UZI SASSON is President and Chief Financial Officer of IXYS Corporation, a global power semiconductor company founded in 1983. With a market cap of about $310 million, IXYS is a provider of specialized power MOSFETs, IGBTs, integrated circuits and microcontrollers to more than 3,000 end customers worldwide. With direct oversight of 11 divisions at IXYS, Mr. Sasson is responsible for financial management, operational efficiencies and strategic planning. During his tenure at IXYS, he has overseen several accretive acquisitions and works closely with the sales/marketing teams to determine new product developments and market opportunities. A CPA with more than 20 years of industry experience, Mr. Sasson began working for IXYS in 2004 as the CFO and Vice President of Finance. He was previously affiliated with IXYS in 2004 as the CFO and Vice President of Finance. He was previously affiliated with IXYS.

COMPANY INTERVIEW

REPRINTED FROM OCTOBER 1, 2012

SECTOR — SEMICONDUCTORS

TWST: Please provide some historical context related to the inception of IXYS.

Mr. Sasson: The company was founded by Dr. Nathan Zommer, who currently serves as IXYS’ Chairman and CEO, in Silicon Valley in 1983. Backed by strong organic and acquisitive growth, IXYS has become a premier international power and IC semiconductor company with a broad offering of technologies and products. Today, we have 11 divisions worldwide, four in-house fab facilities and more than 1,000 employees.

With more than 350 patents constituting our I.P. capital, IXYS’ technologies are often considered some of the most innovative on the market as evidenced by competitors who often purchase our products. We cover 90% of the power spectrum, with power semiconductors, MOSFETs and IGBTs, solid state relays, integrated circuits, microcontrollers, and radio frequency power and systems.

All of our products seek to accomplish one goal — energy conservation. As companies increasingly seek to improve energy-conversion efficiency, generate clean energy and advance automation, steering clear of fossil fuels, IXYS products gain fast adoption.

Today, we have approximately 3,000 end customers in applications ranging from industrial to telecom, medical, transportation, lighting, smart grid and renewable energy companies.

TWST: Over the next three years, what broad industry trends will prove most beneficial and detrimental to IXYS?

Mr. Sasson: Consider the increasing automation in industry, advance LED lighting systems, the evolution of “smart” cities, feature-laden consumer electronics, mass transit systems, hybrid/electrical vehicles, etc. Yet the demand for electricity — clean uninterruptible power, voltage needs, higher-power density and efficiency — outstrips supply. Power semiconductors can help bridge the gap.

Recent research estimates put a price tag of $20 billion on the 2012 market for semiconductor devices, discretes and modules, dedicated to the power electronics industry. We can infer that this market will grow in the years ahead, exacerbated by worsening demand/supply constraints. Focused on the power market, IXYS is well positioned to capitalize on this industry growth.

Difficult macroeconomic conditions weighed heavily on the semiconductor industry over the past few years. IXYS admirably weathered this storm, recording its two highest fiscal revenue years in 2011 and 2012, while main competitors fared much worse. We have been able to generate real cash profitability year over year due to maintenance of an efficient operating environment. Because of our careful cost analysis and streamlined business practices, even modest sales may result in positive cash flows.
TWST: You briefly referenced demand for power semiconductors in various applications. Would you provide additional detail on three or four of these applications?

Mr. Sasson: Absolutely. Industrial electronics equipment, and in particular, process control face increasing requirements from production applications and regulatory and environmental standards. Factory automation will need more intelligence, so will buildings to reduce energy consumption.

In the medical market, health care service is moving away from a hospital-centric approach to a personalized patient approach with new medical devices that are smaller, portable and wireless, with longer battery life. Research indicates that the medical semiconductor market will reach nearly $4.1 billion in global revenue by the end of 2012, with a 9% compound annual growth rate over the next five years. It is worth noting that IXYS is one of the few suppliers of IGBTs for FDA-approved portable defibrillators. Regulatory hurdles continue to impede our competitors in this market, boosting our market share in North America.

