October 5, 2020

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

Lisa Thompson
312-265-9517
lthompson@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

O2Micro International Ltd (NASDAQ: OIIM)

O2Micro Raises Q3 Revenue Guidance to a Record $22 Million

Using an industry average value to trailing 12-month sales of 8.5 times and OIIM's $66.8 m trailing 12-month revenue, we would calculate an enterprise value of $566 million, a market cap of $607 million and a price of **$21.90 per share**, if the company could reach breakeven and stay there.

Current Price (10/04/20)	$3.39
Valuation	**$21.90**

OUTLOOK

O_2Micro International is a fabless semiconductor firm that designs, develops and markets high performance integrated circuits primarily for power management and battery management for TV backlighting, LED lighting, and portable tools and appliances. It has struggled to reach profitability and cash flow breakeven but this quarter achieved both. The company trades at an **enterprise value of $53 million**. It is enjoying a surge in TV and battery operated tools sales due to shutdowns around the world. Its recent rightsizing actions have restructured it for profitability.

SUMMARY DATA

52-Week High	**$3.66**
52-Week Low	**$1.00**
One-Year Return (%)	**151**
Beta	**1.0**
Average Daily Volume (sh)	**99,040**
Shares Outstanding (mil)	**26**
Market Capitalization ($mil)	**$89**
Short Interest Ratio (days)	**1.0**
Institutional Ownership (%)	**37**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**3.5**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2020 Estimate	**19.9**
P/E using 2021 Estimate	**17.0**

Risk Level	**Above Average**
Type of Stock	**Small-Value**
Industry	**Elec Comp-Semis**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	14.1 A	15.2 A	16.8 A	16.6 A	63 A
2019	12.8 A	14.3 A	16.0 A	17.9 A	61 A
2020	15.6 A	17.3 A	22.0 E	20.0 E	75 E
2021					78 E

Earnings Per Share
(non-GAAP EPS before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	-$0.09 A	-$0.05 A	-$0.05 A	-$0.05 A	-$0.24 A
2019	-$0.13 A	-$0.08 A	-$0.02 A	$0.05 A	-$0.18 A
2020	-$0.00 A	$0.03 A	$0.12 E	$0.07 E	$0.17 E
2021					$0.20 E

Zacks Projected EPS Growth Rate - Next 5 Years % **5**

© Copyright 2020, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

O2Micro Continues its Earnings Streak and Expects to Report a Record $22 Million in Revenues In Q3

Today O2Micro announced that it expects to report record revenues in the range of $22 million for Q3 2020. It had previously given guidance of revenues between $17.6 and $19.0 million or a midpoint of $18.3 million, which would have been growth of 14% year over year. $22 million is growth of 37% year over year. If expenses stay in the range of its previous guidance, EPS for Q3 could be a non-GAAP $0.12 per share.

As a result we are raising estimates for Q3 and Q4 and thus the year. Q4 revenues for O2Micro are typically similar to Q3, but we remain cautious. For 2020 we are now expecting revenues of $75 million and a non-GAAP EPS of $0.17.

VALUATION

Company Has Significant Upside If It Can End Cash Burn and Sustain a Profit

The company trades at an **enterprise value of $53.0 million**. At the end of Q2 2020, the company had $41.4 million (or $1.53 per ADS) in cash and equivalents, no debt, and valuable real estate in China and California. In California it owns a 37,180 square foot building where it has its USA operations, which was bought for $4.6 million in May 2004 and believe it is now easily worth more than $7 million. Plus it also owns other real estate in China and Taiwan. Also on the balance sheet are long-term investments in other companies, including 589,000 shares of stock in Excelliance MOS (worth $2.4 million.) The company has a high liquidation, as well as acquisition, value. Activists have tried to encourage a transaction with an acquirer, but the company has no interest in a sale and due to restrictions, it is difficult to force one.

