

NXP Semiconductors replaces Micron Technology in the CUSP By Spencer Dunckley and Cole Sheridan

NXP Semiconductors (NXPI) operates as a global designer of semiconductor and software solutions for mobile communications, consumer electronics, security applications, in-car entertainment and networking. NXP offers its products to the automotive, identification, wireless infrastructure, lighting, mobile and computing applications. It provides leading solutions that leverage intellectual property, deep application knowledge, RF (Radio Frequency) and more. China accounts for roughly 40% of its sales, with Singapore and the United States next in line with about 10% of sales each. The firm is unique in that it is headquartered in the Netherlands and hence unaffected by the recent CHIPS Act. The firm has four primary operating groups: automotive, industrial, communication infrastructure and mobile. This diverse portfolio of activities within the semiconductor market allows the firm to reach a variety of customers and regions. The CHIPS Act opens an even bigger opportunity to share some of the market in China. NXPI has a fairly new management team that brings an experienced, ambitious drive to the company. The team has recently completed transactions in EV and tech startups.

Overall, the company has a reasonable P/E and EV/EBITDA compared to its competitors, and according to multiple metrics, it is undervalued. The company is predicted to grow at a high rate into what analysts are stating will be a \$1 Trillion industry by 2030. For those reasons, the CUSP Fund managers have decided to invest in NXPI. To make room for the purchase, CUSP managers voted to sell Micron Technology (MU).

Micron Technology is a semiconductor manufacturer focused on the storage components of semiconductors. It has two main types of semiconductors, both focused on storage. MU has been a strong competitor in its field and its stock has performed well for the CUSP. Prospects, however, are less promising. Micron's chips are facing a significant drop in demand, shifting from a shortage of supply to a shortage of demand. The CHIPS Act will hamper Micron as it pushes firms to move production out of China. MU has a large majority of its production operations in China and thus is no longer able to produce at the same capacity as previously. The factories that MU has announced it will build in the United States will not be completed until years into the future. CUSP managers concluded the risk of continuing to hold MU was not worth the potential benefit, especially when compared with NXPI as an alternative.