

## O2Micro International Ltd

(NASDAQ: OIIM)

### O2Micro Reports Down Q3 as Industry Inventories Corrects; Privatization Still On Track

The company has accepted an offer to be purchased for \$5.00 per ADS in cash with closing expected in Q1 2023.

### OUTLOOK

O<sub>2</sub>Micro 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, portable tools, appliances, e-bikes, and energy storage. The company has accepted a take-out offer of \$5.00 a share in cash that is expected to close in Q1 2023.

Current Price (11/3/2022) \$4.20  
**Valuation \$5.00**

### SUMMARY DATA

52-Week High 6.67  
 52-Week Low 2.92  
 One-Year Return (%) -36.2  
 Beta 0.6  
 Average Daily Volume (sh) 87,797

Risk Level  
 Type of Stock  
 Industry

Above Average  
 Small Value  
 Elec Comp-Semis

Shares Outstanding (mil) 29.2  
 Market Capitalization (\$mil) \$123  
 Short Interest Ratio (days) 0.5  
 Institutional Ownership (%) 39  
 Insider Ownership (%) 30.6

Annual Cash Dividend \$0.00  
 Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates  
 Sales (%) 13.6  
 Earnings Per Share (%) 42.2  
 Dividend (%) N/A

P/E using TTM EPS 9.0  
 P/E using 2022 Estimate 32.5  
 P/E using 2023 Estimate 18.1

### ZACKS ESTIMATES

#### Revenue

(In millions of US\$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2020	\$15.6 A	\$17.3 A	\$22.2 A	\$23.2 A	\$78 A
2021	\$23.2 A	\$26.2 A	\$27.3 A	\$24.4 A	\$101 A
2022	\$21.6 A	\$22.1 A	\$18.2 A	\$17.5 E	\$79.3 E
2023					\$85.0 E

#### Earnings per Share

(Non-GAAP EPS before non-recurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2020	-\$0.00 A	\$0.03 A	\$0.12 A	\$0.13 A	\$0.29 A
2021	\$0.09 A	\$0.12 A	\$0.13 A	\$0.11 A	\$0.45 A
2022	\$0.06 A	\$0.06 A	\$0.02 A	-\$0.02 E	\$0.14 E
2023					\$0.14 E

### **Inventory Corrections for Battery Management Products Affected Q3 2022 and Should Continue in Q4**

Customer inventory buildups and lithium-ion battery shortages continue to impact sales at O2Micro. The company expects this to continue through Q4 and possibly into Q1 and as a result, expects another down quarter in Q4. We expect the company to remain cash flow neutral at worst.

For Q3 2022, O2Micro expects revenues between \$16 million and \$19 million or a midpoint of \$17.5, which is down sequentially, and a decline of 28% year over year. The decline should be mostly in battery management but TV backlighting products are caught up and could be impacted. With better backlighting product availability, improving supply chains, and the ability to ramp up in the automotive market with its newly available supply, the company is optimistic about 2023. The company is particularly excited about new products for DMS (Drive Monitor System) which the company expects to become an industry leader and now selling to module makers. Now the biggest worry is the global economy and consumer demand—something no one can predict.

Based on company guidance, which tends to be close to results a quarter out we are lowering Q4 revenues and earnings and thus the 2022 year. We now look for 2022 revenues of \$79.3 million and a non-GAAP ADSPS of \$0.14.

### **O2Micro Agrees to be Bought for \$5.00 per ADS in Cash**

O2Micro has announced it has agreed to be bought for \$5.00 per ADS in cash. The company will then be a private entity. The buyers are FNOF Precious Honour Limited, Sterling Du, CEO, and Chairman of the Board, and Perry Kuo, CFO, and director.

The merger will be funded through a combination of a cash contribution from the sponsor pursuant to an equity commitment letter, debt financing to be provided by Credit Suisse AG, Singapore Branch, and equity rollover by the management and other rollover shareholders of all shares and ADSs they beneficially own.