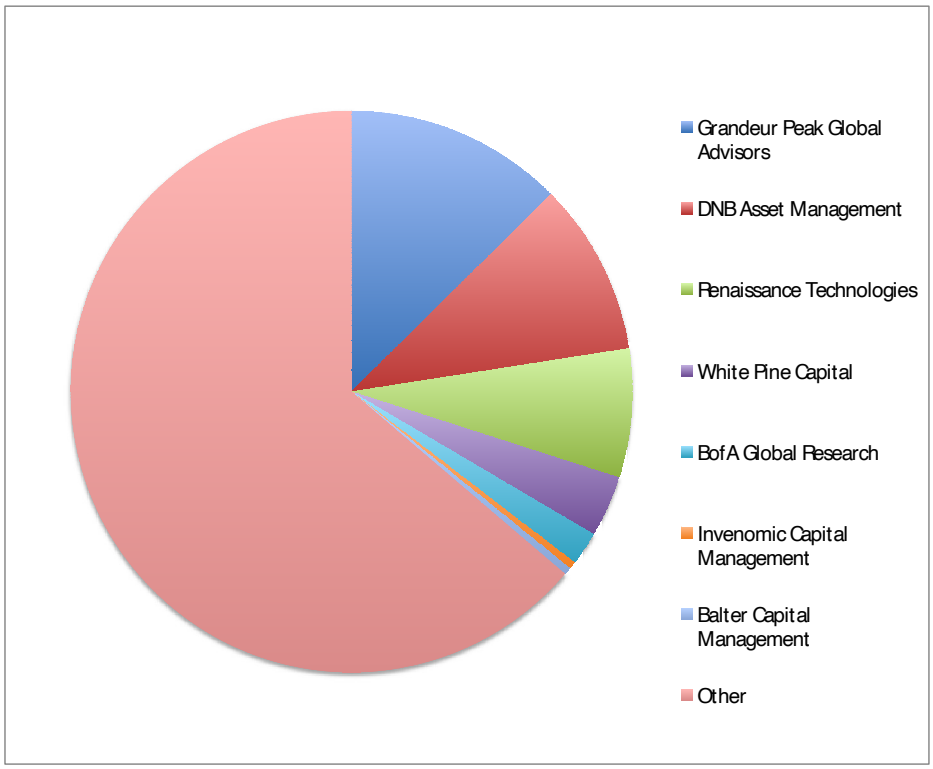
Looking at O2 Micro from an M&A prospective we can look at other fabless semiconductor transactions. In May 2018, Microchip Technology bought Microsemi for $10.15 billion, which was a valuation of 5.5 times its trailing twelve-month revenues of $1.845 billion. Two other comparable companies we had been using, Intersil and Linear Technology, were acquired at very high valuations. Intersil was acquired by Renesas for $3.2 billion at a valuation of 5.9xs the company's trailing $542.1 million in revenue. Analog Devices acquired linear Technology for $14.8 billion. This was 9.9 times its trailing four quarters of revenue of $1.5 billion.

Were we to use the current average enterprise value to trailing twelve-month sales of 8.5 times and apply it to OIIM's trailing 12-month $66.8 million revenues, we would calculate an enterprise value of $566 million. Adding to it $41.4 million in cash and equivalents gives us a market cap of $607 million or **$21.90 per share**. We believe that once the company shows sustainable revenue growth and cash generation, the market should afford it a valuation closer to this price. It is certainly on the path to do this.

As it moves to profits, we can even look at the stock on a PE basis. Currently trades at 17.0 times 2021 estimated EPS.

	Competitors	EV	TTM Sales	EV/Sales
Monolithic Power Systems	**MPWR**	11,600	688	16.9
Cree Inc.	**CREE**	7,110	950	7.5
Microchip Technology	**MCHP**	35,023	5,270	6.6
Maxim	**MXIM**	17,800	2,190	8.1
Texas Instruments	**TXN**	120,000	13,690	8.8
Cirrus Logic	**CRUS**	3,720	1,280	2.9
	Average			8.5

OWNERSHIP



Source: Zacks Investment Research

RISKS

- O_2Micro has high exposure to the global demand for TVs, particularly those sold in China. It is depending on free dimming and high power LED lighting, 4K and 8K and other high end TVs and monitors, lithium ion battery powered tools and appliances, and IoT to give it revenue and margin growth.

- In 2019, two customers accounted for 26% of revenues and their loss could cause a meaningful decline in revenues. 86% of revenues were from China. Without the FEIT license fee, we believe that number would be 89%.

