

EZchip Semiconductor Ltd. (NasdaqGS:EZCH)

Earnings Call Transcript

Wednesday, February 13, 2013 10:00 AM ET

Call Participants

Executives

Dror Israel

Chief Financial Officer

Ehud Helft

Managing Partner - Israel

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Analysts

Andrew Uerkwitz

Oppenheimer & Co. Inc., Research Division

Daniel A. Berenbaum

MKM Partners LLC, Research Division

Daniel Meron

RBC Capital Markets, LLC, Research Division

Dov Rozenberg

Clal Finance Ltd., Research Division

Gary W. Mobley

The Benchmark Company, LLC, Research Division

Jay Srivatsa

Chardan Capital Markets, LLC, Research Division

Jeffrey A. Schreiner

Feltl and Company, Inc., Research Division

Joseph Wolf

Barclays Capital, Research Division

Paul K. McWilliams

Next Inning Technology Research

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the EZchip Fourth Quarter 2012 Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded, February 13, 2013.

I would like to remind everyone that forward-looking statements for the respected company's business, financial condition and results of its operations are subject to risks and uncertainties, which could cause actual results to differ materially from those contemplated. Such forward-looking statements include, but are not limited to, product demand, pricing, market acceptance, changing economic conditions, risks in product and technology development, and the effect of the -- and the effect of the company's accounting policies, as well as certain other risk factors, which are detailed from time-to-time in the company's filings with the various securities authorities.

I would now like to hand the call over to Mr. Ehud Helft of CCG Investor Relations. Mr. Helft, please go ahead.

Ehud Helft

Managing Partner - Israel

Thank you, operator, and good day, everybody. I would like to welcome all of you to EZchip's fourth quarter and full year 2012 conference call, and thank EZchip's management for hosting this call. With us on the line today are Mr. Eli Fruchter, CEO; and Mr. Dror Israel, the CFO.

Before we begin, I would like to point out that during this call certain non-GAAP financial measures will be discussed. These non-GAAP measures are used by management to make strategic decisions and forecast future results, and the company believes that these figures provide a better method of evaluating the company's current performance. A full reconciliation of the company's non-GAAP financial measures to GAAP financial measures is included in the earnings release.

I will now hand over the call to EZchip's CEO, Eli Fruchter. Eli?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Thank you, Ehud. Good day, everyone, and welcome to our fourth quarter and full year 2012 conference call. This has been another transition year for EZchip. First completing the transition to Cisco becoming our largest customer. In the past year, our revenues from Juniper declined 39%, revenues from Cisco increased 38% and generated 43% of our total 2012 revenues.

With Cisco revenues coming in as royalties, with 100% gross margins, the result was a strong increase to 84% gross margins for the year, up from 78% last year, enabling us to maintain our outstanding 49% net income margin in line with the net margin we generated in 2010 and 2011. We also increased our cash position by \$41 million in 2012 to \$168 million at the end of the year.

Second, the transition from NP-2 and NP-3 to NP-4. NP-4 entered production at the end of 2011, and in its first full production year, it is already at a revenue run rate that exceeds the NP-3. It is important to note that several large, potential NP-4 customers that had minimal or no contribution to our revenues in 2012, entered production in the second half of 2012 and are expected to become meaningful contributors to our revenues in 2013. It is also important to note that we believe that all NP-4 customers will transition to NP-5, which is expected to enter production in 2014 become meaningful contributor to revenues in 2015, and generate revenues for approximately 8 years.

And finally, laying the foundation for the transition to the NPS line of Network Processor for Smart networks, that we will target both next generation edge routers and data centers, and we believe could double our total available market. In the edge routing market, we believe NPS leapfrogs in-house and other merchant silicon solutions with its Layer 2-7 capabilities for next generation line cards. In data centers, the NPS mergers functions currently provided by the multiple devices at significantly higher speeds, and significantly low power consumption, and costs.

Although 2012 was the first year of revenue decline in our history, we maintained our outstanding net income margin. NP-4 started to ramp in late 2012, and already in a revenue run rate that surpassed the NP-3. Most customers are committed to NP-5, and we are offering a strong, differentiated technology for next generation routers and data centers with NPS.

By combining all these features, we believe we are strengthening our position as a vendor of choice for high-speed merchant Network Processor, and we feel stronger today than ever going into 2013 and beyond.

EZchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

Looking at our fourth quarter, and view summary in further detail. 2012 revenues from Cisco grew 38% in 2012 to \$23.4 million, reaching 43% of 2012 revenues up from \$16.9 million or 27% of revenues in 2011. Quarterly revenues from Cisco totaled \$6.5 million, reaching 43% of revenues in the fourth quarter, up 61% sequentially, and up 89% from the fourth quarter of 2011.

We expect revenues from Cisco to grow significantly in 2013, and to continue to represent a greater than 40% customer for us. We expect all Cisco's NP-4 based platforms to contribute to our revenues in 2013. And for these platforms migrate to NP-5 at that time and possibly add new NP-5 platforms.

2012 revenues from China's second largest networking and telecom equipment vendor, ZTE grew 7% in 2012 to \$7.2 million, reaching 13% of our 2012 revenue, up from \$6.8 million or 11% of revenues in 2011.

Quarterly revenues from ZTE totaled \$1.5 million, reaching 10% of revenues in the fourth quarter, up 114% sequentially; and up 393% from the fourth quarter of 2011. As we stated in our previous earning calls, ZTE is selling to large carriers that do not purchase evenly throughout the year, but rather to make large occasional project purchases, and these can result in lumpiness in quarterly revenues.

