MEMS 4Q Earnings

MEMS	*MEMSIC*				
Qtr:	4Q	**Grade:**	*D*	***Growth****(qtr-qtr)*	
Rev:	14.2	**Rev:**	- - -	**Rev:**	-6.6%
GM:	36.6%	**EPS:**	+	**Fcst:**	-23-16%
EPS:	($0.03)	**Fcst:**	- - -	**Div:**	

MEMS announced disappointing 4Q earnings early-Friday as it struggles with the lack of profitability and growth while a major cell phone customer ramps down and the Board wrestles with a $4 cash/share takeover offer by major shareholder IDG-Accel launched on November 20. I remain on the sidelines, although there could very well be potential arbitrage upside for you more sporting-types with the stock closing at $3.19 down by -$0.16 yesterday reflecting 1-times book value and 1.2-times TTM sales amid $1.85/share in net cash.

Cell phones accounted for 44% of sales, consumer at 20%, automotive 19%, and industrial/other 17%. MEMS is adding sales resources to US and Europe and diversifying into higher-margin and more stable industrial and automotive applications and away from lower-margin cell phone sales with high customer concentration at Samsung. Accelerometer and eCompass sensors will generate most of the revenue over the next couple of years, but new parts for industrial and automotive applications are expected this year and next accounting for the surge in R&D along with the lack of Chinese Government subsidies. A new gas flow sensor is being tested at several potential customers. Consumer sales include accelerometers to digital cameras in Japan and magnetic sensors into tablets. Declining Samsung handset sales probably account for around 30% of sales (Samsung was 37% of sales in 2011 and three, over-10% customers totaled 60% during 3Q12.) Nevertheless, the company cannot ignore the handset market due to its size and growth and is working with over 100 potential mobile and consumer customers where it can leverage its presence in China to diversify its exposure. Sensor attach rates in Chinese smartphones is fairly low at an estimated at 15% and management hopes it will grow to 30% by year-end, although such a surge probably won't begin before mid-year. Shareholder dissatisfaction was expressed on the call and management admitted it is taking longer to 'evaluate strategic alternatives' than expected in lieu of the IDG-Accel offer.

Correction: AMBA held a conference call for 3Q12 after its IPO, so Thursday's call wasn't its first as I thought.

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