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Zacks Small-Cap Research

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O2Micro International Ltd (NASDAQ: OIIM)

O2Micro Growth Accelerates as Backlighting and Power Management Becomes Increasingly Important to the Market

Using an industry average value to trailing 12-month sales of 8.9 times and OIIM's $73 m trailing 12-month revenue, we would calculate an enterprise value of $650 million, a market cap of $690 million and a price of **$23.90 per share**.

Current Price (10/29/20)	$5.43
Valuation	**$23.90**

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 had struggled to reach profitability and cash flow breakeven but is now there. The company trades at an **enterprise value of $114 million well below its peers**. Its right-sizing efforts combined with a surge in demand for high end TVs and battery-operated devices is accelerating its growth and producing higher and higher margins.

SUMMARY DATA

52-Week High	**$6.23**
52-Week Low	**$1.00**
One-Year Return (%)	**338**
Beta	**1.0**
Average Daily Volume (sh)	**483,773**
Shares Outstanding (mil)	**27**
Market Capitalization ($mil)	**$154**
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	**27.4**
P/E using 2020 Estimate	**21.8**
P/E using 2021 Estimate	**15.5**

Risk Level	**Above Average**
Type of Stock	**Small-Blend**
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	22.2 A	23.4 E	79 E
2021					94 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 A	$0.13 E	$0.24 E
2021					$0.35 E

Zacks Projected EPS Growth Rate - Next 5 Years % **10**

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WHAT'S NEW

Revenue Growth Hits 39% in Q3 and Yields a Record EBITDA of $4.6 million

Today O2Micro announced record quarterly revenues and expects to beat that number in Q4. As a result we are raising estimates for Q4 and for both 2020 and 2021. For Q4 revenues O2Micro expects revenues between $22.7 and $24.0 million or a midpoint of $23.4 million, which would be growth of 31% year over year. Usually Q4 and Q3 are flat with each so an increase of over a million dollars is meaningful sign. As a result our 2020 estimate is going to $78.4 million (up 29%) and a non-GAAP EPS of $0.24. We are also raising 2021 estimates to 20% growth to $94 million in sales and $0.35 non-GAAP fully diluted EPS.

EBITDA Surged as Costs Remained Flat

The restructuring benefits have kicked in and EBITDA surged to $4.6 million or 21% of sales. Although the company burned $1.1 million, mostly funding accounts receivable, it expects to be adding to cash in Q4 and beyond.

Demand Remains Strong

Demand across the board remains strong. We had been worried that during the shut down consumers would have bought their fill of cordless tools and high end TVs and demand would pause, but orders remain strong. In fact, rather than its typical sequentially down Q1, O2Micro expects sales to be flat with Q4 as new customers come on board. The company sells to end user markets that are on fire. 4K and 8K TVs, HDR monitors, lithium ion battery powered cordless everything and even medical monitors. In addition to display backlighting, power management is being a more and more important part of device design as batteries become cheaper and more powerful and devices more sophisticated. In Europe nickel–cadmium (Ni-Cd) batteries for power tools have been banned. Meanwhile lithium-ion batteries are becoming more and more economical. What used to cost $1,183 per kWh in 2010 dropped 86% to $156 kWh by 2019. Lithium ion battery production grew from19 GWh in 2010 to 285 GWh this year and could quadruple by 2030.

Q3 Results

Revenues were $22.2 million compared with $16.0 million in Q3 a year ago, up 39%.
For Q3 the gross margin was 51.8% compared to 51.4% a year ago and 51.2% in Q2 2020. The company said to expect the Q4 2020 gross margin to be in the range of 50-52%.

Revenue By Segment

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Consumer	40-45%	42-44%	49-51%	43-45%	46-48%	43-45%	44-46%	43-45%	44-46	47-49	42-44
Computer	10-15	15-17	8-10	6-8	6-8	6-8	6-8	5-7	5-7	5-7	5-7
Industrial	40-45	40-42	40-42	47-49	45-47	47-49	47-49	48-50	48-50	45-47	50-52
Communications	<5	0	0	0	0	0	0	0	0	0	0

Reported total operating expenses were again $8.4 million in the quarter compared to $9.4 million a year ago. The company went from 370 employees in Q1 to 289 in Q2 and 298 in Q3.

R&D expense was down year over year in the quarter to $4.1 million from $4.7 million.

SG&A was $4.3 million and flat sequentially if the $200,000 in severance in Q2 is taken out of the Q2 number. It was down from $4.6 million a year ago.

Operating income in Q3 was $3.1 million versus a loss of $1.1 million last year. Adding back depreciation and amortization ($913,000) and stock-based compensation ($326,000,) and adding the rental income, the adjusted **EBITDA looks to be a positive $4.6 million** compared to $1.8 million in Q2 2020 and a negative $110,000 in Q3 2019.

Total other income was $68,000 versus $1.2 million last year. This year included a $171,000 unrealized loss on the company holding in Excelliance MOS stock while last year the holding showed a $715,000 gain. In Q3 O2Micro sold 155,000 shares of Excelliance MOS stock for proceeds of $658,000 at an average price of $4.00 per share. It had a cost basis of $0.53 per share. It still holds 424,000 shares (worth $1.8 million), and expects to sell more in Q4 2020.