We believe our revenues from ZTE should be evaluated on an annual basis for a better understanding of our business with ZTE. Overall, we continue to see a lot of activity at ZTE that is expanding the use of our products, and we are pleased with the year-over-year revenue growth of ZTE despite a challenging carrier market in China. We expect to see strong increase in ZTE 2013 revenues over 2012.

2012 revenues from Juniper declined 39% to \$9.3 million, reaching 17% of our 2012 revenues, down from \$15.3 million or 24% of revenue in 2011. Quarterly revenues from Juniper totaled \$3.2 million, reaching 21% of revenues in the fourth quarter, up 56% sequentially, and down 7% from the fourth quarter of 2011.

We recently saw an increase in Juniper orders and forecasts, and although we anticipate a continued decline sector effect to Juniper in 2013, it is possible that Juniper could still remain a 10% customer in 2013, and we expect we will continue to see some level of NP-2 revenues from Juniper in the following years as well.

It is a strong indication to the long lifecycle of design wins in strategic platforms. All other customers as a group, excluding Cisco, Juniper, and ZTE, declined 40% in 2012 to \$14.8 million reaching 27% of our 2012 revenues, down 24.5 -- from \$24.5 million or 39% of revenues in 2011.

Quarterly revenues from all other customers totaled \$4 million, reaching 26% of revenues in the fourth quarter, up 61% sequentially, and down 43% from the fourth quarter of 2011. It is important to note that many NP-4 centers were purchased during 2011 by our other customers, and consumed during 2012 resulting in very low NP-4 revenues from those customers during the year.

Carrier spending was also weak during the year and affected those customers. Of the significant potential customers in the group, Ericsson and Tellabs entered production with their NP-4 based platforms at the end of the third quarter, and placed initial production orders. Huawei is expected to enter production during the quarter, but has not placed production orders yet.

Those 3 customers that contributed 32% of our Q4 2011 revenues, all NP-4 centers contributed very little to revenues during the first 3 quarters of 2012, and 8% during the fourth quarter, mainly from Tellabs.

We expect to start shipping production orders to Ericsson during the first quarter of 2013. Tellabs recently announced the cancellation of the 9200 platform that uses the NP-4, but continued the 8600 platform that was always expected to be the main revenue generator for us at Tellabs. The cancellation has no significant short-term impact, but will likely reduce our Tellabs revenue potential in the longer-term.

Huawei is expected to enter production during the quarter, but has not placed production orders yet. Based on the delay in entering production orders, we believe that Huawei is planning to offer a lower-end, in-house solution in parallel to their high-end NP-4 solution. As noted in the past, in-house is our main contribution to large customers, and our ability to win depends on our ability to provide higher functionality, and better time to market, which we believe is the case with our NP-4 win at Huawei.

While we assume Huawei will likely offer a low end solution that is not based on the NP-4, it is important to know that Huawei is the main competitor of the Cisco and ZTE, which has NP-4 based platform, and Huawei will need to have a competitive product to win. It is therefore possible that Huawei will use EZchip as a high-end solution when needed, and then other in-house solution when lower functionality is sufficient.

It is currently a mere speculation, but if this scenario materialized, it could lower our long term revenue potential at Huawei, which is a significant player with 10% to 15% market share in edge routers.

EZchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

Turning now to some of our key achievements in 2012. NP-4 platform is sold for 5 major customers who are now in production with strong growth potential. A strong indication to the potential was demonstrated by the fact that NP-4 entered production at the end of 2011, and in the first full production year, it is already at a revenue run rate that exceeds NP-3 when many shipments are royalty related, and several large customers will only start significant purchases in 2013.

NP-5 is close to take out in our leading Q1 customers, they've already selected to continue the EZchip path with NP-5.

We believe that, substantially, all NP-4 customers will select the NP-5 for their next generation platform, but that expected to enter production in 2014 and sell for approximately 8 years.

We unveiled the NPS, the Network Processor for Smart networks, that we view as a game changer. It is intended to target the carrier, cloud and data center and supports Software Defined Networks, OpenFlow and virtualization. We are receiving very positive feedback from both routing and data center vendors who indicated that the NPS supports their next generation platforms in a manner that exceeds the support offered by other merchant silicon or in-house solutions.

We are now starting to demonstrate our NPS software tool to customers, and we shortly provide them with tools to start programming the NPS long before the NPS standards arrive. It is an important milestone that demonstrates the NPS capabilities to our customers, and a must-have in getting design wins.

Finally, in 2012, we were able to increase our gross margins and maintain the 49% profit margin despite our OpEx increase and revenue decline.

Looking further out, based on the number of NP-4 design wins and platforms in production, the expected growth of these platforms, the Huawei uncertainty and the current service provider environment, we are adjusting our growth potential in the next several years to 3x 2012 revenue.

It is important to note, however, the traffic continues to grow and our customers are telling us that service providers are running their networks hotter and it's a matter of time until they increased capital investments in routing infrastructure.

Our customers think that service providers are likely to enter a better cycle for router spending in 2013. The product pull-in requests during the fourth quarter of 2012 could suggest that this is already happening. So we are taking the conservative approach in focusing our growth potential that we will be happy to adjust upward if the service provider environment continues to improve and our NP-4 ramp up at Huawei will be better than we currently expect.

With regards to 2013, we believe that the anticipated strong growth of our NP-4 will translate to year-over-year growth in 2013 over 2012 and 2011 as well.