- The company is currently being affected by the proliferation of the coronavirus in China as their production and most of their customers are located in China and sell to the Chinese market. Right now is unknown how restrictions and health concerns will affect commerce in both the short and long term.

- The firm has had only two profitable GAAP quarter since 2011, and although probable, it remains to be seen if positive results will be truly sustainable.

- Given its large number of patents, litigation risk is a possibility as the company enforces its patents.

INCOME STATEMENT

	March Q1 19	June Q2 19	Sept Q3 19	Dec Q4 19	March Q1 20	June Q2 20	Sept Q3 20E	Dec Q4 20E	2018	2019	2020E	2021E
REVENUE												
Net Revenue	12.8	14.3	16.0	17.9	15.6	17.3	22.0	20.0	62.7	60.9	74.9	77.9
Yr-to-yr Gr.	-10%	-6%	-5%	8%	22%	21%	37%	12%	4%	-3%	23%	4%
OPERATING EXPENSES												
Cost of goods sold	6.3	7.1	7.8	7.7	7.5	8.4	10.6	9.9	30.7	29.0	36.4	37.5
Gross Margin	6.4	7.1	8.2	10.1	8.1	8.9	11.4	10.1	32.0	32.0	38.4	40.4
% of Sales	50.5%	50.1%	51.4%	56.7%	51.9%	51.2%	51.8%	50.5%	51.0%	52.5%	51.4%	51.8%
R&D	5.1	4.8	4.7	4.4	4.1	4.1	4.1	4.0	19.8	19.1	16.3	17.5
SG&A	5.0	4.9	4.6	4.8	4.5	4.3	4.5	4.7	20.3	19.3	18.0	19.0
One-time expenses & Adj.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Tot Operating Exp.	10.0	9.7	9.4	9.2	8.7	8.4	8.6	8.7	40.1	38.4	34.4	36.5
Operating Income	(3.6)	(2.6)	(1.1)	0.9	(0.6)	0.5	2.8	1.4	(8.1)	(6.4)	4.1	3.9
Interest income	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.5	0.6	0.6
Unrealized fair value on LT Investment	0.0	(0.2)	0.7	0.2	(1.1)	1.1	0.0	0.0	9.8	0.8	(0.0)	0.0
Foreign exchange loss	(0.1)	0.1	0.0	(0.1)	0.0	(0.1)	0.0	0.0	0.1	(0.2)	(0.1)	0.0
Gain on sale of real estate	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0
Other (rent) - net	0.1	0.1	0.4	0.2	0.1	0.2	0.2	0.2	1.0	0.8	0.7	0.8
One-time charge	0.0	0.0	0.0	0.0	0.0	(1.2)	0.0	0.0	0.0	0.0	(1.2)	0.0
Total other Income	0.1	0.1	1.2	1.1	(0.8)	0.2	0.3	0.3	11.4	2.5	0.1	1.4
Pretax Income	(3.5)	(2.5)	0.1	2.0	(1.3)	0.6	3.1	1.7	3.3	(3.9)	4.1	5.2
Pretax margin	-27.6%	-17.4%	0.8%	11.3%	-8.6%	3.7%	14.2%	8.6%	5.2%	-6.3%	5.5%	6.7%
Taxes	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	1.1	1.2	1.0	1.1
Tax Rate	-8.5%	-11.6%	251.5%	12.4%	-15.4%	40.8%	8.0%	16.2%	34.9%	-30.3%	24.0%	21.4%
GAAP Net Income	(3.8)	(2.8)	(0.2)	1.8	(1.5)	0.4	2.9	1.4	2.1	(5.0)	3.2	4.1
Non-GAAP Net Income	(3.5)	(2.2)	(0.5)	1.4	(0.0)	0.8	3.2	1.8	(6.3)	(4.8)	4.7	5.6
GAAP EPS-Basic	($0.15)	($0.11)	($0.01)	$0.07	($0.06)	$0.01	$0.11	$0.05	$0.08	($0.19)	$0.12	$0.15
GAAP EPS-Fully dil.	($0.14)	($0.11)	($0.01)	$0.07	($0.06)	$0.01	$0.10	$0.05	$0.08	($0.19)	$0.12	$0.15
Non-GAAP	**($0.13)**	**($0.08)**	**($0.02)**	**$0.05**	**($0.00)**	**$0.03**	**$0.12**	**$0.07**	**($0.24)**	**($0.18)**	**$0.17**	**$0.20**
Share Out	26.3	26.4	26.3	26.3	26.7	27.0	27.0	27.0	26.0	26.3	26.9	26.8
Fully diluted shares	26.9	26.4	26.3	27.1	26.7	27.7	27.7	27.7	26.6	26.3	27.5	27.3
Yr-to-yr Gr.	2%	0%	0%	2%	-1%	5%	5%	2%	3%	-1%	4%	-1%

