

Mossberg's Investor Digest

Best Idea Profile:

O₂Micro International (NASDAQ:OIIM)

DESCRIPTION:

O2Micro designs, develops and markets high performance integrated circuits for power management and power saving applications for the computer, consumer, industrial, automotive and communications markets. The goal of its products is to enable manufacturers to build devices that run longer on battery power and are smaller, lighter and less expensive. It has LED solutions for general lighting and automotive/industrial applications. It also provides LED drivers for backlighting various screens such as televisions, monitors, GPS, digital frames, tablets and notebooks. Battery Management products are used for smart phones, notebooks, tablets, power tools and electric vehicles. And finally, Power Management products include gauges, battery monitors and DC/DC converter controllers. The company was founded in 1995 and has 490 employees. It is based in George Town, Grand Cayman.

KEY INVESTMENT CONSIDERATIONS:

Out With the Old and In With the New— Sales of the legacy cold cathode fluorescent lamp products used in televisions have rapidly declined, and so have the sales of notebooks in 2013. CCFL sales were approximately \$1 million in the first quarter of 2013 but are now negligible. The new products driving O2Micro's 2013 growth were battery management and LED general lighting products. LED general lighting products have been growing very rapidly over the past year and are now expected to contribute approximately 15% to projected revenue in 2014. Additionally, battery management product revenues have had a steady growth over the past year in the industrial market and are expected to contribute approximately 10% of the company revenues by the fourth quarter of 2014.

Cost Savings — At the end of 2013 the company accomplished a major effort to cut costs. The company cost structure is now aligned with the uncertain demand and the macro environment. It is expected to achieve the breakeven point in cash in 2014 when quarterly revenue approaches \$24 million.

Company Assets Worth More than Book Value — O2Micro currently has \$2.75 in cash per share and \$4.50 in book value.

Transparency of Results — Management has become more transparent with its results, as well as with the

guidance it provides investors. It was heartening to see that fourth quarter results, although not stellar, were at the upper end of the guidance provided. Management predicts sequential quarter revenue will be flat to down in the first quarter because this quarter reflects seasonal weakness, as well as fairly weak, but gradually improving end market demand.

Share Repurchase — In the fourth quarter earnings call management indicated it has been active in repurchasing shares and plans to be active going forward. At quarter end, it had 18.3 million remaining in its share buyback authorization and returns to shareholders are "very much on our mind."

VALUATION:

Given the current stock price and asset value, investors in O2Micro are basically paying for the assets and getting the potential of the ongoing business for free. O2Micro represents one of the purest plays in the LED business and LED continues to take over the revenue and earnings contribution of the company. The fact that the legacy business continues to cramp profitability, although at a declining rate, keeps the multiples on this stock below where its growth business would suggest.

O₂Micro International (NASDAQ:OIIM) Investment Data (as of 2/12/14)

Recent Price	\$3.36
52-Week Range	\$2.66 - \$3.80
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	27.8 M
Average Trading Volume (3 mos)	73 k
Market Capitalization	\$93.5 M
Cash	\$75.9 M
Long-term Debt	0
Enterprise Value (EV)	\$16.5 M
Book Value	\$4.55
TTM Revenue	\$73.8 M
P/ Revenue	1.3x
TTM EPS	\$(0.67)
P/ EPS	NA
TTM EBITDA	\$(16.5) M
EV/ EBITDA	(1.0)x

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