We believe that our gross margins in 2013 will be approximately 81% with annual OpEx at the \$26 million range. With regards to guidance for the upcoming quarter, we expect revenues to be at the \$15 million range with gross margins at approximately 81%. I would now like to turn over the call to our CFO, Dror Israel for a more detailed financial review. Dror?

Dror Israel

Chief Financial Officer

Thank you, Eli. In order to better understand the business, we're providing both GAAP and non-GAAP results. While we discuss the non-GAAP results on this call, the GAAP results and the reconciliation between the figures included in our earning release. The non-GAAP financial measures exclude the effects of stock-based compensation, amortization of intangible assets, and changes in deferred tax assets and one-time charges. Now to the results.

Revenues for the fourth quarter of 2012 totaled \$15.2 million, up 7% from the \$14.3 million in the fourth quarter of 2011, and up 64% from the \$9.3 million in the prior quarter. Cisco, through Marvell, accounted for \$6.5 million or 43% of revenues; Juniper accounted for \$3.2 million or 21% of revenues for the quarter; ZTE accounted for \$1.5 million or 10% of revenues for the quarter.

Other customers as a group accounted for \$4 million or 26% of revenue. Within the other customers -- within the other customer group, Huawei, Ericsson and Tellabs accounted together for \$1.2 million or 8% of revenues, all resulting from NP-4 initial production shipments.

For the year, revenues totaled \$54.7 million, down 14% from \$63.5 million last year. Cisco, through Marvell, accounted for \$23.4 million or 43% of revenues; Juniper accounted for \$9.3 million or 17% of annual revenues; ZTE accounted for \$7.2 million or 13% of revenues, and our customers as a group accounted for \$14.8 million or 27% of

Ezchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

revenues. Of the other customer group, Huawei, Ericsson and Tellabs accounted together for \$2.9 million or 5% of annual revenues.

Non-GAAP gross margin for the quarter totaled 83.7%, up from the 76.8% in the fourth quarter of 2011 and slightly below the 84.7% last quarter. Non-GAAP gross margin for the year reached 83.9% compared to 77.9% gross margin last year. The increase in gross margins resulted mainly from a higher portion of revenues from Cisco coming from avail of royalties.

Non-GAAP R&D expenses net for the quarter and for the year totaled \$3.6 million and \$13.7 million, respectively. This amount included \$1.4 million and \$5.9 million for the quarter and year respectively, in R&D grants received from the Israeli Office of the Chief Scientist. On a gross basis, our R&D expenses for the quarter totaled \$5 million and \$19.6 million for the year.

Non-GAAP operating expenses for the quarter totaled \$5.5 million, compared to \$5.2 million in the fourth quarter last year, and compared to \$5.4 million in the prior quarter. Operating expenses for the year totaled \$21.3 million compared to \$20.1 million in 2011. We expect that our annual OpEx level in 2013 will be in the range of \$26 million.

Non-GAAP operating income for the quarter was \$7.2 million, an increase of 25% from the \$5.7 million operating income in the fourth quarter last year, and up 189% compared to the \$2.5 million operating income in the prior quarter. Non-GAAP operating income for the year reached \$24.6 million, down 16% compared to \$29.3 million operating income in 2011.

Non-GAAP net income for the quarter totaled \$7.8 million, an increase of 24% from \$6.3 million last year and up 155% compared to \$3.1 million in the previous quarter. Non-GAAP net income for the quarter reached \$27.1 million, down 13% compared to \$31 million net income in 2011. Fully diluted EPS on non-GAAP basis was \$0.26 for the quarter, up from \$0.22 in the fourth quarter last year and from \$0.10 in the previous quarter. Fully diluted EPS for the year was \$0.92, down 16% compared to \$1.09 in 2011.

Moving over to the balance sheet, cash, cash equivalents and marketable securities and deposits totaled \$168 million as of December 31, 2012, compared to \$160.1 million at the end of the previous quarter and compared to \$126.8 million last year. Cash generated from operations was \$7.1 million for the fourth quarter and \$29.2 million for the year. Cash used in investing activities was \$0.2 million for the fourth quarter and \$1.5 million for the year. Cash provided by financing activities was \$1 million for the fourth quarter and \$12.9 million for the year all resulting from the exercise of stock options, and an additional \$0.6 million increase during 2012 resulted from unrealized gains in marketable securities.

With that, I would like to open the call for the Q&A session. Operator?

Question and Answer

Operator

[Operator Instructions] The first question is from Jeff Schreiner of Feltl & Company.

Jeffrey A. Schreiner

Feltl and Company, Inc., Research Division

Eli, I guess the thing that we would probably need to start with is the change here in terms of your long-term growth expectations. Just to reiterate what I believe you stated that now by 2016, it looks like as if may be 3x fiscal year 2012 or roughly 150 to 170 is the new target versus maybe up the target you had before which would have implied somewhere in the range of 240 or 250. Has the biggest change there been, maybe this change that you've talked about today within Huawei or is there other customers also possibly impacting how you are looking at this on the longer-term?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I think that, Jeff, it's a mix of Huawei being the large customer that now could be a lot smaller to us. It's the service provider environment that has been very slow last year, improving now, but we want to assume, to be on the conservative side, that it's not going to be as predicted before. Tellabs is another platform, but that should be small. So overall we are reducing our focus based on that.

Jeffrey A. Schreiner

Feltl and Company, Inc., Research Division

So, investors shouldn't have any concerns related to your largest customer at this point and the relationship there?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

No. The contrary, I think that's actually we are seeing good growth there, we are seeing, as I said, I believe that all platforms that use NP-4 will generate production revenue this year. I hope that we'll be able to gain some or win some maybe additional platform. So, we have no concern there.

