

## Fitch Affirms International Rectifier's IDR at 'BB'; Outlook Stable

Written by Australian Business

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CHICAGO--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed International Rectifier Corp.'s (IR) (NYSE: IRF) 'BB' long-term Issuer Default Rating (IDR) and 'BB' rating for the company's \$100 million senior unsecured revolving credit facility (RCF) expiring 2016. The Rating Outlook is Stable. The company has no outstanding public debt.

The ratings and Stable Outlook incorporate Fitch's expectations for solid revenue growth over the near term from new product ramps, strong automotive and aerospace demand, and the anticipation of improving industrial and appliance markets. Beyond the near term, Fitch expects secular growth driven by electronics proliferation and increased power management content, albeit within a cyclical context.

In addition, profitability will remain volatile, driven by cyclical demand, variable pricing pressures, limited turns business (receiving and fulfilling orders within the same quarter) visibility, and meaningful operating leverage. Over the near term, operating EBITDA margin should increase to the mid- to high-teens versus a Fitch estimated 6.2% in fiscal 2013.

The completion of IR's restructuring initiatives by the end of fiscal 2015 should improve operating profitability through the semiconductor cycle. The company's actions include right-sizing the manufacturing footprint and scaling operating expenses for break-even profitability at the \$240 million quarterly revenue level.

Annual free cash flow (FCF) will remain uneven with Fitch's expectations for annual FCF of breakeven to \$100 million within the context of a normal cycle. Over the longer term, Fitch anticipates structurally higher FCF through the cycle, due to restructuring-driven higher profitability and increased outsourcing. IR plans to increase manufacturing outsourcing to 50% from 30% and already increased packaging and test outsourcing to 70% from 50%. Fitch believes the customized nature of many of IR's solutions may limit further manufacturing outsourcing from the current 50% of total.

Leading positions in automotive and aerospace will provide longer product lifecycle growth with greater demand visibility. Industrial, appliance, and computing markets will remain cyclical but with attractive long-term growth characteristics. Meanwhile, IR will benefit in calendar 2014 from the anticipated ramp of Intel's new server platform and

other digital power design wins, and solid adoption of IGBT modules and next-generation low-voltage MOSFETS. The company's Gallium Nitride products are anticipated to meaningfully contribute to revenues over the longer term.

Distributors remain reluctant to build inventory, preferring instead to increase turns orders until end market demand demonstrates more stable patterns, which adds a degree of volatility to the company's business. As a result, Fitch expects inventory to remain at slightly higher levels in order to have ample supply for unexpected upturns. Nonetheless, obsolescence risk is less pronounced for the majority of IR's products.

### RATING DRIVERS

The rating and Outlook continue to be supported by IR's:--Technology leadership and resultant leading share in core power-management markets;--Addressable market growth driven by long-term secular trends of increased electronics content and demand for energy efficiency;--Diversified customer and geographic sales mix.

Ratings concerns continue to center on the company's:--Uneven annual FCF;--Substantial structural investments in research and development (R&D) and capital spending, the latter of which should decline longer-term from increased outsourcing;--Small revenue base in its sole focus on the power-management market, which includes several participants with greater scale and financial flexibility.

### KEY RATINGS SENSITIVITIES

Fitch believes positive rating action is unlikely in the absence of:

--Significant market share gains, likely from robust penetration of gallium nitride-based products that will also increase the size of the company and diversification of its customer base;--Strengthened FCF profile from a combination of higher mid-cycle revenues and lower capital intensity.

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Negative rating actions could result from:--Weaker than expected revenue growth, suggesting market share losses from a weakening of the company's technology leadership;--Significant cash usage from lower than expected revenue growth or aggressive share repurchases.

As of Dec. 29, 2013, Fitch believes IR's liquidity was sufficient and supported by:--Approximately \$503 million of cash, cash equivalents and short-term investments; and--An undrawn \$100 million RCF expiring November 2016.

Fitch expects annual FCF ranging from break-even to \$100 million within the context of a normal cycle. The company has no public debt and Fitch believes the company has limited capacity at the current rating for debt incurrence.

Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:--'Corporate Rating Methodology' (Aug. 5, 2013).

Applicable Criteria and Related Research:Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage [http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=715139](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139)

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