

Mossberg's Investor Digest

Best Idea Profile:

TranSwitch Corp (NASDAQ:TXCC)

DESCRIPTION:

Headquartered in Shelton, Connecticut; for more than 20 years TranSwitch has provided semiconductor and other intellectual property (IP) solutions for use in communications infrastructure (approximately 60% of revenue) and customer premises equipment (approx. 20% of revenue) and High Speed Interconnect (approx. 20 % of revenue). The Company's intellectual property (IP) products are compliant with global industry standards such as HDMI and DisplayPort and also feature its proprietary HDP™ and AnyCable™ technologies. TranSwitch has over 100 active customers which includes leading global telecom semiconductor and consumer product companies.

KEY INVESTMENT CONSIDERATIONS:

New Products Expand Addressable Market –

TranSwitch is strategically positioning its operations to address three fast growing segments of the High Definition video connectivity market in 2012. The three areas are HD display IT products, the smartphone tablet and video interconnect market and the TV and Flat screen high speed interface market. The Company estimates that these three areas represent an addressable market of \$1.1 billion available to the Company's products in 2012.

Telecom Market Strengthening – The Telecom business has slowed in recent years after the Global recession occurred. However, TranSwitch is seeing signs of stabilization. In addition its legacy products have long life cycles and generate strong cash flows.

HD and Displayport Products – These products are currently in the sampling phase. TranSwitch has continuing engagements with customers on a global basis. The target market includes televisions, video monitors, projectors, audio, receivers and digital switching equipment. In addition to end customers TranSwitch is working with reference design partners that have a strong end user channel. These products should contribute a significant amount of revenue to the company in FY2012.

Mobile Products – The Company's first video connectivity product for smartphones and tablets is under development. TranSwitch is working closely with top-tier OEM companies and the product is targeted for a second half FY2012 launch.

Recurring Revenues – Q2FY2011 net service revenues were \$3 million vs. \$2.2 million on a year-over year basis. The Company's model includes a significant recurring revenue component.

Gross Margin Improvement – Q2FY2011 Gross Margins were 67% vs. 56% on a year-over year basis. Additional royalties and higher margin sales could lead to continued improvement in margins.

Geographic Diversification – TranSwitch is a global company. The geographic revenue breakdown for the most recently reported quarter was Asia-Pac 34%, Americas 34% and Europe 33%

VALUATION:

The company has undergone significant change over the past several years and has spent significant effort and resources to develop new connectivity solutions that address much larger and faster growing markets in consumer electronics. As such, analysts estimate that TranSwitch revenues will grow 40% next year from \$33 million to \$46 million in 2012. The company has communicated that it expects to reach breakeven at approximately \$10 million in quarterly revenue. If analysts' projections are correct, we should see that sometime next year, which would be a definite positive for the stock.

TranSwitch Corporation: (Nasdaq: TXCC) Investment Data (as of 8/26/11)

Recent Price	\$2.53
52-Week Range	\$1.94 - \$5.50
Fiscal Year End	Dec
Shares Outstanding	30MM
Average Trading Volume (3 mos)	165k
Market Capitalization	\$77MM
Cash	\$16MM
Long Term Debt	\$10MM
Enterprise Value (EV)	\$60MM
BV/ Share	\$0.93
TTM Revenue	\$38MM
P/ Revenue	2.0x
TTM EPS	NA
P/ EPS	NA
TTM EBITDA	NA
EV/ EBITDA	NA