

ENTR Shortfall Prompts ‘Strategic Alternatives’

Entropic Communications (*ENTR*, \$2.74 -0.03, *Rated Long—but Distressed in my latest Chip Investment Ideas*)

3Q Shortfall: ENTR lowered 3Q guidance this morning and engaged Barclays to ‘evaluate strategic alternatives to enhance shareholder value.’ While this is clearly bad news for the company, at current price levels I think there could finally be more opportunity than risk for this distressed equity that has been struggling since late-2012.

Quarterly revenue peaked at \$90M during 2H12 and the company has struggled with a series of restructurings and losses amid declining revenue ever since. This morning’s announcement specifically anticipates 3Q14 revenue at \$43M or down by -14% sequentially, after original guidance for flat sales around \$50M. The shortfall is attributed to weaker than expected seasonal strength from direct broadcast satellite markets as well as on-going weakness from legacy settop boxes. This weakness underscores similar expectations of a shortfall this quarter announced Monday of last week by MXL (MaxLinear) due to cable and satellite settop boxes, and does not bode well for major players BRCM or STM in the space. While both ENTR and MXL are smaller players focused on settop boxes, both announcements are only serving to fuel my fears of seasonal 2H weakness across the broader semiconductor industry.

I (incorrectly) upgraded the shares to Long-but Distressed on June 22 at around \$3.25, but then (incorrectly again) backed-away after another preannouncement of weakness on August 3 when the shares bottomed around \$2.50. I couldn’t resist and upgraded my recommendation again at the beginning of this week with the shares trading around 1-times sales and book value and after a flurry of new product and design win announcements since the beginning of the September. This time around I can claim support with a benefit from Strategic Alternatives.

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