

# Mossberg's Investor Digest

## Best Idea Profile

## Vimicro International Corp (Nasdaq: VIMC)

### DESCRIPTION:

Founded in 1999 and headquartered in Beijing, China, Vimicro International Corporation is a fabless semiconductor company that designs chipsets primarily for consumer electronics, communications and surveillance markets. The company is the leading supplier of processors for PC/Notebook/Netbook cameras and multimedia processors for mobile phones.

### KEY INVESTMENT CONSIDERATIONS:

**Revenue trends should benefit from popularity of Netbooks and Windows 7 Upgrades** – As the leading supplier of embedded cameras for PC/ Notebook/ Netbook computers, VIMC stands to benefit from favorable trends in the PC market. PC users skipped over the Window's Vista upgrade, and it appears that Window 7 could be a catalyst to drive new PC demand. According to Garter, 40% of consumer PCs and 50% of corporate PCs still run on Windows XP. Windows 7 was launched last month.

**2G to 3G technology upgrade should spur demand for VIMC chipsets** - VIMC is the largest supplier of multimedia processors for mobile phones in China. The company supplies chipsets for over 300 models including well known manufactures such as Samsung and LG, for use on China Mobile's Network. China Mobile is the largest carrier in China. Of the 700 mobile users in China, China Mobile has 500 million. The major Chinese carriers are rolling out 3G services this year. At \$2 to \$3 per chip, even modest penetration of 3G technologies, could bring significant growth driver for VIMC's business.

**Expanding into surveillance market provides additional growth opportunity** – Video surveillance is a high growth area in China. The overall market is expected to reach \$26.8 billion by 2011, according to the company. VIMC recently announced the acquisition of Alcatel-Lucent's Video Surveillance System (ViSS) technology, which adds to the existing lineup of surveillance technologies. ViSS is the leading supplier of security and surveillance solutions to telecommunications carriers and local governments in China.

**Mobile TV in China** – VIMC has set up a strategic development partnership with China's standard setting body to promote a propriety standard that will allow cell phones and other mobile devices to receive live television programs. According to In-Stat, China's digital mobile TV chipset revenue will grow to \$197 million in 2012. Vimicro seems to be in good position to capture a large portion of this market.

### RISK:

**Product concentration** – Approximately 60% of the company's sales are derived from PC camera multimedia processors. With the majority of sales dependent on a single product, success of a competing technology or supplier could significantly disrupt operations.

### VALUATION:

The company has a significant cash balance of \$130 million, or \$3.50 per share. Shares are trading at a slight premium to cash, which should provide downside support. Revenue increased 10% sequentially during the third quarter and is expected to increase another 17% sequentially during the fourth quarter. Given these recent revenue trends and the potential for significant revenue and earnings growth, shares at these levels appear to be a bargain.

#### (Nasdaq: VIMC)

Investment Data (as of 11/19/09)

<b>Recent Price</b>	<b>\$4.18</b>
52-Week Range	1.29 - 4.21
Fiscal Year End	December
Shares Outstanding	37 MM
Average Trading Volume (3 mos)	66,000
Market Capitalization	154 MM
Cash	130 MM
Long Term Debt	N/A
Enterprise Value (EV)	24 MM
LT Debt/ Equity	N/A
BV/ Share	3.45
TTM Revenue	71 MM
P/ Revenue	2.2x
TTM EPS	-0.75
P/ EPS	N/A
TTM EBITDA	-27 MM
EV/ EBITDA	N/A

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