The transaction is expected to close during Q1 2023 and is subject to customary closing conditions, and will need shareholder approval of 2/3s of the votes. The acquirers currently have approximately 16.9% of the voting rights.

### **Q3 2022 Results**

In Q3 2022, revenue was \$18.2 million, down 33% from a year ago, but beat the midpoint guidance. Battery management (industrial), the biggest contributor and formerly the highest grower, had revenues decline again year over year as inventory remains a problem for customers. Back-

lighting (consumer) also declined as the company caught up with its backlog for TVs and inventories built at customers.

Approximate revenues by end market:

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
<b>Revenues</b>	<b>\$23.2</b>	<b>\$26.2</b>	<b>\$27.3</b>	<b>\$24.4</b>	<b>\$21.6</b>	<b>\$22.1</b>	<b>\$18.2</b>
Consumer	8.6	9.4	9.0	9.0	8.0	9.7	8.5
Computer	0.7	0.5	0.5	0.7	0.6	0.7	0.5
Industrial	14.2	16.2	17.5	14.9	13.2	11.7	8.9
Communications	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Revenues for Q3 were \$18.2 million compared with \$27.3 million in Q3 2021. For Q3, the gross margin was 52.3% compared to 52.0% a year ago. The company said to expect the Q3 2022 gross margin to be in the range of 50-52%.

Reported total operating expenses were \$11.1 million in the quarter compared to \$10.6 million a year ago. The company has gone from 315 employees in Q4 2021 to 345 today. R&D expense decreased to \$4.8 million up from \$5.1 million in Q3 2021. SG&A was \$5.0 million down from \$5.4 million in Q3 2021, not including the one-time charge of \$1.3 million from expenses by the committee to evaluate the acquisition proposal (compared to an expense of \$823,000 in Q2 2022.) The company expects the one-time charge for this to be less than \$300,000 in Q4.

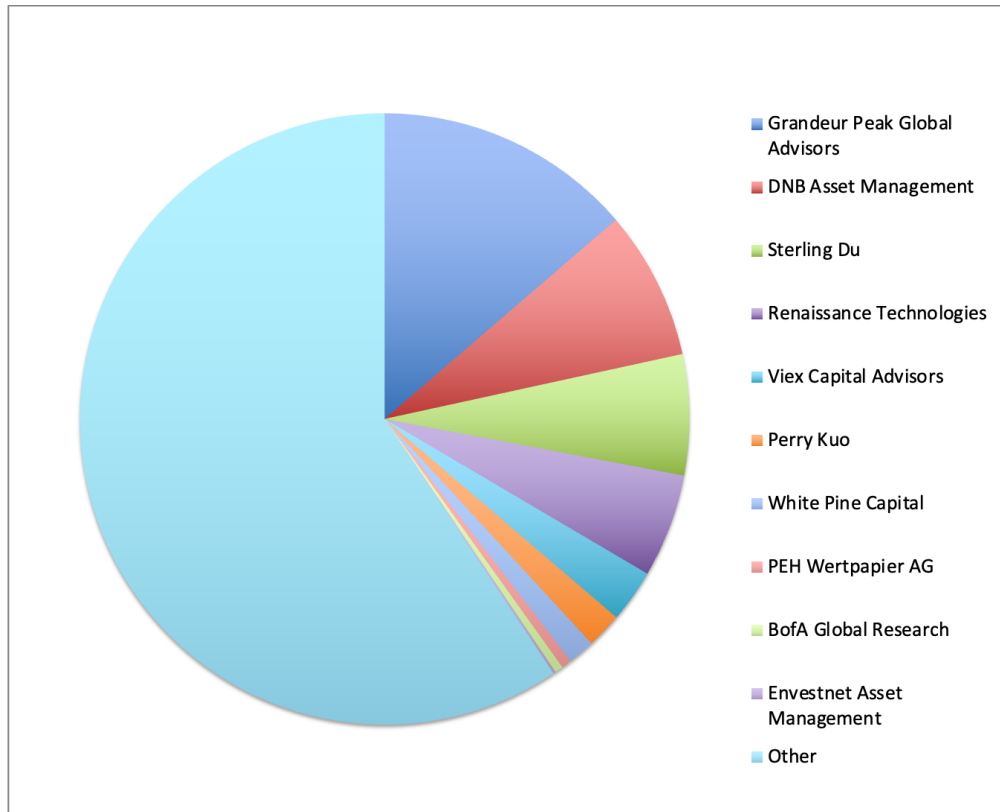
Operating income in Q3 2022 was a loss of \$1.6 million versus \$3.6 million last year. Adding back depreciation and amortization (\$971,000), stock-based compensation (\$594,000), and the one-time charge (\$1.3 million) and adding the rental income, the adjusted EBITDA looks to be \$1.3 million (or 7.3%) compared to \$5.3 million in Q3 2021. Total other income was \$612,000 versus \$342,000 last year.