In telecom, the base station semiconductor market continues to expand at a modest rate as the industry migrates from 2G to 3G to 4G infrastructure. The evolution of WiFi/WiMAX, VoIP, FIOS and other communication technologies continue to rely on ICs, ruggedized MOSFETs, solid state relays and microcontrollers — all of which IXYS supplies.

If you look at emerging applications, the opportunities are equally appealing. In the automotive sector, MOSFETs, which are used in high switching frequency applications, and IGBTs, which have low-switching frequency range, are the predominant power semiconductors used in hybrid electric vehicles. Semiconductor content per vehicle is forecast to increase 9% from 2011 to 2012, with ICs being used for powertrain, electronic power steering, motor control, infotainment, dashboard/exterior lighting and driver assistance.

Concerned about carbon emissions and global warming, governments worldwide are clamoring for alternative methods of electricity generation. As a result, we have witnessed robust demand for IGBTs, MOSFETs and thyristors. Worldwide, semiconductors sales for solar photovoltaic systems are in the tens of billions and wind turbines semiconductor sales are quickly following suit.

While smart buildings and cities are in their infancy, power utilities are rapidly deploying smart electricity meters with global shipments expected to triple over the next five years. The associated semiconductor market may grow to more than a $1 billion dollars by 2016.

TWST: How does IXYS technology platform address these various applications? Would you describe some of the company’s latest products?

Mr. Sasson: We have more than 6,000 products. As a result, our products address nearly every application we just discussed. In the past year, we have launched approximately 30 products ranging from our highest-power IGBT module for motor control applications to IXOLAR SolarBIT products for energy harvesting. While this interview would not be appropriate for a comprehensive listing of our technologies, I can provide insight on a few unique products we currently offer.

We introduced ISOPlus Direct Copper Bond isolated discrete and module packages and a number of other technologies for the automotive market, building on our long history in the automotive market starting with chip supply for GM’s electric car, EV1, in the early 1990s. In more recent history, we provided high-voltage IGBTs to Tesla Motors.

IXYS U.K. recently launched a new addition to its Wespack rectifier diode portfolio, extending its upper-voltage range. Constructed by using an all diffused silicon slice alloyed to a molybdenum disk, the die is encapsulated in a fully hermetic package. When compared to conventionally packaged devices, the new Wespack diode offers around 50% more current with 35% less weight.

"Power management is another expansive business opportunity for IXYS. Projections for the next five years show overall positive growth for power management semiconductors, with revenue increasing by 6.6% in the next five years."

We offer IXOLAR SolarBITs for charging many types of battery-powered, off-the-grid products. The wide range of applications include remote sensors, battery-powered lights, wireless self-powered security devices and systems, and handheld consumer products such as flashlights, mobile phones, cameras, PDAs, MP3 players and more. They are also suitable for industrial applications, portable instrumentation, portable battery-powered tools, portable medical devices, automotive toll transponders, portable radios and for charging emergency back-up batteries.

One of our divisions, Zilog, introduced ZGATE, a pioneering, joint technology solution with Icon Labs, to create an embedded firewall providing a critical layer of security for networked devices. ZGATE reduces the incidence of security breaches for many types of products in defense, telecommunications, utility, transportation, medical and industrial applications.
We recently added a new megapower, 83-mm phase control thyristor, using an integrated die construction and improved package design for better electromechanical and thermal performances. Typical applications for these devices include industrial drives, wind power converters, soft starters, excitation, power-grid control, utilities and controlled rectification.

TWST: As evidenced by the product portfolio, IXYS appears to grow organically. The company also has found success in its acquisitions, namely IXYS IC Division. Will strategic opportunities continue to play a strong role in the company’s plans? Are there other opportunities, perhaps complementary technology, areas of expertise or relationships that may be appealing to IXYS as it moves ahead?

