. Yeah, I mean there should really be no difference between the peer group on what the units are going to be, right. So we can all handicap that. I think the issue and the opportunity Blayne is what we do, how do we execute and what kind of content can we gain in this industry, that's kind of more at this point for us.

So a couple of things: If you look at the company year-over-year, we've done incredible enhancements in our TC-SAW capability and rounding out low band PAD and DRx across the board, which is great. But we've also uplifted the technology with Bulk Acoustic Wave. We're already delivering ultra-high band solutions right now that are very compelling and our customers love them.

We're moving into mid and high band also with accounts and then you have just an incredible inflection and infrastructure that we talked about, and then further on we'll start to see the 5G opportunity really penetrate multi markets; automotive, machine-to-machine applications; we talked a little bit about that, enterprise, a lot of really cool stuff that we're talking to customers about and some of that maybe later into late 2020 to '21, but there's a really significant tail on that.

But in the meantime, all the companies that you named and all the OEMs that are on the table, we are deeply engaged and we have been for quite a while and feeling really good about where this is moving.

Blayne Curtis

Thanks and then maybe just for Kris, just if you can give us any color in the September for the mixed-stream mobile and broad markets and any perspective into December between those segments in terms of growth.

Kris Sennesael

Yeah, absolutely. So growth markets in the September quarter was approximately 33% of total revenue, so its running now well above $1.1 billion in annualized run rate. This was down slightly on a sequential basis, but you have to take into account that we also have Huawei related revenue in that broad market business.

If I exclude Huawei, actually it was up sequentially, as well as year-over-year in the mid-single digits. So very pleased with our performance in growth markets, as multiple drivers there, the Wi-Fi 6 adoption, the 5G opportunity beyond the mobile phone, as well as some good traction in our audio play that we have as well.

Liam Griffin

Yeah Blayne, let me add a couple of other interesting points here. In addition to kind of the run right opportunities in broad markets, we've really been focused on cost – what I call customer acquisition. Going out there and finding new account that we can populate with our technology and we made some really good progress design wins now with Honeywell, design wins with Ford, design wins with Continental, Rockwell, Siemen, we have some other great account that we can't talk about yet that are on the cusp.

So we're really happy with the ability to run broad markets in a diversified way, but also capture significant customers that just haven't been part of the Skyworks family, right, because we haven't been selling to these guys. And with the technology inflection in 5G and the need for these companies to go to a wireless engine, it's a great chance for us to do our work. So there's some other cool things happening in broad market that really weren't on the table a year or two go.

Operator

And your next question comes from a line of Craig Ellis from B. Riley FBR. Your line is open.

Craig Ellis

Yeah, thanks for taking the question and congratulations on the performance guys. Liam, I wanted to follow-up with some of the 5G commentary, both prepared and in Q&A. So I think if we look back at 4G, integrated mobile was a business that could consistently be a mid-teens year-on-year grower and now with 5G the company has expanded its filter portfolio with BAW.

You've got internal filter supply, we've never had that before in our interface transition and you've got it top to bottom. So my question is, as you look at the engagements that exist across your different OEMs, do you feel like you're gaining the line of sight for that segment to not only return to growth, but to potentially return to mid-teens double digit year-on-year growth?

A - Liam Griffin

Yeah, I think as you know, like the opportunity is very, very strong right now and the indications we have with the customers we've been working with are powerful, and the complexity is way up and some of the points that you just made about honing our facility with big deals, it's a big deal. We could have gone outside to do that at a lower performing engine, that’s not the way we want to go. So there's a lot of complexity right now.

There's a customer engagement with us. We're always reaching into our accounts, but they are coming into us too. So it's a difficult transition to make technically, but it has incredible benefit. And so we saw a lot of great action in the last quarter, a lot of action in design wins, lots of discussions, lots of visits to our sites from our leading customers to go in and really kick the tires on some of the things that we are working on and most customers walking away with confidence.

So we think this is going to be a very significant – this is more than a mobile inflection. This is a technology shift that’s going to disrupt the markets that we all play in here, right. So I think there is some great stuff going on, and we'll start to see more and more customers evolve, classic mobile customers, but then kind of that second wave into IoT, enterprise, etcetera, where there's just a long tail of opportunity.

So we feel good about it. I feel it’s a design win activity in the last six months or so that has really accelerated, the sampling activity across a whole set of OEMs, also some really good work with base band partners. We've done some exceptional work with MediaTek for example, transitioning from a strong position in Phase 6 now shifting to Phase 7, which is all 5G; launching the higher frequency bands with BAW. So it’s a compelling time right now for Skyworks to execute. We are not opportunity constrained. It's about getting out there and helping our customers win.

