

Mossberg's Investor Digest

Best Idea Profile:

Spectra7 Microsystems Inc. (TSX.V:SEV)

DESCRIPTION:

Spectra7 Microsystems is a fabless semiconductor company that produces analog semiconductors for consumer electronics and wireless infrastructure markets. Its products address the following:

1) **DisplayDirect™** allows TV manufacturers to reduce the thickness of panels by up to 85% to as small as 3 to 5 millimeters thick

2) **CouchConnect™** allows for a low-cost plug-and-play cable to connect an iPad, mobile phone, etc. to a television and deliver true HD quality video. This product is widely available through consumer electronics retailers such as Wal-Mart, Amazon.com, OfficeMax, and others.

3) **DisplayDirect™** VR address rapidly growing market for Virtual Reality (VR) eyewear and can transfer audio and digital signals at ultra-high bandwidth up to 50Gbps and deliver a truly immersive virtual reality experience

4) **ActiveDX** - Addresses throughput bottlenecks and satisfies the demand for more bandwidth and lower costs in mobile infrastructure market. Wireless infrastructure products support the shift away from large "macro cell" base station sites, typically found along highways and on building tops, to smaller pole or wall-mounted base stations.

Spectra7 has 34 employees, with headquarters in Markham, Ontario, and development centers in Silicon Valley, Irvine, California, and Cork, Ireland.

KEY INVESTMENT CONSIDERATIONS:

Addressing Rapidly Growing Consumer Electronics Markets – All three consumer product lines — HD Displays, Active Cables/Second Screen, and VR — are in markets with rates of growth projected at more than 50%. Near-term growth will come from the interconnect business, with new products in DisplayDirect™ and DisplayDirect™ VR generating increasing growth next year. Facebook/Oculus, Sony Morpheus and Google Glass are expected to drive the consumer market and the demand for the DisplayDirect™ Virtual Reality product.

Growth of Mobile Infrastructure – With the proliferation of mobile devices and tablets, the market is exploding and demanding innovation and cost savings. The mobile infrastructure market, which is trending to small cells, is forecasted to grow 73% compounded annually over the next five years. The smaller geographic area supported by each small cell allows wireless carriers to achieve much better frequency re-use, resulting in ten times as much data capacity. This translates into a much faster return on the carriers' investments. Recent acquisitions within the relevant semiconductor sector indicate consolidation is escalating.

Defendable Markets – Spectra7 has 30 patents issued, with an additional 23 pending. Smaller companies, such as Spectra7 are able to successfully compete against larger players by focusing on analog chipsets (versus digital), which have a long lifecycle and are difficult to duplicate.

Strong Management and Board – Spectra7 has in place experienced management, a supportive and capable board that can enable rapid product introduction and acquisition-minded growth opportunities. Their backgrounds that include senior management positions at firms such as Intel, IBM, Samsung and Linear Technology.

VALUATION:

Spectra7 is addressing very large end markets that are expected to grow in excess of 50% for the next several years. As products are commercialized, SEV's technology will be validated and top-line growth should see significant acceleration. The capital-light "fabless" business model is very scalable and generates significant gross margins with limited need for additional capital. Based on successful commercialization, products are a capable of producing \$30 million to \$40 million, or more, in revenue and 20% to 25% in EBITDA margin over the next three years. Assuming even a modest valuation multiples yields a value several times current levels.

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Investment Data (as of 6/23/14)

Recent Price	\$0.47
52-Week Range	\$0.26 - \$0.88
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	80.0 M
Average Trading Volume (3 mos)	307k
Market Capitalization	\$37.6 M
Cash	\$4.8 M
Long-term Debt	\$3.0 M
Enterprise Value (EV)	\$35.8 M
Book Value	\$0.14
TTM Revenue	\$3.1 M
P/ Revenue	12.4x
TTM EPS	N/A
P/ EPS	N/A
TTM EBITDA	\$(10.2) M
EV/ EBITDA	-3.5x

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