Jeffrey A. Schreiner

Feltl and Company, Inc., Research Division

Okay. And then I would just wondering, I mean, on gross margin guidance, it seems as if Huawei is kind of falling back or hasn't entered production yet and you only have -- ZTE can be lumpy at times and Ericsson and Tellabs are just kind of ramping, why shouldn't we expect that gross margin that will kind of similar to what we just saw in the fourth quarter given that it seems that Cisco should be kind of the driver of a majority of your revenues for 2013, but certainly for the first quarter?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

It will depends on the -- obviously on the mix. If the mix will be similar to the mix that we saw in the fourth quarter then gross margins will be higher. So, currently for 2013, we assume a little bit different mix. Remember that in 2012 our other customers did very little and we expect them to do more even if Huawei is doing less then we initially expected. Still we think that the portion of our other customer will grow.

Jeffrey A. Schreiner

Feltl and Company, Inc., Research Division

Okay. Final question from me. You touched on OpenFlow just on a brief comment, but could you talk a little bit in general about how software-defined networks affect EZchip and how we should be thinking about EZchip's position within the OpenFlow standard at this point?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I think that OpenFlow [indiscernible] works in favor of EZchip for the reason that we believe that our future direction of reviving control plane for data-plane and actually focusing with NPS on the data-plane is exactly what's happening in OpenFlow and at the end will -- that will be centralized location that will manage the network and the end equipment will need parts like NPS to play well in the OpenFlow and the ISDN [ph] .

That's why we think that it's actually playing in our favor and we believe that, long term, there will be 2 types of CPUs, one at the centralized plane that did with management and the control-plane and then another one like the NPS that will deal exclusively with the data-plane and that especially for high speed. In low-speed devices it is possible that the 2 CPUs will be combined into one. But in high speed that that's where we are focusing, we believe that it will be divided into 2.

Operator

The next question is from Gary Mobley of Benchmark.

Gary W. Mobley

The Benchmark Company, LLC, Research Division

I appreciate you are providing some long term outlook for the revenue potential of the company as Jeff just mentioned, approximately \$150 million by 2016. But I want to really dig into the believability of that number. Your revenue is now on a \$65 million to \$70 million per year trajectory in -- or expected to believe that we'll see an incremental \$90 million of revenue, so I'm just -- we understand the higher amounts of network processors per line card the higher average selling price, not those drivers of growth, but why haven't we seen that yet materialize, that sort of revenue potential materialize, even though NP-4 revenue exceeds that of NP-3 right now?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

EZchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

Yes, I think that's a -- you used a right number there about \$150 million or more, which suggest that we need to grow about 30% a year between now and 2016 to -- for us to meet those numbers. Obviously, if we would add Huawei is a 10% to 15% player in edge routing, that number would go -- would grow significantly and if we add a better growth, I would say, in the service provider.

So, right now in the last 2 years, we've seen a limited investments in wireline products in routers, and we've seen profits now, but we, right now we assume that the improvement in the following years will not be as the forecast I was showing right now, that's why we are taking a conservative approach.

Gary W. Mobley

The Benchmark Company, LLC, Research Division

Okay. I just have one follow-up. Could you describe in more detail what Huawei is doing specifically, what line speed it will choose to use internally developed NPU and at what lines speed they might choose to use in NP-4 from EZchip and any guess as to the mix of Huawei's revenue that is levered to the high-end portion of the market versus the low-end portion?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I don't know and -- enough to be able to give you different kinds of lines that they will have once it's based on in-house silicon, there is not much that we know. And we are assuming based on really not receiving production of this and seeing low, a smaller forecast that there is an internal development going on and since we assume that our part will provide better features, we believe that there will be offering may be 2 types of line cards, one with the standard features and one with basic features that will be based on their internal development, but this is speculation. We really don't know enough to give more details than that.

Operator

The next question is from Daniel Berenbaum of MKM Partners.

Daniel A. Berenbaum

MKM Partners LLC, Research Division

Coming back to Huawei, the ability to offer what you term as a lower end router, can you help me segment the market, my perception was that edge routing, almost by definition, requires high performance, so when you think about the market segmentation of edge routing how much room is there for a lower-end product?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Within that routing route, different segments with different applications, it's not just one. Now I mean, NP-4 can obviously do all. But it is possible to target decent line cards for those different, I would say, market segments. DRAM could be one, IP RAM could be one. So, there are different segments within as routing that could use different chips I would say.

Daniel A. Berenbaum

MKM Partners LLC, Research Division

So, when you think about that kind of overall TAM growth, then maybe you can help us sort of segment out what percentage of the market you think might be addressed by this hypothetical lower-end offering?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

We don't know because it's -- once it's achieved it is designed in-house. We are not too aware of the future leads, so we cannot tell what market segments it can address. In our focus right now of going from 4x to 3x, we are assuming that our revenues with Huawei will be minimal. So we are assuming worst case.

Daniel A. Berenbaum

MKM Partners LLC, Research Division

Okay. And then, just returning to Q1 guidance, I believe you said, and the call was a little bit unclear, you guided \$15 million for Q1; you went to a slightly lower gross margin? Is that basically implying that you expect Cisco to decline in the quarter and the others to grow slightly to offset? Am I thinking about that the right way?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

We don't like to talk about any specific customer revenues in the quarter, but if we go from 84% into 81% it implies a different product mix.

