

## **MagnaChip CFO Resigns**

**MagnaChip** (MX, \$14.52 +0.29, Rated Long But Distressed in my latest *Semiconductor Investment Ideas*)

**CFO Resigns:** After the close on Friday the company announced the immediate resignation of its CFO, and the recently hired Chief Accounting Officer will temporarily assume the position while a replacement is sought. In addition, the accounting restatements are expected to take ‘several more months’ and the May 9 Investor Conference will be rescheduled after the restatements and filings are complete.

The incremental bad news here is more so the ‘several more months,’ and less so the resignation. The accounting restatement associated with distributor revenue recognition extending back through 2011 was announced on March 11, delayed 4Q13 results, and triggered the hiring of the CAO and the CFO’s loss of that role at the time.

I think there is more opportunity here than risk, at this point. Distributor revenue recognition problems are age-old in the semiconductor industry (somehow a number of them found their way to my desk during my industry tenure), but almost always result in the time-shifting of reported sales across fiscal quarters and rarely significantly impact reported total sales over longer periods of time. No guarantee in this case, of course, but that is my experience. In addition the shares are trading at 0.6x sales, mid-single digits-times earnings, and 1.6x book, which are very depressed—and attractive—levels, in my opinion. On March 11 MX specifically stated that it did not expect the restatements to change cash or debt levels for any quarter, and that cash at the end of the year was \$153.6M compared to \$158.3M the prior quarter. 3Q debt was \$223.9M.

Yes this is bad news and the company is distressed, but I believe upside potential significantly exceeds downside risk at current price levels.

**—Dan K. Scovel**  
*Semiconductor Analyst*

**Tokeneke Research LLC**  
**Rowayton, CT 06853**  
[dscovel@tokenekeresearch.com](mailto:dscovel@tokenekeresearch.com)  
[www.tokenekeresearch.com](http://www.tokenekeresearch.com)  
203-554-4621

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