Craig Ellis

That's really helpful. Kris, the next question is for you and I wanted to follow-up on the comments that gross margins could move from current levels up towards the 53% target model. What I wanted to do is break that down and get your help just on identifying what the specific drivers are.

So can you just help us understand how we get from first 50% to 51%. Is that all just going to be volume coming back and kind of making up for the loss of Huawei and then more significantly I think getting from 51% to 53%. If you could just help us understand how much of that is helped from broad markets, Avnera, mix shift within the integrated mobile portfolio from 4G to 5G, etcetera, it would help give us some clarity on how we get to 53%. Thank you.

Kris Sennesael

Yes, that’s a good question and so I’ve answered in the previous question there, some of the headwinds of course is the Huawei revenue that almost disappears and Huawei was running on or about 15% percent of total revenue and so that’s definitely a headwind.

But nevertheless, I think we have been able to keep the margins above the 50% and looking forward there are three major blocks to drive margin improvement and the first one, the most important one is continue to develop highly integrated complex, high value added type of products to our customers, that made their product better and that made the user experience better. And we do that all the time, and 5G is a great opportunity to demonstrate our technology leadership and help improve as a result of that our margins.

Of course in addition to that, we will continue to work out operational cost structure and drive down the cost in our factories and with our suppliers and all of that, and then last but not least, of course yes there is a little bit of a tailwind in terms of mix. Our broad market business has a higher gross margin that our mobile business, and our broad margin business has been growing and will continue to be growing faster than mobile and so we get a little bit of tailwind there as well.

Liam Griffin

Yeah and I will add one thing to that comment. I think that if you look at 5G and the complexity of 5G and the types of unique systems and engines that are being deployed, the margins there are going to be higher. I think there's going to be fewer players in the industry that can execute to the level that our customers need to be successful.

So I think you've got a case where the 5G inflection and the power of that connection and the value that that's providing is going to translate to better growth margins, it’s just the way that’s going to run. Now working within our factories is going to make it even easier for us, but there's going to be, and there should be for us you know meaningful margin rules with the roll-out of 5G as we get a higher level of concentration there.

Operator

And your next question comes from the line of Craig Hettenbach from Morgan Stanley. Your line is open.

Craig Hettenbach

Yes thanks. First question just Liam, to follow-up on the BAW activity. You know you’ve see that mostly in diversity receive at this point? And then just how you think about it and the future layering into you mentioned kind of ultra-high band pad and things like that.

Liam Griffin

Sure Craig. Yeah, so we actually, right now today have been shipping in high volume on ultra-high band path that includes our BAW device and that's running at about 3.3 gig Craig, so we are looking at high frequency, high band devices.

We are sampling more than 10 customers with our bulk acoustic wave technology across a broad set of frequencies and spectrum, and you know we’ve had strategic customers come and test our metal and they like what they see. So we are going to continue advancing that category, and we’ll use the filtering technology that’s best equipped for the application. We’ll continue to use TC-SAW and some areas we’ll bulk acoustic wave, and in some areas maybe it will be in diversity receive, maybe it will be in transmit chain.

So again, just having the ability to create that unique customization for each and every one of our accounts is important for us. So we've made those investments, and you should expect more from us from the BAW side as the year turns here, as we get further into 2020.

Craig Hettenbach

Got it, and then just a follow-up for Kris. I know you guys have talk about it, as you insource filters, the inventory is kind of higher than the historic. You know just how you are thinking about managing that into what's typically the seasonally this easily weaker March quarter. Yeah okay soul compatible with where we are from an infantry weaker march quarter.

Kris Sennesael

Yeah, so I feel comfortable with where we are from an inventory level. Actually the days on inventory came down four days to 135 days, and is expected to continue to come down in the December quarter, but looking forward, inventory is going to split the rate between 120 days to 140, to 145 days and again, that is higher than a couple years ago, mainly driven by our filter manufacturing. We continue to expand the capacity not only in TC-SAW but now also having make major investments to get Bulk Acoustic Wave capacity into our filter operation and so that is driving the inventories and to the 120 to 145 days.

Operator

And your next question comes from a line of Chris Caso from Raymond James. Your line is open.

