



RAGING CAPITAL
MANAGEMENT

Vitesse Semiconductor:

A Case Study in Constructive Activism & One of Our Top Ideas

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This presentation was part of our 2013 annual meeting which took place on January 23, 2014 in New York.

High-Margin, Annuity Business

VITESSE SEMICONDUCTOR (VTSS)

- » Leading provider of Ethernet switches, packet-timing engines, and transport processors
 - › Decades of networking expertise
 - › High-quality customers including Alcatel-Lucent, Cisco, Huawei, Tellabs, and ZTE
- » Long-lived “annuity” design wins
 - › Typical product cycle of 8-10 years for carrier customers and 5-7 years for enterprise customers
 - › NOT your typical consumer electronics product cycle
- » ~60% Gross Margins
- » Impressive Operating Leverage: 50%+ of incremental revenues drop to operating income



Substantial Design Win Momentum

VITESSE SEMICONDUCTOR (VTSS)

- » Focused company on Ethernet networking paradigm
 - › Telecom carriers aggressively transitioning networks to Ethernet
 - › “Internet of Things” – autos, TVs and expanding array of devices becoming networked

- » New IEEE 1588 networking standards driving growth
 - › Improved “synchronization” of wireless IP networks to support real-time video
 - › Beat out incumbents like Broadcom to market with new chips
 - › Substantial design win momentum at the mobile edge and in enterprise access

- » Strong, growing portfolio of design wins
 - › FY 2011: 300 design wins with total value of \$250 mm
 - › FY 2012: 300 design wins with total value of \$250 mm
 - › FY 2013: > 400 design wins, with total value of > \$350 mm

- » Note: Design wins take 12-18 months at enterprise and 24-36 months at carriers to “ship”

Looming Debt Maturities in 2014

VITESSE SEMICONDUCTOR (VTSS)

Cash	\$17.3
Term A Loan, 10.50% notes, due Feb-14	7.9
Term B Loan-convertible, 8.0% notes, due Oct-14	9.3
2014 Convertible subordinated debentures, 8.0% notes, due Oct-14	46.5
Total debt	\$63.7
Funding deficit	\$(46.4)

- » Significant near-term debt maturities
- » Debt was equal to ~100% of VTSS' then market cap, leaving the company with few options

Refinance, Dilution & Bankruptcy Risk Leads to Valuation Discount

VITESSE SEMICONDUCTOR (VTSS)

VITESSE SEMICONDUCTOR CORP. AS OF 9/25/12	TICKER	MARKET VALUE	ENTERPRISE VALUE	TOTAL DEBT/ TOTAL CAPITAL	ENTERPRISE VALE/ SALES	EV/SALES FY1	EV/SALES FY2	ENTERPRISE VALUE/ EBITDA	EV/EBITDA FY1	EV/EBITDA FY2	PRICE TANG BV ACTUAL
Vitesse Semiconductor Corp.	VTSS-US	63.4	100.6	189.1%	0.84x	0.83x	0.75x	--	--	--	--
Applied Micro Circuits Corp.	AMCC-US	340.4	244.3	0.0%	1.16x	1.42x	1.11x	--	--	11.62x	2.43x
Broadcom Corp.	BRCM-US	18,069.5	17,495.5	14.4%	2.31x	2.10x	1.73x	13.87x	10.99x	8.69x	13.78x
EZchip Semiconductor Ltd.	EZCH-US	936.5	782.7	0.0%	12.43x	14.91x	9.73x	38.15x	50.38x	20.51x	5.73x
Marvell Technology Group Ltd.	MRVL-US	5,290.7	3,156.5	0.0%	0.95x	1.06x	0.88x	5.42x	5.48x	4.19x	2.03x
Mindspeed Technologies Inc.	MSPD-US	140.7	160.0	46.7%	1.10x	--	--	--	--	--	--
PMC-Sierra Inc.	PMCS-US	1,265.3	1,164.0	6.7%	1.95x	2.00x	1.67x	11.59x	8.45x	6.07x	5.05x
Maxim Integrated Products Inc.	MXIM-US	7,721.7	7,074.4	10.9%	2.94x	2.70x	2.32x	9.33x	7.98x	6.40x	4.06x
Texas Instruments Inc.	TXN-US	32,630.9	35,000.9	29.7%	2.62x	2.63x	2.36x	9.13x	9.37x	7.55x	8.60x
Exar Corp.	EXAR-US	363.9	172.2	1.5%	1.40x	--	--	--	--	--	1.71x
ANADIGICS Inc.	ANAD-US	85.2	35.9	0.0%	0.28x	0.74x	0.64x	--	--	--	0.63x
Average		6,684.5	6,528.6	11.0%	2.72x	3.44x	2.55x	14.58x	15.44x	9.29x	4.89x
Median		1,100.9	973.4	4.1%	1.68x	2.05x	1.70x	10.46x	8.91x	7.55x	4.06x

VTSS Equity: Not for the Passive Investor

VITESSE SEMICONDUCTOR (VTSS)

Raging Capital took an active approach to resolve the issues at VTSS and to protect our investment:

- » **Willing to Backstop the Balance Sheet**
 - › Supplemented equity position with substantial ownership of convertible debt
 - › Purchased 18.5% of outstanding 2014 convertible debt
 - › Willing to convert debt to equity to de-lever, or invest additional debt or equity capital

- » **Corporate Governance Improvements**
 - › Ken Traub, Matt Frey and Scot Jarvis added to VTSS board of directors
 - › 3 new directors on 7 member board
 - › No standstill

