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THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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THE WALL STREET TRANSCRIPT

CEO/COMPANY INTERVIEW

DWIGHT DECKER
Conexant Systems Inc.

Conexant Systems Inc. (CNXT)



DWIGHT DECKER is Chairman of the Board and Chief Executive Officer of Conexant Systems Inc. Dr. Decker joined Rockwell in 1989 as director of data modem products engineering. After serving in a number of increasingly responsible management positions, he served as vice president/general manager, Digital Communications Division of Rockwell's Telecommunications Division from January 1993 to June 1995. He served as president, telecommunications of Rockwell from June 1995 to October 1995; president Rockwell Semiconductor Systems from October 1995 to March 1997; senior vice president of Rockwell and president, Rockwell Semiconductor Systems and Electronic Commerce from March 1997 to July 1998; and senior vice

president of Rockwell and president, Rockwell Semiconductor Systems since July 1998. He became Chairman and Chief Executive Officer of the Conexant after its spinoff from Rockwell Corp. in December 1998. Decker received his bachelor's of science in mathematics and physics from McGill University and his doctorate in applied mathematics from the California Institute of Technology.

SECTOR – SEMICONDUCTORS

(HAF607)(RS28)TWST: Let's start out by you giving us a brief overview of Conexant Systems, Inc.— the company's history, products, services, customers, those kinds of things, please.

Mr. Decker: Conexant Systems is a new entity in the sense that it was formed in January 1999 as a spin to shareholders of Rockwell's semiconductor systems business. So up until January 4, this business was part of Rockwell International. As a part of Rockwell, we had been in the semiconductor business and, in particular, the communications semiconductor business for about 30 years. When Conexant was created, we became the largest pure play communications semiconductor company in the entire semiconductor industry. That's a key fact about Conexant, that we are a semiconductor company totally focused in communications. We have the broadest product portfolio, as well. We're also the only pure-play communications investment that has significant business in wireless communications — our business in wireless will be more than \$250 million this year — as well as a broad family of wireline communications products. All other pure plays are either focused in wireless or they're focused in wireline, but not in both. In terms of size, last year we had about \$1.2 billion in fiscal-year revenue.

Our products target five different communications market segments. I'll go through those individually and indicate a few top customers in each of those businesses because, I think, another unique aspect of our business is the quality list of significant engagements we have with tier-one communications customers. For example, in our "network access" business, which is our infrastructure communications semiconductor business, some key customers are **Cisco, Lucent** and **Nortel**. For wireless communications, our key customers are **Ericsson, Nokia** and **Qualcomm**. In our personal computing division, our key customers are top PC OEMs such as **Compaq, H-P,** and **IBM**. In what's called the "personal imaging" business, the digital imaging space, our key customers are companies like **Canon, Sharp,** and **Ricoh** — for whom we provide an extensive family of imaging

solutions for facsimile machines, printers, and digital cameras. And then in what we call our "digital infotainment" business, for cable modems and communications system solutions that go into digital set-top boxes, a few of our customers are **EchoStar, General Instruments** and **Hughes**.

TWST: Those are wonderful customers!

Mr. Decker: Yes, they are.

TWST: Now, what are the most significant trends, developments or changes you anticipate in your various markets over the next several years?

Mr. Decker: I think that one of the reasons Conexant is getting a lot of attention these days is because we're unique in being the largest and the broadest in this communications space. And what we clearly see — and I think this is something that the industry analysts largely support as well — is that communications is probably the single best growth opportunity in the semiconductor business for the next 10 years. So the changes we see are just continued explosive growth — in particular, explosive growth in wireless communications. There were 300 million wireless subscribers at the end of calendar 1998, and that's expected to break a billion subscribers by 2003. So there's huge growth there. Another development is the tremendous growth in the Internet. That's not only for the infrastructure, where our network access business is focused on building the backbone for the network, but also for the access side. These are all the devices that connect into the Internet. And virtually all our other divisions — personal computing, digital infotainment, personal imaging — they all play into access devices.