Chris Caso

Yes, thank you, the first question is on Huawei and I think last quarter your commentary was that the majority of the restrictions were on the infrastructure products, but yet in the handset products you sold to Huawei and you weren't getting demand signal. Could you give an update on where that stands now, how much Huawei is in the guidance right now, and do you expect that to come back at some point going forward, you know speaking to the handset side.

Kris Sennesael

Yes, so the Huawei revenue played out exactly in-line with our expectations, in the September quarter we expected to approximately $10 million of revenue and that's what it – that's what it came in. So looking for work, we believe that Huawei will continue to run at approximately that level, maybe it might be picking up a little bit, but a lot of that will depend on this whole situation with Huawei and the export ban will evolve.

Liam Griffin

Yeah, I mean Chris this is really just about being in compliance with the export ban. It's not about share loss or gain, it's about being in compliance and as Kris said $10 million was the number for the quarter. Over time if things change, we could be right back in the saddle with this customer. They were our number two customer for us, not long ago. So it's not about technology on our end or market share, it's really about staying I compliance with U.S. law at this point, and if things change, we'll be ready to alter.

Chris Caso

Alright, as a follow-up, I guess as a follow up on that, and there has been some investor concerns over, other fall out around the trade tensions where you know perhaps some Chinese customers would seek to be less reliant on U.S. content, perhaps even backsliding into discrete solutions.

Could you talk to that, what the customers are telling you or is there any evidence where you've got customers that perhaps would like to go away from U.S. content and you know as you move into 5G and work in the higher complexity, is that even a feasible solution at this point and can you develop a 5G phone that uses discrete solutions.

Liam Griffin

Yeah, so I'll start -- I'll get the second part and then I go to the front end of your question. So I think it's very difficult to deliver the kind of compelling technology that is needed in a 5G device, I really do, I believe that, and I think you know, U.S. companies had played a vital role in that area and I think we have this great technology. It's difficult to do it without some of the things that we make here at Skyworks and some of our other peers, so that's one.

But at the other side here is, you know the Huawei situation is a Huawei situation. There are trade issues in China, we get it, but if you look outside Huawei and you look at Oppo, Vivo and Xiaomi, our business is very strong, very strong and there's a lot of 5G launches going on right now with Skyworks.

There were some initial launches where we had a baseband provider in there and there were some content in there that we didn't win, but that's turning over. So we see tremendous momentum and what we call the OVX side the Oppo, Vivo, Xiaomi side within China. So that continues to go on and as Kris noted we're playing it down with Huawei. We've got a number now that's conservative, we're going to focus on everybody else and if Huawei comes back, like I said, that revenue will come back.

Operator

Your next question comes from the line of Edward Snyder from Charter Equity. Your line is open.

Edward Snyder

Thanks a lot. Liam, if I could, there's been a lots of ultra-high band and Sub-6 stuff. Qualcomm obviously based on their comments is just going to take it all. They said something like virtually all base band antenna solutions for 200 something different flagship devices.

Leaving that aside for now and any comments you want to make on what you're seeing competitive threats on that, but more importantly, it looks like the architectures that are coming out in the next year, but each are from China Mobile including the 79 bands. What's your opening now on the content for the device, ultra-high beams up for a while probably normally about $2 in content.

Are you seeing this rise much faster than expected, because you're including these extra bands in this? And do you expect to capture your traditional share, which has been relatively high in that spot for the next year or so or are you getting more competition? Then I have a follow-up.

Liam Griffin

Yes, no that's a great question, Ed; a lot of insights to that. So we are seeing some real good action on the UHP pad, you know right around 3.3, 3.5 and so what you've got there is some great opportunity to continue to expand that, that's working out great. We're also looking at a number of other solutions with our China customers and other OEMs.

And then the other major catalyst for us in this area is MediaTek and you know these guys really well. We've done a lot of work with MediaTek back to the 2G days and we had a nice position on Phase 6. But when you start to roll into Phase 7, our platform position to MediaTek is really compelling. We've got Sky5, we've got DRx technology, we have UHP opportunities and there're some incredible new technologies across that platform and if your really good about that.

We could be looking at a $7 or $8 handle on MediaTek shifts that attach here in Phase 7. So we're excited about that.

In the meantime you know we're continuing to do the work with Oppo, Vivo, Xiaomi. Despite the baseband provider, whoever it may be, if it's MediaTek or not MediaTek, if it's Samsung LSI, we'll work it; if its Qualcomm, we'll work it. So there's a lot of action going on there, but I would say that the MediaTek transition is going to be quite strong, it hasn't happened yet, but it's headed for the second half of the year and it will be a really compelling driver.