The company reported a GAAP net loss of \$1.3 million versus last year's income of \$3.7 million. This yielded a fully diluted GAAP ADSPS of -\$0.04 versus \$0.13 a year ago. Non-GAAP income was \$639,000, versus \$4.1 million last year. This yielded a non-GAAP ADSPS of \$0.02, versus \$0.13 last year. ADS outstanding were 29.2 million up 2.5%.

### Balance Sheet

On September 30, 2022, the company had \$50.3 million in cash and equivalents (or \$1.72 per ADS), up \$822,000 sequentially. Net cash generated by operating activities in the quarter was \$1.8 million compared to cash generation of \$4.3 million in Q3 2021. Capital expenditures were \$590,000 compared to \$1.0 million in Q3 2021. This yielded a free cash flow of \$1.2 million. Depreciation and amortization were \$971,000 and adjusted EBITDA was \$1.3 million or 7.3% of sales. During the quarter the company did not repurchase stock.

## OWNERSHIP



## RISKS

- O<sub>2</sub>Micro has high exposure to the global demand for TVs, particularly those sold in China. It is dependent 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. Currently, there is a shortage of lithium-ion batteries damping the supply of end products.
- In 2021, one customer accounted for 10% or more of revenues, and its loss could cause a meaningful decline in revenues. 87% of revenues were from China.
- The company is still somewhat 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. As China opens and closes for business, O<sub>2</sub>Micro is affected by supply chain issues as well as other issues such as electrical blackouts both inhibiting production and delivery.
- The company had also been affected by business shutdowns in Malaysia and Viet Nam due to the pandemic where it has TV manufacturer customers.
- Given its large number of patents, litigation risk is a possibility as the company enforces its patents.
- The company will certainly be affected by the global economy as many countries fall into recession.

- The merger deal could fall through if financing is pulled, or shareholders vote against it. The timeline could also lengthen.