BALANCE SHEET

	June 30, 2019	March 31, 2020	Qtr-to-Qtr % Change	June 30, 2019	Yr-to-Yr % Change
CURRENT ASSETS					
Cash and cash equivalents	$12,676	$16,108	-21.3%	$12,955	-2.2%
Restricted cash	36	35	2.9%	34	5.9%
Short-term investments	28,684	28,595	0.3%	21,950	30.7%
Accounts receivable, net	11,730	11,016	6.5%	11,143	5.3%
Inventories	12,416	9,876	25.7%	9,910	25.3%
Prepaid expenses and other current assets	1,505	1,361	10.6%	2,360	-36.2%
Total current assets	**67,047**	**66,991**	0.1%	**58,352**	14.9%
LONG-TERM INVESTMENTS	3,327	3,020	10.2%	6,463	-48.5%
PROPERTY AND EQUIPMENT, NET	15,150	15,222	-0.5%	17,365	-12.8%
OTHER ASSETS	5,484	2,662	106.0%	2,321	136.3%
Total other assets	23,961	20,904	14.6%	26,149	-8.4%
TOTAL ASSETS	91,008	87,895	3.5%	84,501	7.7%
CURRENT LIABILITIES					
Notes and accounts payable	7,834	6,596	18.8%	2,839	175.9%
Income tax payable	318	702	-54.7%	384	-17.2%
Lease liabilities	644	714	-9.8%	975	-33.9%
Accrued expenses and other current liabilities	5,090	3,540	43.8%	4,420	15.2%
Total current liabilities	13,886	11,552	20.2%	8,618	61.1%
OTHER LONG-TERM LIABILITIES					
Accrued pension liabilities	193	207	-6.8%	295	-34.6%
Deferred tax liabilities	629	651	-3.4%	673	-6.5%
Lease liabilities	1,752	1,829	-4.2%	2,124	-17.5%
Other liabilities	66	65	1.5%	86	-23.3%
Total long-term liabilities	2,640	2,752	-4.1%	3,178	-16.9%
Total liabilities	16,526	14,304	15.5%	11,796	40.1%
SHAREHOLDERS EQUITY					
Ordinary shares	33	33	0.0%	33	0.0%
Additional paid-in capital	142,928	142,853	0.1%	142,775	0.1%
Accumulated deficits	(53,987)	(54,087)	-0.2%	(53,282)	1.3%
Accumulated other comprehensive income	4,573	4,408	3.7%	4,544	0.6%
Treasury stock	(19,063)	(19,616)	-2.8%	(21,365)	-10.8%
Total shareholders equity	74,484	73,591	1.2%	72,705	2.4%
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	91,008	87,895	3.5%	84,501	7.7%
Cash and equivalents	$41,360	$44,703	-7.5%	$34,905	18.5%
Change in cash and equivalents	(3,343)	(1,686)	98.3%	6,455	-151.8%
Market value	62,383,500	40,614,400	53.6%	37,161,960	67.9%
Enterprise value	20,987,500	(4,123,600)	-609.0%	2,222,960	844.1%
DSO	59	62	-4.8%	62	-4.8%
Inventory Days	119	112	6.3%	130	-8.5%