The company reported a GAAP net income of $2.9 million versus last year s loss of $200,000 last year. This yielded a fully diluted GAAP EPS of $0.10 versus a loss per share of $0.01 a year ago.
Non-GAAP income was $3.4 million, versus a loss of $542,000 last year. This yielded a **non-GAAP EPS of $0.12, versus a loss per share of $0.02 last year**.

ADS outstanding were 27 million and fully diluted they stood at 28.9 million. In Q3 2020, the company repurchased 14,933 ADS units at a cost of $44,000.

Balance Sheet

On September 30, 2020, the company had $40.8 million in cash and equivalents (or $1.51 per ADS), down just $596,000 million sequentially. Net cash used by operating activities in the quarter was $1.1 million. Capital expenditures were $733,000 and depreciation and amortization was $913,000.
In Q1 the company streamlined operations for profitability; the company's cash breakeven point remains between $14-16 million and the profit breakeven to $16-18 million. The full effect of these cost savings efforts will be felt in Q4 2020.

After the Quarter Ended

On Oct. 01, 2020 O2Micro announced it was granted of a patent for circuits that drive light sources, along with a light source module. It was issued 21 claims under **US patent US 10,757,770 B2** on Aug 25, 2020. The module supports dual light sources, along with a current allocation unit. The allocation unit adjusts the current through each light source based on the output. This light source driver fills the need for multi-color lighting applications through our intelligent current-allocation technique providing color adjustments. This technology will allow for light output temperature **adjustment between Pure White Light and more traditional Warm Light without changing bulbs**.

VALUATION

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

The company trades at an **enterprise value of $114.0 million**, up significantly since our last report as investors begin to believe in sustainable profitability. At the end of Q3 2020, the company had $40.8 million (or $1.51 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 $9 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 424,000 shares of stock in Excelliance MOS (worth $1.8 million.) The company has a high acquisition, value. Activists had 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.

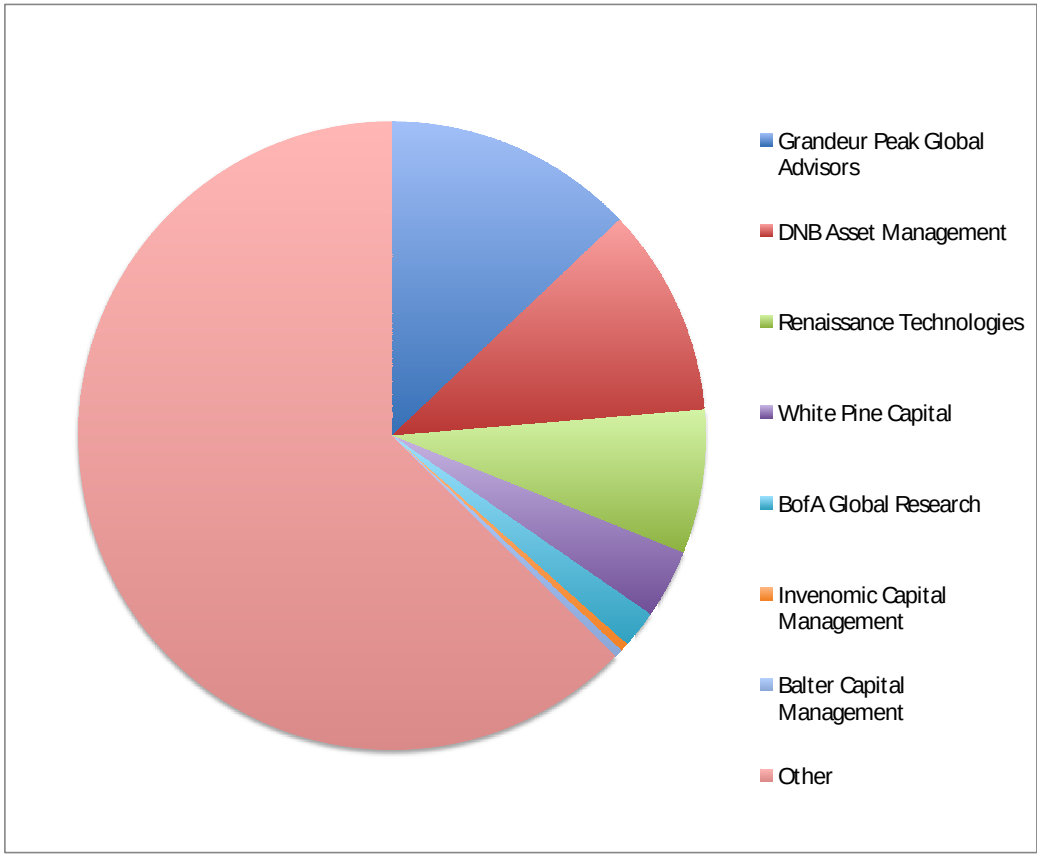
Looking at O2 Micro from an M&A prospective we can look at other fabless semiconductor transactions. In May 2018, Microchip Technology bought Microsemi for $10.15 billion, which was a valuation of 5.5 times its trailing twelve-month revenues of $1.845 billion. Two other comparable companies we had been 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 8.9 times and apply it to OIIM's trailing 12-month $73 million revenues, we would calculate an enterprise value of $650 million. Adding to it $40.8 million in cash and equivalents gives us a market cap of $690 million or **$23.90 per share** using fully diluted shares. 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 15.5 times 2021 estimated EPS.