Mr. Sasson: Organic growth has always been the essential component of our success. We strive to increase market share in our core applications, offering price-competitive innovative products and advanced technologies to meet evolving needs. That is likely the reason for our very diversified product portfolio. We are committed to responsive customer service and sales delivery deadlines, working closely with our customers in the industrial, telecom and medical markets to ensure we remain a top supplier.

In relation to acquisitive growth, we are interested in companies with complementary technologies that would dovetail with our current products and customer needs. This strategic direction has proven fruitful again as indicated by our successful acquisition of Zilog, Inc.

IXYS IC Division, recently renamed from Clare for consistency with other divisions, was a very successful acquisition for us in 2002, as the division provided complementary technologies including integrated circuits, HVICs, solid state relays, Litelink devices, etc. Today, IXYS IC Division is one of the leading, well-established divisions of IXYS, with a long-standing customer base.

In February 2010, IXYS acquired Zilog, Inc., a trusted supplier of application-specific, embedded microcontroller units that are system-on-a-chip solutions for industrial and consumer markets. Since the acquisition, IXYS has increased its penetration in the transportation electronic and electric market by producing cost-effective integrated product offerings, including the power semiconductors, driver ICs and Zilog MCUs essential for automotive controls and driving displays. IXYS has deployed MCUs that are suited for industrial motor control, power control and automation.

In telecom, Zilog’s MCUs have meshed with IXYS’ ICs, which can be deployed in modems, VoIP, FiOS and automated alarm systems. Under IXYS management, Zilog’s MCUs have expanded to include low-power and sensing technologies for energy-management applications, including smart lighting and intrusion detection.

TWST: What recommendations would you have for potential investors seeking more information about IXYS?

Mr. Sasson: Investors seeking to gain an understanding of IXYS should consider the following: one, technology; two, business model; three, reinvestment strategies; and four, competitors.

The reasons for investors’ keen emphasis on technology are pretty self-evident. Investors will want to see sustainable business practices, which mean increasing R&D, new product launches, new customers and new applications — all of which can only be accomplished with advanced technology. I believe I have regaled you with plenty of information about our technologies and products. Importantly, the life cycle of our products runs between 10 to 20 years, maximizing revenue per R&D project and creating lasting relationships with our customers. Our balanced sales strategy, with approximately 52% of revenue from direct sales and 48% of revenue from distributors, ensures that our products hit target markets faster.

We achieve consistently strong cash from operations quarter over quarter, which results in our strong cash position/asset base of more than $100 million, as of June 30, 2012. Cash from operations has been consistently used to buy back our own shares, nearly 6 million shares, in the last five years. We have purchased almost all of the buildings and fab facilities in which our various divisions are housed, including IXYS IC Division, IXYS Germany, IXYS Milpitas, etc. So our balance sheets and P&L look healthy, even in some sense, understated as some of our real estate assets are presented at cost basis rather than real market value.

Lastly, investors should look at our competitors in the power space. We are not a commodity chip maker. Instead, we specialize in power semiconductors that are utilized by some of the largest industrial, medical, automotive and renewable energy companies worldwide. Investors should compare our technologies, compare product diversification, compare our financials — balance sheet, cash from operations, tangible assets, four in-house fabs, intellectual property, real estate, R&D — compare our long-standing management team, then draw their own conclusions.

TWST: What should investors come to expect from IXYS in the next three to five years?

Mr. Sasson: IXYS is very well diversified, by geography, product line and market segment. Diversification extends to our fab facilities; more than 50% of our products are manufactured in-house, while other products are fabbed by world-class manufacturing subcontractors. This balance will persist for the long haul, as it has proven to be a successful business strategy.

Investors should expect that IXYS will continue to be on the cutting edge of technology innovation, introducing 25 to 30 products to the market each year, backed by our
experienced R&D teams. IXYS will continue to build its presence in its traditional applications, as industrial drives toward greater automation, telecom adds new wireless features and medical products become portable. We will also be expanding our reach in the alternative energy and hybrid/electric automotive industries — two burgeoning industries.

TWST: Thank you. (KL)