I think the primary thing that we see is just an explosion of communications users and technologies. And we're right at the heart of that.

TWST: Yes, I can see that you have terrific positions in those markets. What are the major concerns or risks that Conexant faces now and in the future?

Mr. Decker: I think the primary risk that almost anybody would face in this communications business is, it's very fast-moving. So for us to be successful, we will have to execute

Investors Brief


Conexant Systems Inc.
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CNXT (NASDAQ)
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Corporate Business Description

Conexant Systems Inc. is the \$1.2 billion company that began operation as an independent entity in January 1999 after Rockwell International Corp. spun off its Rockwell Semiconductor Systems business to shareowners. The company announced its new name in November 1998, and completed its spin-off from Rockwell International on Dec. 31. Conexant is also the largest company in the world that is focused exclusively on providing semiconductor products for communications electronics.

Business Portfolio

Conexant has aligned its development efforts into five key product platforms:

PERSONAL COMPUTING DIVISION

Focus: Telephony-based client-modem products and audio solutions for desktops, notebooks, handheld PCs and other personal computing applications.

What's Next: Nearly one-third of all PCs have modems, and Conexant has shipped hundreds of millions of them, including low-speed data modems, high-speed data modems and integrated data-fax modems. The company led the transition to 56Kbps modem technology, and is at the forefront of efforts to add advanced audio capabilities, home networking, Asymmetric Digital Subscriber Line (ADSL) and other communications functionality to the mainstream PC modem platform.

PERSONAL IMAGING DIVISION

Focus: System-level semiconductor solutions for facsimile-ready equipment, "all-in-one" office systems, and PC-connected multifunction peripherals (that act as printers, copiers, fax machines and scanners), as well as CMOS imaging solutions for PC video, digital cameras and embedded imaging applications.

What's Next: Three out of every four fax machines in the world contain Conexant fax modem chipsets. The market is evolving toward an integrated image communication system or resource that captures, transfers and prints out image-rich content. Conexant is combining its fax technology with the telephony features that are

expected in consumer products. Core products include the industry's broadest portfolio of highly integrated single-chip fax modems and engines, with the greatest level of voice and speech features. Growth areas include next-generation solutions that integrate V.34 fax capabilities into high-speed color image transfer and Internet faxing, as well as multifunction print engines and CMOS image sensors that will enable "camera-on-a-chip" solutions.

WIRELESS COMMUNICATIONS DIVISION

Focus: Complete solutions, RF subsystems and components for cellular handsets that support GSM, TDMA (IS-136), CDMA, PCS, and Satellite Communications standards, Digital Spread Spectrum (DSS) cordless phones and GPS receivers.

What's Next: The company's core product line includes full system solutions for dual-band GSM handsets, 900 MHz and 2.4GHz DSS cordless phones, GPS receivers as well as GSM and CDMA RF chipsets and GaAs HBT power amplifiers for the world's major wireless standards. Conexant's expertise in both CDMA and GSM uniquely positions the company to play a leading role in 3G technology development.

DIGITAL INFOTAINMENT DIVISION

Focus: Cable modems, digital set-top boxes, digital VCR/DVD-HDTV peripherals, and analog and digital video-capture solutions in PC appliances.

What's Next: Conexant established itself in the digital infotainment market with a family of video encoder and decoder products and core graphics processing technology that the company gained as part of its acquisition of Brooktree Corp. in September 1996. In May 1997, the company acquired the Hi-Media broadband communications chipset business of ComStream Corp. Conexant's products will have applications in a variety of emerging markets for network computers, smart TVs and Web browsers, "living room" PCs, and digital TV/set-top boxes. Conexant's core product lines include video encoders and decoders, satellite receivers and interactive analog modems. Growth areas include cable modems, High-Definition TV (HDTV) demodulators and MPEG decoders.

NETWORK ACCESS DIVISION

Focus: Broadband access products, WAN transport solutions and multi-service network access equipment for enterprise and network infrastructure products.