	Competitors	EV	TTM Sales	EV/Sales
Monolithic Power Systems	**MPWR**	13,000	688	18.9
Cree Inc.	**CREE**	6,750	904	7.5
Microchip Technology	**MCHP**	35,000	5,260	6.7
Maxim	**MXIM**	17,800	2,280	7.8
Texas Instruments	**TXN**	132,000	13,740	9.6
Cirrus Logic	**CRUS**	3,720	1,290	2.9
	Average			8.9

OWNERSHIP



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 20	Dec Q4 20E	2018	2019	2020E	2021E
REVENUE												
Net Revenue	12.8	14.3	16.0	17.9	15.6	17.3	22.2	23.4	62.7	60.9	78.5	94.1
Yr-to-yr Gr.	-10%	-6%	-5%	8%	22%	21%	39%	31%	4%	-3%	29%	20%
OPERATING EXPENSES												
Cost of goods sold	6.3	7.1	7.8	7.7	7.5	8.4	10.7	11.2	30.7	29.0	37.9	46.1
Gross Margin	6.4	7.1	8.2	10.1	8.1	8.9	11.5	12.1	32.0	32.0	40.6	48.0
% of Sales	50.5%	50.1%	51.4%	56.7%	51.9%	51.2%	51.8%	51.9%	51.0%	52.5%	51.7%	51.0%
R&D	5.1	4.8	4.7	4.4	4.1	4.1	4.1	4.3	19.8	19.1	16.6	18.4
SG&A	5.0	4.9	4.6	4.8	4.5	4.3	4.3	4.5	20.3	19.3	17.6	20.8
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	8.4	8.8	40.1	38.4	34.2	39.2
Operating Income	(3.6)	(2.6)	(1.1)	0.9	(0.6)	0.5	3.1	3.3	(8.1)	(6.4)	6.4	8.8
Operating margin	-28%	-18%	-7%	5%	-4%	3%	14%	14%	-13%	-10%	8%	9%
Interest income	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.4	0.5	0.5	0.4
Unrealized fair value on LT Investment	0.0	(0.2)	0.7	0.2	(1.1)	1.1	(0.2)	0.0	9.8	0.8	(0.2)	0.0
Foreign exchange loss	(0.1)	0.1	0.0	(0.1)	0.0	(0.1)	(0.1)	0.0	0.1	(0.2)	(0.2)	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	0.3	0.2	1.0	0.8	0.7	1.1
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	0.1	0.3	11.4	2.5	(0.3)	1.5
Pretax Income	(3.5)	(2.5)	0.1	2.0	(1.3)	0.6	3.2	3.6	3.3	(3.9)	6.1	10.3
Pretax margin	-27.6%	-17.4%	0.8%	11.3%	-8.6%	3.7%	14.3%	15.3%	5.2%	-6.3%	7.7%	10.9%
Taxes	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	1.1	1.2	1.0	1.5
Tax Rate	-8.5%	-11.6%	251.5%	12.4%	-15.4%	40.8%	8.0%	7.8%	34.9%	-30.3%	16.5%	14.3%
GAAP Net Income	(3.8)	(2.8)	(0.2)	1.8	(1.5)	0.4	2.9	3.3	2.1	(5.0)	5.1	8.8
Non-GAAP Net Income	(3.5)	(2.2)	(0.5)	1.4	(0.0)	0.8	3.4	3.6	(6.3)	(4.8)	6.7	10.3
GAAP EPS-Basic	($0.15)	($0.11)	($0.01)	$0.07	($0.06)	$0.01	$0.11	$0.12	$0.08	($0.19)	$0.19	$0.33
GAAP EPS-Fully dil.	($0.14)	($0.11)	($0.01)	$0.07	($0.06)	$0.01	$0.10	$0.11	$0.08	($0.19)	$0.19	$0.33
Non-GAAP	**($0.13)**	**($0.08)**	**($0.02)**	**$0.05**	**($0.00)**	**$0.03**	**$0.12**	**$0.13**	**($0.24)**	**($0.18)**	**$0.24**	**$0.35**
Share Out	26.3	26.4	26.3	26.3	26.7	27.0	27.0	27.0	26.0	26.3	26.9	27.0
Fully diluted shares	26.9	26.4	26.3	27.1	26.7	27.7	28.9	28.9	26.6	26.3	28.1	28.9
Yr-to-yr Gr.	2%	0%	0%	2%	-1%	5%	10%	7%	3%	-1%	7%	3%

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



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