## INCOME STATEMENT

	March Q1 21	June Q2 21	Sept Q3 21	Dec Q4 21	March Q1 22	June Q2 22	Sept Q3 22	Dec Q4 22E	2020	2021	2022E	2023E
<b>REVENUE</b>												
Net Revenue	23.2	26.2	27.3	24.4	21.6	22.1	18.2	17.5	78.3	101.1	79.3	85.0
Yr-to-yr Gr.	49%	52%	23%	5%	-7%	-16%	-33%	-28%	29%	29%	-22%	7%
<b>OPERATING EXPENSES</b>												
Cost of goods sold	11.2	12.7	13.1	11.1	10.3	10.4	8.7	8.6	38.0	48.2	37.9	40.0
Gross Margin	12.0	13.5	14.2	13.2	11.4	11.6	9.5	8.9	40.4	52.9	41.4	45.1
% of Sales	51.6%	51.5%	52.0%	54.3%	52.6%	52.6%	52.3%	51.0%	51.6%	52.3%	52.2%	53.0%
R&D	4.6	4.7	5.1	5.0	5.0	4.9	4.8	5.0	16.2	19.4	20.0	21.4
SG&A	5.1	5.5	5.4	5.7	5.4	5.4	5.0	5.2	17.5	21.6	22.7	23.0
One-time expenses & Adj.	0.0	0.0	0.0	0.0	0.1	0.8	1.3	0.3	0.0	0.0	0.0	0.0
Tot Operating Exp.	9.6	10.2	10.6	10.6	10.4	11.1	11.1	10.4	33.7	41.0	42.7	44.4
<b>Operating Income</b>	2.4	3.3	3.6	2.6	1.0	0.5	(1.6)	(1.5)	6.7	11.9	(1.3)	0.7
Operating margin	10%	13%	13%	11%	4%	2%	-9%	-8%	9%	12%	-2%	1%
Interest income	0.1	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.5	0.2	0.5	1.0
Net gain recognized on LT investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0
Foreign exchange loss	0.0	(0.1)	0.1	0.1	0.1	0.0	0.3	0.0	(0.2)	0.1	0.5	0.0
Gain on sale of real estate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government grants	0.1	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.8	0.4	0.2	0.2
Other (rent) - net	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	0.5	0.4	0.5
One-time charge	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.2)	0.0	0.0	0.0
Total other Income	0.4	0.1	0.3	0.4	0.3	0.3	0.6	0.4	0.4	1.2	1.6	1.7
<b>Pretax Income</b>	2.7	3.4	4.0	3.0	1.3	0.8	(1.0)	(1.0)	7.1	13.1	0.3	2.4
Pretax margin	11.7%	13.0%	14.5%	12.3%	5.8%	3.6%	-5.6%	-6.0%	9.0%	12.9%	0.4%	2.8%
Taxes	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.9	1.0	0.9	0.7
Tax Rate	9.0%	7.4%	7.1%	6.6%	16.2%	29.5%	-23.4%	-24.0%	13.3%	7.4%	NM	29.3%
<b>GAAP Net Income</b>	2.5	3.2	3.7	2.8	1.1	0.6	(1.3)	(1.3)	6.1	12.1	(0.6)	1.7
Non-GAAP Net Income	2.9	3.6	4.1	3.4	1.9	2.0	0.6	(0.5)	8.2	14.0	4.0	4.1
GAAP ADSPS-Basic	\$0.09	\$0.11	\$0.13	\$0.10	\$0.04	\$0.02	(\$0.04)	(\$0.04)	\$0.23	\$0.43	(\$0.02)	\$0.06
GAAP ADSPS-Fully dil.	\$0.08	\$0.10	\$0.12	\$0.09	\$0.03	\$0.02	(\$0.04)	(\$0.04)	\$0.21	\$0.39	(\$0.02)	\$0.06
<b>Non-GAAP</b>	<b>\$0.09</b>	<b>\$0.12</b>	<b>\$0.13</b>	<b>\$0.11</b>	<b>\$0.06</b>	<b>\$0.06</b>	<b>\$0.02</b>	<b>(\$0.02)</b>	<b>\$0.29</b>	<b>\$0.45</b>	<b>\$0.14</b>	<b>\$0.14</b>
Yr-to-yr Gr.	-5813%	299%	12%	-16%	-33%	-44%	-84%	-114%	-255%	58%	-70%	3%
ADS Out	28.0	28.4	28.5	28.5	29.0	29.2	29.2	29.2	27.0	28.4	29.1	29.2
Fully diluted ADS	31.4	31.1	31.0	30.8	30.6	30.4	29.2	29.2	28.7	31.1	29.8	29.2
Yr-to-yr Gr.	18%	12%	7%	1%	-3%	-2%	-6%	-5%	9%	8%	-4%	-2%
Net cash generated	1.10	3.60	4.30	\$1.30	(1.20)	1.50	1.80	1.50	(1.42)	10.30	3.60	
EBITDA	\$3.87	\$4.76	\$5.26	\$4.49	\$3.09	\$3.00	\$1.32	\$0.48	\$12.01	18.38	\$6.69	\$7.95
Margin	16.7%	18.2%	19.3%	18.4%	14.3%	13.6%	7.3%	2.7%	15.3%	18.2%	8.4%	9.4%
Cap Ex	2.4	3.5	1.0	1.9	0.7	0.6	0.6	0.6	2.45	8.80	4.0	4.0
Free cash	1.5	0.1	3.3	(0.6)	(1.9)	0.9	1.2	0.9				