Dror Israel

Chief Financial Officer

And maybe just to add to that, Daniel, in general, the model, I think, should be 40% Cisco, which comes at 100% margin and then the remaining 60% at about -- 68% but can, in some cases, depend on the customer and mix; it may go beyond that, but if it's Cisco 40% with 100% margin, the other 60% or 68% you will get to that 81% number, which is normal and this what we use for modeling purposes.

Daniel A. Berenbaum

MKM Partners LLC, Research Division

Okay. Great. And then just last question from me. You talked about Cisco having strong growth potential in 2013, should we think about Cisco's potential growth in 2013 and maybe in 2014 as even more than it grew for you in 2012?

Dror Israel

Chief Financial Officer

We cannot really give focus by customer. We cannot do it. And so we assume that Cisco will grow significantly based on the fact that the [indiscernible] is really still early in its ramp and we believe that it will continue to ramp and developing it with Cisco will ramp with it.

Operator

The next question is from Daniel Meron of RBC Capital Markets.

Daniel Meron

RBC Capital Markets, LLC, Research Division

It seems like 2013 outlook is looking a little better than that. Can you provide us with kind of like what the ranges could be or what are the variables into that forecast of year-over-year growth?

Dror Israel

Chief Financial Officer

Daniel, it's Dror. So, you know, we don't provide the annual guidance, we just wanted to give general directions. So, we expect revenue to grow basically coming from, I would say all customers, but Juniper. And by the way, even with Juniper we see a lot of pull-ins which surprise us to see better -- right kind of revenues next year. Still, we expect them to decline, but it's possible that they will remain 10% customers.

Cisco's growth is expected to grow and actually other than Juniper, we expect all others to grow. Huawei is currently an unknown, we don't know exactly how much and when it will start to grow. And in general what we can say that, we expected 2013 to grow beyond the 2011 levels of \$63 million. And hopefully much more than that, but it will depend on clearly a spending level that should start to get better. This is the kind of indication that we are getting and of course on our old customers and new NP-4 customers and new NP-4 platforms ramping our production.

Daniel Meron

RBC Capital Markets, LLC, Research Division

Got you. And what's your visibility on a quarterly basis, I mean do you have a little bit more visibility on how the year should play out on a quarterly basis or it's already just as that?

Dror Israel

Chief Financial Officer

We don't really know and we can't provide -- and we don't want to set expectations, not really. We hope it will go sequentially quarter-after-quarter, but we don't know. Exactly what we can say is we expect growth in Q1 and in 2013 in general.

Daniel Meron

RBC Capital Markets, LLC, Research Division

Okay. And then on both NP-5 and NPS, should we expect any customer-related announcements or any other news or is it just something that will pop-up or start popping up in revenues sometime in 2014?

Eli Fruchter

Ezchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

So in regards to NP-5, we said that we believe the total NP4 customers will move to NP-5 and that will happen naturally. We expect a new design win from NPS. That is something that we expect to happen this year. Hopefully even in middle of the year already, but NPS will only start to generate revenues for us in 2015.

Daniel Meron

RBC Capital Markets, LLC, Research Division

So Eli, to clarify, we shouldn't expect just press release with customer names or anything like that it will be more just a design activity that will translate into revenue, right?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Right. But we will be -- I think that regarding the NPS, we will not be able to name customers because we never did. Customers don't allow it, but we will be able to say in general things that we won design wins in certain segments with Tier I customers. That is something that we will be able to say.

Operator

The next question is from Joseph Wolf of Barclays Capital.

Joseph Wolf

Barclays Capital, Research Division

Two questions, I want to follow up on a couple of questions about the Huawei. But, if you go back to when Juniper made the decision to go back to internal, could you put the Huawei decision or how you perceive that decision being made into the same context in terms of the competitive environment for why they are choosing to do in-house, their own longer-term strategy to do everything in-house and how you see that going forward on the Huawei side? And then with ZTE, it's been very lumpy, but it actually has been something that appears to be maintained -- that you guys can maintain on the inventory side. So, I'm just wondering, how your systems are in place to handle that lumpiness at ZTE, since there's no inventory corrections down the line with that customer?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

So, first about Huawei, I don't know if you can compare it to Juniper that actually developed [indiscernible] that actually intend to replace us completely. And the geography [ph] takes years because the products will sell to carriers that take very long to make changes. Huawei, we don't believe that this is the case, we believe that they will run 2-line causing parallels, ours and there, and there will be a mix of the 2. Whatever that mix will be, we currently don't know and that's why we assume a very small portion to us in the guidance that we gave. Over the longer term, it is possible that if they are successful, we've brought that in-house, it's possible that they will move to in-house. So if they are not, they can come back to us. So, it's really a question of how successful they will be with what they are doing.

Joseph Wolf

Barclays Capital, Research Division

I guess, can I just jump in, just on the economics of that decision, if it's a question of offering a low-end than a high-end, and I think another caller addressed this, is there a strategy of EZchip to not address a lower end product, is that not something where it's cost-effective or what's behind that decision? Why would that -- why would splitting the line cards like that be an effective strategy?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

EZchip offers the low end, so we offer a programmable part that can do everything. So, if they decide to develop a chip that does only a portion and come out with it, it could be for cost and it could be for various reasons. So when -- the way for us to win this is to really offer a better part and a bit earlier in time to market. And this is the case also at Huawei, but if they select at that same time to develop in-house, this is something that obviously they can do; every customers can do it.

Ezchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

But remember that Huawei will need to compete with Cisco and ZTE and they both use us. So, it's really a question of how successful a solution that comes from Huawei will be. That's for Huawei. You asked about ZTE about the lumpiness. So, there is lumpiness, you can see there is, so you can see quarters that are \$1.5 million, and other quarters that are \$200,000, and that's because of the nature of the product -- of the projects that ZTE wins. We have discussed it many times in the past and we think that it should be looked at annually, and annually, we can see this is growing, and we believe that they will continue to grow in 2013, although we cannot say that they will grow sequentially quarter-over-quarter.

Joseph Wolf

Barclays Capital, Research Division

But from an inventory perspective, are they pulling product to meet that lumpiness, is there any lag time that you're seeing? I know Dror mentioned that he saw some pool-ins at some customers, but I assume that he meant in the fourth quarter that those were encouraging signs that you were getting faster than you thought, but not that people were selling things and buying things in the fourth quarter, it means they will not be selling in the first quarter.

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

No, no, the pull-ins that we spoke is nothing to do with ZTE. Actually, we focused on \$14 million for the Q4 and we did a little more than \$15 million, because of pull-ins of over \$1 million from Q1 to Q4. And that's from various customers, not ZTE in particular.

Operator

The next question is from Andrew Uerkwitz of Oppenheimer & Company.

Andrew Uerkwitz

Oppenheimer & Co. Inc., Research Division

Just a quick question, you may have addressed this earlier, but on Tellabs's earnings call, they mentioned that they were exiting some of their edge routing products, I think it's the 9200. Do you have any insight into whether -- I mean is this negative for you or how this is going to play out for you guys?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I actually mentioned it on the call that Huawei cancelled one of their platforms, it's called the 9200 and that's the platform that's is an edge router, they do continue the 8600, which is their main platform. And it was always expected to be the main revenue generator for us at Tellabs. So the cancellation is now impacting the short-term, but in the long-term, it's a one platform less, but we believe that the -- Yes?

Andrew Uerkwitz

Oppenheimer & Co. Inc., Research Division

Yes, but more generally, I mean is this -- I mean are you getting any insight that Tellabs maybe just deciding to exit the overall edge routing space because it's too competitive or you guys does not -- it's just too early to tell?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I think that those are the questions to Tellabs really, I'm not their spokesman.

Andrew Uerkwitz

Oppenheimer & Co. Inc., Research Division

Yes. No problem, Eli. And then the last question, you mentioned earlier that you're pretty confident that ZTE will grow in '13, what kind of gives you that confidence?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Ezchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

The level of activity that we have with them. We see many designs with several platforms, designs to go to production with a positive forecast. The forecast show that 2013 is better than 2012 and that's what we're basing our guidance on.

Operator

The next question is from Dov Rozenberg of Clal Finance.

Dov Rozenberg

Clal Finance Ltd., Research Division

Eli, just on Huawei, I was wondering how certain you are of winning them with the NP-5 and based on what considering they're moving -- considering they're doing the in-house as a parallel solution?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I think that -- I think it will depend on their success with the in-house solution. I cannot say right now that I know if Huawei will use the NP-5 or not, that that's something that we'll have to see down the road. If they -- if they can continue and sell 2 line cards, one with us and one with their own, that can continue to NP-5 as well. So right now, it's really too -- it's too early to say.

Dov Rozenberg

Clal Finance Ltd., Research Division

Okay. First of all, when do you think we should see initial sample revenues from the NP-5 or the NPS with -- obviously with the people who already won?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

NP-5, we will see centers pretty soon in the next several months, and NPS will take another year. So, I think there is a gap of about a year between the 2, in centers and also in entering production.

Dov Rozenberg

Clal Finance Ltd., Research Division

Okay. And as far as the ramp up with Ericson and Tellabs, is there any more color you can give us on that? Is there -- is that moving as expected?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes. It is moving as expected more or less the numbers that they do what they said they will do. They think that the platforms are pretty successful, we have some good things coming from -- on those platforms from the customers. So we are optimistic about those.

Dov Rozenberg

Clal Finance Ltd., Research Division

Okay. One last question. I mean just -- I mean you mentioned that your view on 2013 or whatever or the long-term growth prospects are conservative. I was wondering what your view is on carrier spending or looking at the dynamics inside the markets?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I think that we are getting mixed signals. If you listen to some of the other semiconductor players and some of our customers, we don't hear one voice, some say that there are improvements, some say that there aren't improvements yet. We are obviously not selling to the carriers. So we don't speak with them directly, we get the information through our customers. And as I said on the call, right now our customers are telling us that the investments in routers will grow and that's what we are expecting right now.

Operator

Ezchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

The next question is from Paul McWilliams of Next Inning Technology Research.

Paul K. McWilliams

Next Inning Technology Research

On the new forecast that's off of 3x off of 2012, correct?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes.

Paul K. McWilliams

Next Inning Technology Research

Okay. The forecast in the Q3 presentation was 4x to 5x off of 2011. Is that correct?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes.

Paul K. McWilliams

Next Inning Technology Research

Okay. So with the high-end basically you are forecasting about half of what you were forecasting at 320. You are now forecasting about 164?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

We only spoke about 4 [ph] and now you will see in the presentation that we will place on our web that we took about 3 to 4, but we are using 3, so. We use the lower number then and we use the lower number now.

Paul K. McWilliams

Next Inning Technology Research

Okay. So it's about 254 to 164 would be the difference using the lower numbers?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes.