- » **Proactive Leadership to “Fix” Balance Sheet**
 - › Formal presentation to management in September 2012
 - › Offered to backstop common stock offering
 - › Goal was to put company in a position of financial strength

Raging Capital: Leading the Recap

VITESSE SEMICONDUCTOR (VTSS)

- » Raging Capital played a decisive role in “fixing” VTSS’ balance sheet:
 - › Led \$16 million offering in December 2012
 - Purchased 3 million shares, or 33% of deal, at \$1.75 per share
 - Very few investors willing to participate in this “bridge” deal
 - Overall ownership increased to 18.1%
 - › Major participant in a \$40 million deal in June 2013
 - Purchased 3.9 million shares, or 20% of deal, at \$2.15 per share
 - Heavily oversubscribed
- » 18.5% equity stake -- \$2.15 avg. per share
- » 25% stake in convertible bonds -- 86 avg. price
- » RISK EVAPORATES: VTSS equity up 50%; bonds trade 106+

Balance Sheet: Now Fully Repaired

	30-SEP-11	30-SEP-12
Cash	\$17.3	\$68.9
Term A Loan, 10.50% notes, due Feb-14	7.9	7.9
Term B Loan-convertible, 8.0% notes, due Oct-14	9.3	9.3
2014 Convertible subordinated debentures, 8.0% notes, due Oct-14	46.5	46.5
Total debt, net	\$63.7	\$63.7
Net cash	\$(46.4)	\$5.2

Plus in November 2013...

- › Refinanced Term A and B Loans w/ August 2016 maturity
- › Secured pre-pay right on debt
- › Bought back \$13.7 million, or 30%, of convertibles at 107

With its balance sheet fortified, VTSS is now a financially viable first or second source supplier for its customers --- allowing its leading technology to shine through.

Now the Fun Begins...

VITESSE SEMICONDUCTOR (VTSS)

	FY-12	Q1-13	Q2-13	Q3-13	Q4-13	FY-13	Q1-14**	Q2-14**	Q3-14**	Q4-14**	FY-14**	FY-15**
New product revenue	\$15.9	\$5.0	\$7.2	\$7.9	\$8.9	\$28.9	\$8.4	\$11.3	\$15.1	\$20.2	\$55.0	\$94.9
y/y change	111%	5%	151%	136%	86%	82%	68%	58%	91%	127%	90%	72%
Mature and EOL product revenue	94.0	18.9	17.5	18.4	17.6	72.4	15.7	15.1	14.4	13.8	59.0	54.4
Total product revenue	109.9	23.9	24.7	26.3	26.5	101.3	24.2	26.4	29.5	34.0	114.0	149.3
y/y change	-17%	-17%	-9%	2%	-6%	-8%	1%	7%	12%	28%	13%	31%

- » In 2014, *double digit revenue declines* reverse and become *double digit increases*** ...
- » VTSS CEO Chris Gardner at Needham Conference, January 15th, 2014: “We expect new product sales to compound at 50% per year for the next three years.”

**Raging Capital estimates.

Profitability Inflection

VITESSE SEMICONDUCTOR (VTSS)

	FY-13	Q1-14**	Q2-14**	Q3-14**	Q4-14**	FY-14**	FY-15**
Product revenue	\$101.3	\$24.2	\$26.4	\$29.5	\$34.0	\$114.0	\$149.3
IP revenue	2.4	1.8	1.8	1.8	1.8	7.3	7.3
Total revenue	103.8	26.0	28.2	31.3	35.8	121.3	156.5
y/y change	-13%	1%	14%	19%	33%	17%	29%
Cost of product revenue	46.8	11.2	12.0	13.1	14.8	51.2	62.9
Operating expenses	67.7	17.8	18.2	17.6	17.0	70.6	82.1
Total costs and expenses	114.5	29.1	30.2	30.8	31.7	121.8	145.0
Non-GAAP operating income	(10.7)	(3.1)	(2.0)	0.6	4.1	(0.5)	11.5
Margin %	-10%	-12%	-7%	2%	11%	0%	7%

» VTSS should also become profitable in 2014** ...

- New Products drive topline, become majority of sales
- Improved cost structure
- Higher margins due to increased carrier mix and scale

**Raging Capital estimates.

Compelling Valuation

VITESSE SEMICONDUCTOR (VTSS)

- » VTSS is poised for strong performance:
 - › Accelerating top-line growth
 - › Attractive and expanding gross margins
 - › Significant operating leverage
 - › Achieving scale in its business model
 - › Highly-visible, long-term “annuity” stream

Compelling Valuation

VITESSE SEMICONDUCTOR (VTSS)

- » Current Price: ~\$3.20 per share, \$180 million EV
 - > 1.6x 2014 revenue est.
 - > 1.2x 2015 revenue est.

- » We expect Vitesse to reach its target model on a run-rate basis sometime in 2015.

COMPARABLE VALUATIONS		
VALUATION (MEDIAN)	2014	2015
Price/Sales	3.2x	2.9x
EV/EBITDA	10.6x	9.6x

TARGET MODEL		
Revenue	\$172 mm	
EBITDA	\$25 to \$37 mm	
Price/Sales	2x	3x
Market Cap	\$350	\$525
Price Per Share	\$5.90	\$8.55
Upside	85%	165%
EV/EBITDA	10x	15x
Enterprise Value	\$250	\$550
Price Per Share	\$4.40	\$8.95
Upside	40%	180%

“Raging Capital’s investment in Vitesse is both a shrewd investment in an undervalued company as well as a demonstration of how an engaged, active investor can play an instrumental role in building shareholder value.”

Quote from Ken Traub, VTSS Director/Raging Capital Nominee
January 2014

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