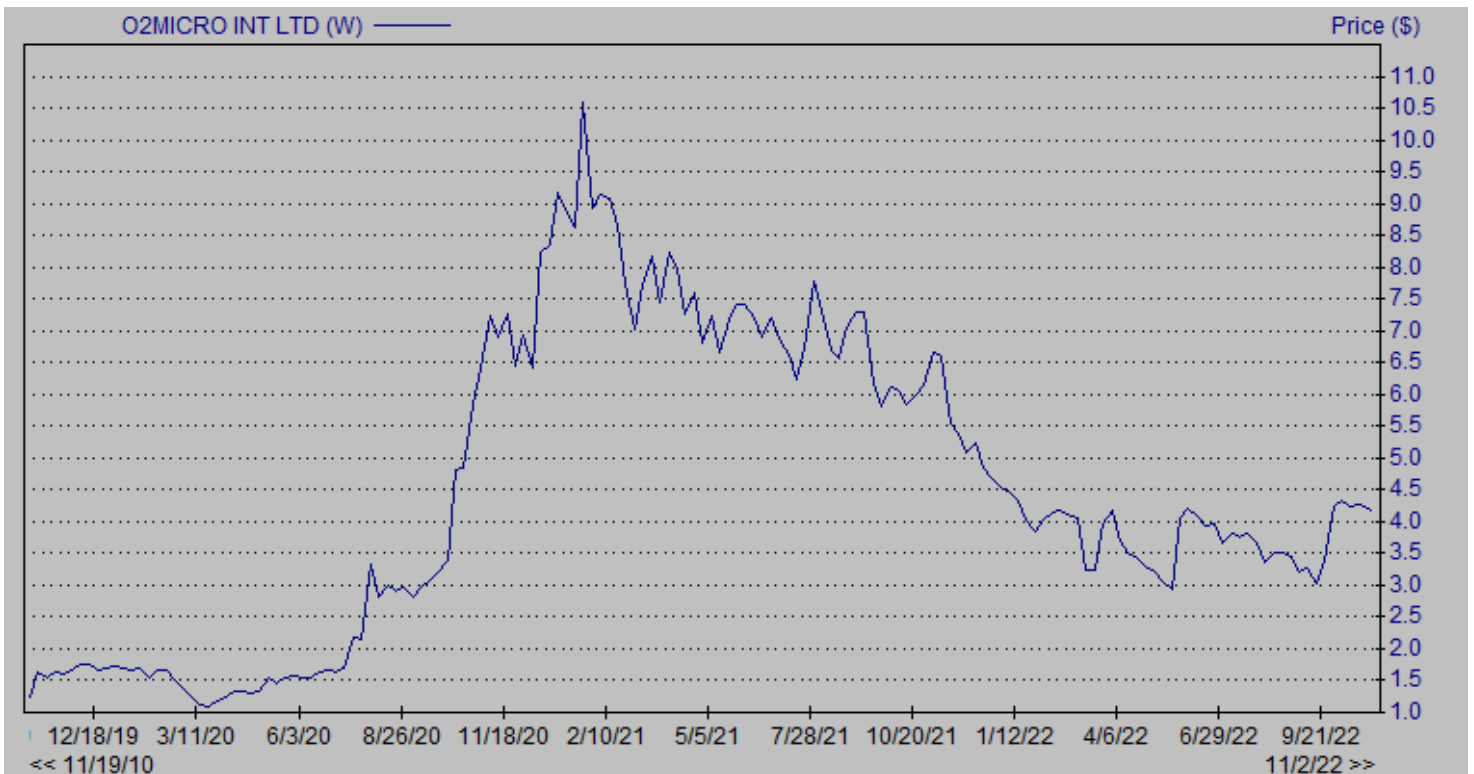
## BALANCE SHEET

	Sept 30, 2022	June 30, 2022	Qtr-to-Qtr % Change	Sept 30, 2021	Yr-to-Yr % Change
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$46,250	\$27,526	68.0%	\$22,073	109.5%
Restricted cash	34	36	-5.6%	38	-10.5%
Short-term investments	4,033	21,935	-81.6%	28,661	-85.9%
Accounts receivable, net	13,002	17,187	-24.3%	16,693	-22.1%
Inventories	22,476	21,559	4.3%	18,001	24.9%
Prepaid expenses and other current assets	1,546	1,728	-10.5%	3,423	-54.8%
<b>Total current assets</b>	<b>87,341</b>	<b>89,971</b>	<b>-2.9%</b>	<b>88,889</b>	<b>-1.7%</b>
LONG-TERM INVESTMENTS	992	992	0.0%	992	0.0%
PROPERTY AND EQUIPMENT, NET	21,761	22,968	-5.3%	22,407	-2.9%
OTHER ASSETS	3,966	4,237	-6.4%	3,858	2.8%
Total other assets	26,719	28,197	-5.2%	27,257	-2.0%
<b>TOTAL ASSETS</b>	<b>114,060</b>	<b>118,168</b>	<b>-3.5%</b>	<b>116,146</b>	<b>-1.8%</b>
<b>CURRENT LIABILITIES</b>					
Accounts payable	5,450	6,860	-20.6%	10,295	-47.1%
Income tax payable	354	183	93.4%	376	-5.9%
Lease liabilities	992	1,128	-12.1%	977	1.5%
Accrued expenses and other current liabilities	5,393	6,331	-14.8%	5,355	0.7%
<b>Total current liabilities</b>	<b>12,189</b>	<b>14,502</b>	<b>-15.9%</b>	<b>17,003</b>	<b>-28.3%</b>
