

# Mossberg's Investor Digest

## Best Idea Profile:

### DESCRIPTION:

Silicon Motion is a fabless semiconductor leader in NAND flash controllers and mobile RF ICx. It designs, develops and supplies multimedia data processing, storage and transfer solutions primarily for the OEMs of consumer electronics applications. The company was established in 1995 in San Jose, California, and is now headquartered in Taiwan. The company went public in 2005 and currently has 670 employees, 77% of whom are engineers.

Mobile storage products, such as card and USB flash drives and SSD and embedded memory, represent 67% of revenues. Mobile communication products make up 25% and multimedia SoCs, such as embedded graphics processors for personal computers and game consoles, is 6%. Revenues in 2011 of \$224 million were up 69% year over year.

### KEY INVESTMENT CONSIDERATIONS:

**New growth markets leading the charge**—Silicon Motion is the reaping rewards from years of developing new products to sustain longer-term expansion, as the growth of core products show some sign of deceleration from their torrid pace. These “new growth products” leverage the underlying leading edge NAND flash controller technology and mobile transceiver technology the Company developed for their core products. Consequently, in the second quarter just reported, new growth products grew by a strong 75% sequentially and accounted for 32% of revenue, compared with only 20% of revenue in the previous quarter. This was way above target for the end of 2012, causing the company to raise its goal. The company now targets roughly 40 to 45% of revenue for these growth products next year.

**Expansion of global smartphone use** — Silicon Motion is highly levered to smartphone growth. It is the number one supplier of controllers for memory cards and is beginning to supply controllers for embedded memory. All solid state storage devices need a controller. Smartphone use is expected to grow 34% per year and the company is creating its own momentum within this market.

## Silicon Motion Technology Corp. (NASDAQ:SIMO)

**4G LTE opportunity** — The compound annual growth rate for the LTE market is forecast to be 113%. Silicon Motion has already had 11 design wins in 2012 with a strong hold on Samsung LTE devices that use its RTx. A link to market-leading consumer products is critical to future success.

**Consistent growth**—The company just released its tenth consecutive quarter of year-over-year growth in revenue. It has consistently beaten estimates, providing good visibility for investors.

### VALUATION:

Silicon Motion released second quarter earnings on July 27 that were better than expected in both revenue and earnings per share. There has been some concern about industry weakness affecting the Company's core businesses. The Company expects this to pick up, as well as to have less impact as its new-growth businesses become a larger percentage of the total. With great growth momentum and consistent outperformance of estimates, the stock should continue higher.

### Silicon Motion Technology Corp. (NASDAQ:SIMO)

Investment Data (as of 7/29/12)

<b>Recent Price</b>	<b>\$15.33</b>
52-Week Range	\$8.27 - \$24.98
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	32 M
Average Trading Volume (3 mos)	623 K
Market Capitalization	\$492 M
Cash	\$114 M
Long Term Debt	0
Enterprise Value (EV)	\$383 M
Book Value	\$7.1
TTM Revenue	\$261 M
P/ Revenue	1.9x
TTM EPS	\$1.65
P/ EPS	9x
TTM EBITDA	\$59M
EV/ EBITDA	6.5x