What's Next: Conexant offers a rapidly growing portfolio for next-generation digital communications. Products include semiconductor solutions for remote-access concentrators, High Bit Rate Digital Subscriber Line (HDSL) and Symmetric DSL (SDSL) transceivers, T1/E1 transceivers, T3/E3 devices, 2.4, 9.6, and 10 Gbps SONET/SDH transceivers, and ATM Segmentation and Reassembly (SAR) and physical-layer (PHY) devices. Growth areas include remote-access ADSL concentrators.

successfully and repeatedly on new product introductions. It's something we've been quite successful at in the past; we just have to keep our eye on the ball going forward.

TWST: Now, how do you think your research and development expenditures will change in the future in terms of both amount and emphasis?

Mr. Decker: We are currently spending more than 20 percent of sales on research and development. As our revenues grow, we will continue to invest more dollars. So the dollar amount will increase, but I think the percentage of revenues that will be funneled to R&D will stabilize at around 17 or 18 percent a couple of years out.

TWST: Now, you cited a number of advantages competitively. Are there any other competitive advantages you'd like to bring up? What else sets Conexant apart from competition?

Mr. Decker: I think one of the key advantages that we intend to focus on is the fact that the breadth of our portfolio allows functionality from one market segment to converge into another market segment. There's a lot of discussion about market convergence in communications, about how markets that once were separate are now moving together, and products now are taking on functionality from other areas. For instance, set-top boxes are incorporating functionality that was in the PC, and PC products are taking on the functionality of digital TV. The fact that we have a lot of expertise in all these different areas means that one division can assist another division in implementing new features and functions into its products. We call that portfolio leverage. We have the broadest portfolio and we intend to leverage our technologies, to take advantage of that spread in differentiating our products.

TWST: Any weaknesses or challenges to be addressed at the company?

Mr. Decker: I think that we have a challenge as a new, independent company, that we have to get all of our systems and processes up and performing exactly the way we would like them to. When we were part of Rockwell, we didn't have our own company communications organization, investor relations, a general counsel or a chief financial officer. Now we do. It's quite a bit different being independent as opposed to being a division of a large company. So I think this year we have challenges to put those independent company functions into place and get them fully performing. I think we've made tremendous progress there in just six months, but it remains a focus for this year.

TWST: Okay, what are your specific goals for the company over the next several years?

Mr. Decker: This year and next year are transition years for our business in the following sense: about three or four years ago, more than 80 percent of our revenue — came from one product area, which was the personal computer modem. We started to diversify our communications portfolio during that time and we're

now at the point where a little more than half of our revenue comes from products outside the PC space. But we need to continue that diversification program to improve the operating performance of that part of our business because we had a very tough 1998. We are in recovery on the profitability side, but we need to continue the diversification and achieve our target-operating model, in which we expect to be delivering 15 percent pretax operating margin on a consistent basis.

TWST: Great. How do you feel about your current stock price?

Mr. Decker: During early trading in December it was in the low teens, with roughly a \$15 average for the first month of trading. Lately it's been around \$60. So obviously, we're gratified with the recognition of value. We feel there's a tremendous amount of promise in our business. And there's a strong belief in the intrinsic assets of the business, as well. I think that's now beginning to be recognized in the valuation. We think the communications industry has such a good, long-term growth prospect that if we're able to continue to execute, I think that we should see our valuation continue to track that growth.

TWST: If you were sitting down with a group of potential long-term investors, what reasons would you give them to invest in Conexant?

Mr. Decker: I think it's simple. I would say that in the semiconductor arena, communications is absolutely the best market segment that anyone could invest in. And I would emphasize that Conexant has a very unique position within that segment. I hope that a year or so from now we'll be considered the blue chip of communications semiconductors because we're the largest pure-play, and we have the broadest product portfolio. We have products in all of the hot growth areas of communications: areas like digital cellular, broad-band access through DSL and cable modems. So communications is a great segment and we've got a great position.

TWST: Thank you.

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