

## Sigma Designs F4Q, NeoPhotonics 3Q

SIGM		Sigma Designs	
<b>Qtr:</b>	F4Q	<b>Grade:</b>	<i>F</i>
<b>Rev:</b>	38.5	<b>Rev:</b>	---
<b>GM:</b>	61.1%	<b>EPS:</b>	---
<b>EPS:</b>	(\$0.13)	<b>Fcst:</b>	---

**Sigma Designs** (*SIGM, \$4.80 +0.27, Rated Long—But Upside Incremental in my latest Chip Investment Ideas*)

**F4Q Miss:** Late yesterday SIGM announced disappointing January-ended F4Q results that missed expectations due to product transitions and inventory adjustments, although the company deserves credit for completing a significant restructuring and achieving pro forma profitability for all of last year. Guidance calls for a revenue decline this quarter but management claims a large number of design wins will deliver growth during the second half of the year resulting in a net gain over last year's \$199.2M—which implies significant sequential gains after this quarter.

DTV revenue declined sequentially by -53% to \$6.2M or 16% of sales; settop box sales fell by -16% to \$8.1M or 21% of sales; home networking down -29% to \$13.8M or 36%; home control down -27% to \$4.3M or 11%; and margin-rich licensing down -5% to \$6.1M or 16% of sales. DTV and settop box revenues are expected to decline this quarter, while home networking and home control are expected to grow.

This was a frustrating announcement after hope for a turnaround emerged the prior quarter when revenue eked a gain, pro forma profitability was achieved, the activist shareholder was bought-out, and management emphasized underlying business strength and a commitment to sustaining profitability despite guidance calling for a seasonally-aggravated revenue decline of -27-19%. I am curious to see where the shares close today—which, by definition, should be a fairly robust support level given all this bad news. While the shares are likely to be dead money after today's action, I think any emerging evidence of potential gains leading to flat revenues on an annual basis could easily trigger upside. While my confidence in the company's business and financial outlook is lagging, the risk-reward ratio given fundamental share price valuation at the current price level remains very tempting.

**NeoPhotonics** (*NPTN, \$7.86 +0.20, Rated Hold/Not Compelling in my latest Semiconductor Investment Ideas*)

**3Q Results Amid Restatements:** Late yesterday NPTN announced calendar 3Q13 results (not 4Q) along with earnings restatements for both 1Q and 2Q related to real estate tax accounting associated with its acquisition of assets from LAPIS Semiconductor. I am less concerned by the restatement and more so by the persistent lack of profitability and revenue growth—despite a not unattractive fundamental valuation at current price levels.

The 1Q GAAP loss was increased by 6-cents to (\$0.40) and the 2Q loss by 4-cents to (\$0.27) while revenue is unchanged. 3Q revenue was up by +2.4% to \$76.8M with a pro forma loss of (\$0.10), cash of \$70.6M and debt of \$45M; 4Q guidance calls for revenue of \$74-75M and a pro forma loss of (\$0.10-\$0.05); and 1Q guidance calls for revenue of \$67-69M. NYSE listing is at risk if the 10K for 2013 is not filed by October 1. NPTN is a leading supplier of photonic integrated circuits (PICs) for 100Gbps optoelectronic modules and subsystems.

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LEGEND		Grade	
+++	exceeded the high-end of the range	A	all +++
++	above consensus, within the high-end of the range	B	all +
+	slightly above consensus	C	all o/+
o	met consensus	D	mixed -/o/+
-	slightly below consensus	E	all o/-
--	missed consensus, within the low-end of the range	F	all -
---	missed the low-end of the range		

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