<b>OTHER LONG-TERM LIABILITIES</b>					
Accrued pension liabilities	108	123	-12.2%	144	-25.0%
Deferred tax liabilities	631	672	-6.1%	690	-8.6%
Lease liabilities	1,528	1,637	-6.7%	1,965	-22.2%
Other liabilities	63	66	-4.5%	69	-8.7%
Total long-term liabilities	2,330	2,498	-6.7%	2,868	-18.8%
<b>Total liabilities</b>	<b>14,519</b>	<b>17,000</b>	<b>-14.6%</b>	<b>19,871</b>	<b>-26.9%</b>
<b>SHAREHOLDERS EQUITY</b>					
Ordinary shares	33	33	0.0%	33	0.0%
Additional paid-in capital	143,944	143,377	0.4%	142,974	0.7%
Accumulated deficits	(35,185)	(33,924)	3.7%	(37,951)	-7.3%
Accumulated other comprehensive income	3,585	4,596	-22.0%	5,777	-37.9%
Treasury stock	(12,816)	(12,914)	-0.8%	(14,558)	-12.0%
Total shareholders equity	99,561	101,168	-1.6%	96,275	3.4%
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>114,060</b>	<b>118,168</b>	<b>-3.5%</b>	<b>116,146</b>	<b>-1.8%</b>
		\$822			
Cash and equivalents	\$50,283	\$49,461	1.7%	\$50,734	-0.9%
Current Ratio	7.2	6.2	15.5%	5.2	37.1%
Quick Ratio	5.3	4.7	12.8%	4.2	27.6%
Change in cash and equivalents	822	1,284	-36.0%	3,381	-75.7%
DSO	75	68	10.3%	55	36.4%
Inventory Days	229	187	22.5%	117	95.7%