Paul K. McWilliams

Next Inning Technology Research

Okay. At the lower number, then, the 164, that implies 30% compounded annual growth. Do you expect that to be reasonably linear?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

It's really early to say, Paul, I don't know it's a long-term forecast that is based on 3 factors. It's based on the growth of edge router that depends on carrier spending, it depends on our market share and the ASP. And one thing that we are very sure about is the ASP, but we are not above that as we don't know, we are looking at those numbers as we go and adjust them, based on what we see and what's happening in the market. Right now, we believe that the 3X number that we gave is conservative, but how it will play out, is it going to be leaner profitability, that's something that we don't know. We cannot say right now.

Paul K. McWilliams

Next Inning Technology Research

Okay. The OpEx guidance for 2013, \$26 million I believe that I was correct, is that non-GAAP?

Dror Israel

Chief Financial Officer
Yes. That's non-GAAP.

Paul K. McWilliams

Next Inning Technology Research

Okay. As a percentage of revenue do you expect that do drop conservatively from 2012?

Dror Israel

Chief Financial Officer

No. It will naturally depend on revenues, but in general the growth in operating expenses is based mainly on increasing head count. Actually, in the past 2 years, we grew from 160, and we expect to be over 200 employees by the end of this year.

In addition to that, we see higher NOE-related expenses in 2013 with the first tape out expenses that will be related to NPS, which is the first time. So that's why we see, and a bit higher than usual growth in operating expenses, and following 2013, we believe the growth will be in the range of 10% to 15% year-over-year.

Paul K. McWilliams

Next Inning Technology Research

Just making a note there. How many platforms, NP-4 platforms, were in production at the end of Q4?

Dror Israel

Chief Financial Officer

So it's currently about 6 platforms in production, and I would say that we can expect 2 additional platforms to move to production from the 4 customers that are currently in production with NP-4 in the coming months and at this point, we are keeping Huawei as an uncertain customer, and hopefully they will start production, and we can add them to the group as well, but currently we are not counting them.

Paul K. McWilliams

Next Inning Technology Research

Okay. So at the end of Q4, there were 6, and you believe there will be 8 at the end of Q1, is that correct?

Dror Israel

Chief Financial Officer

I don't know if it will be at the end of Q1, but I would say in the coming months. The end of Q1 is 1.5 months ahead. So, it'd be difficult to focus this kind of short-term when it's actually our customer's business, and we just get information.

Paul K. McWilliams

Next Inning Technology Research

Okay. For the full year of 2012, your stock-based compensation was 24.4% of your non-GAAP gross profit, what do you expect going forward there?

Dror Israel

Chief Financial Officer

The stock-based compensation last year was about \$11 million, we expect it to be, I would say about \$14 million next year. It depends on the share price. So -- but this is the kind of numbers that I think we can model.

Paul K. McWilliams

Next Inning Technology Research

So, you would expect it to be somewhere [ph] a percentage of gross profit?

Dror Israel

Chief Financial Officer

Percentage of gross profit, again the percentages will be based on a level of revenues. I'm giving you the numbers that I expect to see in the total stock-based compensation.

Paul K. McWilliams

Next Inning Technology Research

Okay. Let me attack this revenue question that I'm trying to kind of sneak in there, a little bit more directly. The consensus for 2013 is around \$75 million, which should be about 36% growth, I believe, if I calculate correctly, do you think you'll perform in line with consensus.

Dror Israel

Chief Financial Officer

I think that a lot of questions leading us to provide a number for the 2013 revenue. Again we don't exactly know. As Eli mentioned if you do a compounded annual growth rate to the \$150 million target in 2016, it will be like 30% a year, but we don't know that it will be a leaner. So, I can't really give you an answer to that.

Paul K. McWilliams

Next Inning Technology Research

Okay. Last question here is on Huawei. Now you guys released a NP-4L version, a lower power, lower cost version of the NP-4 awhile back, correct?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes.

Paul K. McWilliams

Next Inning Technology Research

Okay. Has anybody design that into a production router?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes.

Paul K. McWilliams

Next Inning Technology Research

Oh, good. Why would Huawei not elect to use that at what I perceive is about half the price of a NP-4?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I'm not Huawei, I cannot answer for them. And it's not half the price, its much higher than half the price.

Paul K. McWilliams

Next Inning Technology Research

Oh, it is?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes.

Paul K. McWilliams

Next Inning Technology Research

Okay. Huawei didn't use the NP-3 though, correct?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes. Huawei is a new customer. So for NP-4, the 2 customers that use the NP-3, the 2 large customers are Cisco and ZTE and the NP-4 Huawei, Ericsson and Tellabs are the new ones; they did not use the NP-3. So all other customers are the new to NP-4.

Paul K. McWilliams

Next Inning Technology Research

Got you. When do you expect you'll be announcing a new FAB partner to replace Marvell?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I -- we obviously we will win when time is right. So, we will announce that when we feel that that's the right time to do.

Paul K. McWilliams

Next Inning Technology Research

Okay. And...

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Paul, I want to...

Paul K. McWilliams

Next Inning Technology Research

Really my last question...

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Okay. Because I want to ask -- so much of...

Paul K. McWilliams

Next Inning Technology Research

I appreciate that, the NP-5, when do you think you'll be able to provide samples to your customers on that?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

In June timeframe; June, July timeframe, I would say.

Operator

The next question is from Jay Srivatsa of Chardan Capital Markets.