ANNUAL CASH FLOW

	2019	2018	2017	2016	2015
OPERATING ACTIVITIES					
Net loss	$ (5,039)	$ 2,088	$ (6,145)	$ (2,986)	$ (21,095)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	1,780	1,641	1,667	1,682	2,446
Stock-based compensation	1,462	1,421	1,589	1,606	1,912
Loss on asset write-off	0	0	0	0	0
Inventory write-downs	1,359	1,328	642	1,527	913
Net gain recognized on LT investments	(788)	(9,916)	0	0	0
Gain on sale of long-term investments	(500)	0	(20)	(948)	(8)
Impairment loss on long-term investments	0	0	0	0	4,953
Gain on disposal of property & eqt, net	2	(6)	(137)	(1,726)	(738)
Deferred income taxes	(133)	(155)	40	(1,231)	1,989
Other, net	0	0	0	0	0
Changes in operating assets and liabilities:					
Accounts receivable, net	1,053	(2,204)	(1,979)	(2,008)	1,592
Inventories	133	(2,286)	(697)	(1,140)	(1,933)
Prepaid expenses and other current assets	981	(1,031)	(139)	(6)	191
Deferred charges	(571)	(983)	(553)	(375)	(416)
Operating lease right of use assets	(1,477)	0	0	0	0
Notes and accounts payable	285	2,122	(1,869)	996	1,202
Income tax payable	198	72	161	(2,065)	1,595
Accrued expenses and other current liabilities	661	(105)	186	(1,064)	(1,039)
Operating lease liabilities	1,494	0	0	0	0
Accrued pension liabilities	(42)	(20)	13	(4)	(11)
Other liabilities	3	(1)	3	(56)	(168)
Net cash used in operating activities	861	(8,035)	(7,238)	(7,798)	(8,615)
Acquisition of:					
Short-term investments	(34,649)	(11,197)	(8,505)	(28,797)	(7,128)
Long-term investments	0	0	0	0	0
Property and equipment	(1,672)	(1,272)	(704)	(673)	(724)
Decrease (increase) in:					
Restricted assets	0	0	0	0	0
Restricted cash	0	0	0	0	132
Other assets	6	(12)	22	40	82
Proceeds from:					
Sale of short-term investments	4,953	22,540	12,635	18,331	16,755
Sale of long-term investments	7,061	2,582	0	5,982	167
Return of capital from LT investment	0	0	1,163	17	370
Sale of real estate	2,169				
Disposal of property and equipment	1	16	145	3,837	3,205
Net cash provided by investing activities	(22,131)	12,657	4,756	(1,263)	12,859
FINANCING ACTIVITIES					
Acquisition of treasury stock	(510)	(451)	(708)	(619)	(3,233)
Proceeds from:					
Exercise of stock options	7	10	29	2	31
Issuance of ordinary shares under the ESP Plan	109	86	84	73	180
Net cash used in financing activities	(394)	(355)	(595)	(544)	(3,022)
EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATE	(53)	(374)	268	(261)	(1,092)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIV.	(21,717)	3,893	(2,809)	(9,866)	130
CASH & CASH EQUIV. AT BEGINNING OF YR	32,448	28,555	31,364	41,230	41,069
CASH & CASH EQUIVALENTS AT END OF YR	10,731	32,448	28,555	31,364	41,199
Cash paid for tax	$ 1,171	$ 1,218	$ 818	$ 4,349	$ 1,068
Cash Flow	(1,857)	(3,599)	(2,364)	(2,076)	(9,628)
Free cash flow	(3,529)	(4,871)	(3,068)	(2,749)	(10,352)

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research (Zacks SCR), a division of Zacks Investment Research (ZIR), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

Zacks SCR Analysts hereby certify that the view expressed in this research report or blog article accurately reflect the personal views of the analyst about the subject securities and issuers. Zacks SCR also certifies that no part of any analysts' compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report or blog article. Zacks SCR believes the information used for the creation of this report or blog article has been obtained from sources considered reliable, but we can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice. The Zacks SCR Twitter is covered herein by this disclosure.

INVESTMENT BANKING AND FEES FOR SERVICE

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article. Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such noninvestment banking services provided to this issuer. The non-investment banking services provided to the issuer include the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. Each issuer has entered into an agreement with Zacks to provide continuous independent research for a period of no less than one year in consideration of quarterly payments totaling a maximum fee of $40,000 annually.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business. SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the Valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or Tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.