# ANNUAL CASH FLOW

	2021	2020	2019	2018	2017
<b>OPERATING ACTIVITIES</b>					
Net loss	\$ 12,113	\$ 6,127	\$ (5,039)	\$ 2,088	\$ (6,145)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>					
Depreciation and amortization	4,349	3,225	1,780	1,641	1,667
Stock-based compensation	1,878	1,414	1,462	1,421	1,589
Other income - government grants	(391)	(817)			
Loss on asset write-off			0	0	0
Inventory write-downs	800	405	1,359	1,328	642
Net gain recognized on LT investments	0	79	(788)	(9,916)	0
Gain on sale of long-term investments	0	0	(500)	0	(20)
Impairment loss on long-term investments	0	0	0	0	0
Gain on disposal of property & eqt, net	22	(189)	2	(6)	(137)
Deferred income taxes	(6)	(5)	(133)	(155)	40
Other, net	0	0	0	0	0
<b>Changes in operating assets and liabilities:</b>					
Accounts receivable, net	(2,354)	(6,095)	1,053	(2,204)	(1,979)
Inventories	(7,735)	(4,197)	133	(2,286)	(697)
Prepaid expenses and other current assets	461	(1,276)	981	(1,031)	(139)
Deferred charges	(393)	(3,836)	(571)	(983)	(553)
Operating lease right of use assets	98	(169)	(1,477)	0	0
Notes and accounts payable	1,180	3,128	285	2,122	(1,869)
Income tax payable	35	(339)	198	72	161
Government grants	391	817			
Accrued expenses and other current liabilities	117	808	661	(105)	186
Operating lease liabilities	(105)	197	1,494	0	0
Accrued pension liabilities	(46)	(33)	(42)	(20)	13
Other liabilities	0	3	3	(1)	3
Net cash used in operating activities	10,414	(753)	861	(8,035)	(7,238)
<b>Acquisition of:</b>					
Short-term investments	(10,404)	(4,491)	(34,649)	(11,197)	(8,505)
Long-term investments	0	0	0	0	0
Property and equipment	(8,806)	(2,476)	(1,672)	(1,272)	(704)
<b>Decrease (increase) in:</b>					
Restricted assets	0	0	0	0	0
Restricted cash	0	0	0	0	0
Other assets	(816)	(47)	6	(12)	22
<b>Proceeds from:</b>					
Sale of short-term investments	10,453	11,418	4,953	22,540	12,635
Sale of long-term investments	0	3,124	7,061	2,582	0
Return of capital from LT investment	0	0	0	0	1,163
Sale of real estate	0	0	2,169	0	
Disposal of property and equipment	137	331	1	16	145
Net cash provided by investing activities	(9,436)	7,859	(22,131)	12,657	4,756
<b>FINANCING ACTIVITIES</b>					
Acquisition of treasury stock	(482)	(146)	(510)	(451)	(708)
<b>Proceeds from:</b>					
Exercise of stock options	1,627	476	7	10	29
Issuance of ordinary shares under the ESP Plan	126	77	109	86	84
Net cash used in financing activities	1,271	407	(394)	(355)	(595)
EFFECTS OF CHANGES IN FOREIGN EX RATE	(219)	545	(53)	(374)	268
NET CHANGE IN CASH AND CASH EQUIV.	2,030	8,058	(21,717)	3,893	(2,809)
CASH & CASH EQUIV. AT BEGINNING OF YR	18,789	10,731	32,448	28,555	31,364
CASH & CASH EQUIVALENTS AT END OF YR	20,819	18,789	10,731	32,448	28,555
Cash paid for tax	\$ 942	\$ 1,223	\$ 1,171	\$ 1,218	\$ 818
Cash Flow	18,765	10,239	(1,857)	(3,599)	(2,364)
Free cash flow	10,096	8,094	(3,528)	(4,855)	(3,068)

# HISTORICAL STOCK PRICE



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