Jay Srivatsa

Chardan Capital Markets, LLC, Research Division

There has been several calls about Huawei and Juniper, but I want to ask about other merchant vendors. Are you -- can you give us some sense on the landscape relative to Broadcom and some of the other guys that are providing merchant solutions and how effective is your position, relative to those guys?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

You want specifically about Broadcom, what other guys you relate to?

Jay Srivatsa

Chardan Capital Markets, LLC, Research Division

No, I was just saying, in the merchant market how your position is relative to other competitors, not necessarily just Broadcom?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

What other competitors?

Jay Srivatsa

Chardan Capital Markets, LLC, Research Division
I'm sorry?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

What other competitors you relate to?

Jay Srivatsa

Chardan Capital Markets, LLC, Research Division

Well maybe you can just give me the landscape on a competitive side, how, what is the...

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Okay. So, I think that if you look at merchant Network Processor, there was an accelerator that was acquired by Marvell, and is now a competitor, and Broadcom, I think that those are the 2, and we don't see much of them in edge routers. We do see them in transport type boxes, where they sell the parts at lower prices, and that's the main segment that they win.

We are not a -- we are not a strong player in transport. We focus on edge routers. We provide the functionality that is required for edge routers and that's where we win. And as we said many times, our competition there is mainly in-house, and not so much in merchant silicon.

Jay Srivatsa

Chardan Capital Markets, LLC, Research Division

All right. In terms of carrier spending, it looks like you're not completely comfortable at where the spending has gone. Can you give us a little bit of insight on specifically in China, are you sensing general weakness in that market or you're seeing some bounce back in the carrier spending side over there?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

We are sensing weakness in China. We are sensing weakness in Europe, and we feel that there is an improvement in the U.S., and that's based on the local customers in Europe, China, and the U.S. for telling that. It's not based on directly talking to carriers obviously.

Jay Srivatsa

Chardan Capital Markets, LLC, Research Division

All right. Given that drop, what gives you confidence that you'll have any growth in fiscal 2013?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Based on the forecasts that we receive.

So, we normally -- we normally we get 12 months' forecast from our customers and we're basing our annual guidance based on this, obviously it can adjust, as it moves forward.

Operator

We have a follow-up question from Jeff Schreiner.

Jeffrey A. Schreiner

Feltl and Company, Inc., Research Division

Gentlemen I was wondering if you could talk a little bit about the guidance, the new guidance and how much of an impact is Cisco having and slowing that top line acceleration, because you're now not having any direct customer contribution. Also was wondering if you could talk a little bit about how maybe the \$100 million reduction relates to what part relates to Huawei, what part relates to carrier spending and help us understand that? And a final part to

EZchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

that is, why move the baseline now to fiscal year '12 and not still use fiscal year '11 because at fiscal year '11 around 3x, you're not too far off of where you kind of new guidance is. Could you help us out with that a little bit?

Dror Israel

Chief Financial Officer

As we said, the focus is based on a few factors as we also mentioned, one is the number of pulls, the increasing number of pulls and that's really carrier spending and we are uncertain about that. So, we took a reduction yield. The other one is our market share and since Huawei is 10% to 15% customers and right now we took Huawei off completely to be on the safer side, so actually we reduced 10% in our market share, and also the ASP as we move forward, and the disproportion become bigger, the 1.5x ASP that we looked at is now also smaller than that, and after the call we will put a presentation on our web with exact new numbers that lead us to the new number.

Jeffrey A. Schreiner

Feltl and Company, Inc., Research Division

Okay. And then, I guess could you help us also, Eli, again in terms of when this Huawei situation was kind of came to bear and EZchip learned about it. And certainly, EZchip's position has always been kind of the market leader in merchant silicon. How should investors feel relative to that position given the change at Huawei, and is it still more of a threat from internal design risk, or has the risk increased that you are now facing not only internal design risk, but there is also external risk?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

I think that there is no change in the external; it's internal, so what we see from Huawei is an internal risk, and you should be aware, and we always said that in-house designs are our main risk, and we always said that customers that use us don't give up designing ASICs in-house. It's true for all our large customers including Cisco, and Ericsson, and Huawei, so almost everyone has internal designs going on. And in order for us to win, we need to provide better features and we need to be 2 years ahead of what they can do in-house. And as long as we can keep that, we think that our chances to win are good, but be aware that all of our customers are designing in-house solutions. So that's our main competition and that's also the case with Huawei.

We still believe, as I said before, that the solution that our solution is better than what they have in-house, although it's speculation, we don't know. We only learned about those things very, very recently the fact they are probably designing something. It's based mainly on a reduction in the forecast that we have seen from them, that leads us to believe that they are doing something internally. Because otherwise, that they would have already order production orders from us. Jeff?

Operator

There are no further questions at this time. Before I turn the call over to Mr. Fruchter for the concluding statements. I would like to remind participants that a replay of this call will be available on the company website at www.ezchip.com. Mr. Fruchter would you like to make a concluding statement?

Eli Fruchter

Chief Executive Officer, Director, Member of Risk Management Committee, Member of Strategy Committee, Chief Executive Officer of Ezchip Technologies Ltd, President of Ezchip Technologies Ltd and Director of Ezchip Technologies Ltd

Yes, thank you everyone for participating today and hopefully I'll have better news for you in the coming earnings call. Thank you.

Operator

Thank you. This concludes the EZchip's fourth quarter 2012 results conference call. Thank you for your participation. You may go ahead and disconnect.

EZchip Semiconductor Ltd., Q4 2012 Earnings Call, Feb 13, 2013

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.

The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.

THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.

© 2013 Capital IQ, Inc.