Mossberg's Investor Digest

Best Idea Profile: **DSP Group (NASDAQ:DSPG)**

DESCRIPTION:

DSP Group is best known for its wireless chipset solutions used in cordless telephones. DSP is a U.S. Corporation, but approximately 75% of headcount and most of its R&D resources are located in Israel. The R&D capabilities are well known in Israel and the rest of the world and have developed valuable intellectual property including 167 patents granted and 76 pending. IP developed by DSPG has led to two successful spin-offs, DSP Communications (acquired for $1.6 Billion) and CEVA, (market cap $336MM); and the creation of two companies, Nogatech JV with SCITEX (acquired for $170 Million) and AudioCodes (market cap $160MM).

KEY INVESTMENT CONSIDERATIONS:

Profitable Core Business – DSP is a market leader in digital enhanced cordless telecom (DECT) with customers ranging from Samsung to Alcatel. DSP has a 70% market share in the home telephony market. Although this business is in secular decline, it remains very profitable, allowing for substantial investment in research and development in new technologies. DSP spent approximately one quarter of its revenues on research and development over the past five years.

Opportunities in New Markets – With home telephony profitable but declining, DSP is aggressively entering new markets with three new chipsets already launched in 2013 to address three different segments: mobile, home automation & enterprise VoIP.

***VoIP* –** The shift in office phones from proprietary PBX to open IP PBX systems has allowed DSP to capture the third largest market share among chipset vendors. It is quickly gaining market share in the VoIP market whose total market is estimated at $150 million and is growing at a compound annual growth rate of 14%. DSP's market share in VoIP tripled from 2010 and is expected to achieve 30% in 2015.

***Home Automation* –** Home Automation is expected to see significant growth as operators across the globe look for vertical market opportunities to drive ARPU. DSP is leveraging its leadership in DECT technology for use in home automation via the emerging DECT-ULE (ultra-low energy) wireless standard. DECT-ULE has several advantages over other short-range wireless standards including a licensed, interference-free frequency band, longer range, RF robustness, wall penetration, voice/video support and lower cost of deployment. Two of Europe's leading operators are already using DSPG's DECT/CAT-iq 2.0 chips in their home gateways are keen to launch DECT ULE services for home automation. IMS estimates 52MM low-power wireless ICs will be shipped in 2014.

HDClear – HDClear – In the mobile market, DSP recently introduced HDClear, a voice enhancement product for mobile devices that incorporates proprietary, groundbreaking noise cancellation algorithms. This innovative technology applies to cellular conversations as well as speech recognition technology use. Check out a demo on DSP's website www.dspg.com. ARCchart forecasts that 1.8 billion mobile phones with some form of voice control functions will ship globally by 2016.

Improved Financial Performance – Fourth quarter results exceeded expectations. The Company implemented cost controls in 2012 that enabled it to return to profitability at much lower levels of revenue. Non-GAAP year-over-year analysis shows significant progress: 2012 EBITDA $2 million, EPS $0.04.

Cash Flow and Share Buyback – Over the past five years DSP has generated $71 million in cash flow and bought back shares valued at $87 million. It ended 2012 with total cash of $120 million, or $5.50 per share.

VALUATION:

With growth opportunities in very large end markets for mobile and home automation, a growing VoIP business, a dominant position in the cordless telephone market, and cash and long-term securities of $120 million (equal to approximately 75% of its market capitalization), DSPG appears to be an attractive value with a strong risk reward profile.

DSP Group (NASDAQ:DSPG)
Investment Data (as of 2/26/13)

Recent Price	**$7.41**
52-Week Range	$5.05 - $7.91
Fiscal Year End	Dec
Shares Outstanding	21.7 M
Average Trading Volume (3 mos)	50 k
Market Capitalization	$161 M
Cash & Marketable Securities	$120 M
Long-term Debt	0
Enterprise Value (EV)	$41 M
Book Value	$6.55
TTM Revenue	$163 M
P/ Revenue	1x
TTM EPS (Non-GAAP)	$0.04
P/ EPS	Nmf
TTM EBITDA	$1.9 M
EV/ EBITDA	22