



# Mossberg's Investor Digest

## Idea Profile

### Integrated Silicon Solutions (Nasdaq: ISSI)

#### DESCRIPTION:

Founded in 1988, Integrated Silicon Solutions designs and markets a broad range of memory chips and smart cards for use in automotive, industrial telecom, mobile and consumer applications. About 65 (30%) of its employees are located in the company's headquarter facility in San Jose California, most of the remaining 70% of employees are located in offices in Taiwan and Shanghai.

#### KEY INVESTMENT CONSIDERATION:

**Focus on higher margin products** –The company focuses on high-value added products with long life cycles that can produce higher overall margins. They do not provide memory chips for the computer market, which is a more competitive, commodity-like market with thinner margins. Over the past several years the company has been strategically focused on growing its non-commodity business. Even though the top line has not shown significant growth, non-commodity product revenue grew at an annual rate of 18% over each of the past two years and now represents 90% of the company's overall revenue. This is a pace that is faster than the overall market and indicates the company's success in taking market share from competitors. The increase in higher margin revenue significantly impacted the company's profitability. Gross margin increased from 13.4% during FY06 to 22.6% during FY08. Excluding non-cash goodwill write off during the fourth quarter, the company produced an annual operating profit for the first time in 8 years.

**Long product lifecycles create strong recurring revenue streams** – The company targets long lifecycle applications that require legacy support. The lifecycle is typically 2-3 years and in some cases, as long as 20 years. Long product life cycles create recurring and predictable revenue streams.

**Fabless operations give ability to weather the economic downturn** – Clearly, volumes are being affected by the weakness in the global economy. Revenue guidance for the quarter ending in March is \$27 million to \$33 million, this compares to \$37 million in the December quarter, and \$55 million in September quarter. However, as a fabless semiconductor company, the company outsources its manufacturing, assembly and test operations. This means that 98% to 99% of production costs are variable. As a result, gross margin is expected to fall in line with recent performance. During the December quarter, gross margin was 20.5% and is expected to be 20% to 24% in the March quarter.

**Introduced products that have expanded the addressable market** – Recently introduced products, DDR and DDR2, expand the company's addressable market from \$5 billion to \$9 billion. With FY08 sales of \$235 million, the company has lots of room to grow.

#### KEY RISKS:

The economic downturn is putting pressure on both volume and pricing. While the company is well positioned to weather an extended period of weak demand, the pricing environment could put pressure on margins. For those competitors that own their own facilities, it's possible that they will be willing to accept very thin margins in order to maintain plant utilization.

#### VALUATION:

With a negative enterprise value, you could buy the whole company for free and get paid \$6 million for your trouble. This is an extremely pessimistic valuation that basically assumes that the company, its goodwill, future cash flows, etc., are worth nothing and that the management team will be destroying value. I don't think this is the case. In fact, the company is expected to be cash flow neutral this year, and based on performance over the past few years is positioned to create significant value for shareholders in the long run. Regardless, at these levels the stock offers an attractive risk/ reward ratio. Apparently, management and the board agree. About a year ago, the company repurchased 11 million shares, or about 1/3 of the total outstanding, and have authorized to buy back an additional 10 million shares, of which 3 million have been repurchased.

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Investment Data (as of 3/20/09)

<b>Recent Price</b>	<b>\$1.55</b>
52-Week Range	1.31 - 6.34
Fiscal Year End	September
Shares Outstanding	25.6 MM
Average Trading Volume (3 mos)	73,000
<b>Market Capitalization</b>	<b>40 MM</b>
Cash	46 MM
Long Term Debt	N/A
Enterprise Value (EV)	-6 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	\$4.85
TTM Revenue	210 MM
<b>P/ Revenue</b>	<b>0.2x</b>
TTM non-GAAP EPS	0.01
<b>P/ EPS</b>	<b>N/A</b>
TTM EBITDA (ex-goodwill write off)	25 MM
<b>EV/ TTM EBITDA</b>	<b>N/A</b>

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