Edward Snyder

And then, I'm glad you brought that up. He was my second question basically. I mean the Chinese OEMs took their toe in Phase 6 last year to the first full module design, and for safety sake, it looked like in the core we took most of the main path, you guys were all over the place and the other sections of it, but it sounds like now they like to – love to really accelerate the deployment of both Phase 6 and Phase 7 sooner before MediaTek gets their 5G out.

We certainly saw that in some of the reports coming out on the quarter, big upside in not only number of 5G phones but a number that are using more of these high content modules.

You kind of stepped back a little bit last year just because on the transition to this new architecture volumes when for safety and I know your taking some of that back, but outside of say the DRx and all the other areas you guys were in tune as we saw that, outside of that packet, the main path, you expect to gain back some of the share now that the OEMs are getting comfortable with that design or are we going to see a bifurcation here where it's you and Qorvo taking nearly all the content in this fall, and then it's just going to be bifurcated main path for them and most of everything else for you guys, what's your feeling on that?

Liam Griffin

Yes, I think – well, I think you've got a lot of that captured. You definitely have an increased opportunity and we are certainly not going to get all of the business. We'd like to get the lion's share and I think we will, but it's an increased opportunity and in the complexity that you see in these new phones, the Phase 7 devices specifically are deontic right?

It takes the best and the brightest to go out there and execute it, so we're seeing that, but I will tell you that in addition to the traditional stuff that you see in low band PAD and maybe some of the DRx, we're starting to move up the mid and high band. We're starting to move up with mid and high band pads, which could be a really meaningful high potency opportunity for us for content. You mentioned, we talked about the UHP that's continuing to gain not just with MediaTek, but with some other accounts.

So the aperture's widened a bit, but one of the common themes here is complexity, like you said, the number of devices, the number of hand-offs carrier aggregation, the power consumption and the efficiency required to drive these 5G devices, it's just going to be a game changer in terms of challenge and that's exactly what we want to see. So there's some really good stuff out there. We hope to lead in this market, but it's a great opportunity for the industry as well.

Operator

And our last question comes from the line of Bill Peterson from J.P. Morgan. Your line is open.

Bill Peterson

Yes, hi. Thanks for sneaking me in. I have some questions around the broad markets business and I guess first is a follow-up to Blayne's question. Do you anticipate sequential growth in the December quarter? I mean, I know Huawei is kind of running at a low level and then I guess as you think about the fiscal year based off your design win pipeline, you talked about Wi-Fi 6 and some of the other opportunities. How should we think about growth and that can never turn back to double digit growth as we think about that in this fiscal year?

Kris Sennesael

Yes, just for the December quarter broad markets, normal seasonality is down 8% to 10%. We saw that in fiscal '18, we saw that in fiscal '19 and so we expect something similar in the December quarter of fiscal '20, normal seasonality. Having said that, on a full year basis, yes, we do believe that broad markets given all the drivers that we've talked about, it could be back to double-digit year-over-year growth.

Liam Griffin

And recall, if you look at the proxy for semis in 2019, you're looking at double-digit declines for most of those markets. The broad markets within our business, we felt they behaved pretty well and grew pretty nicely, but we're going to continue to invest and drive that into 2020.

Bill Peterson

Okay, thanks for that color. And I guess just lastly a housekeeping. How should we think about OpEx trajectory throughout the year? Are you bringing it down here in the December quarter? Should we expect that to kind of grow somewhat in line as revenues continue to grow and maybe return to year-on-year growth? And then your tax rate, I guess 9%, so we just assume that for the fiscal year as well?

Kris Sennesael

Yes, on OpEx we're going to remain disciplined, but at the same time we're not going to hesitate to make the necessary investments to fuel the growth of the business and make those necessary investments in technology, 5G, broad markets, support of the broad markets.

So yes, over time here in fiscal '20 we will see some modest increases in the OpEx. It's running on or about 16% or so to revenue right now, which I do believe is world-class and we will continue to manage it. And then on the tax rate, you know on a full year basis on or about 9% is a good number.

Operator

Ladies and gentlemen, that concludes today's question-and-answer session. I'll now turn the call back over to Mr. Griffin for any closing remarks.

Liam Griffin

Thank you all for participating on today's call. We look forward to seeing you at upcoming investor conferences during the quarter. Thank you.

Operator

This concludes today's conference call. You may now disconnect.