

MTSI F4Q, QRVO Analyst Day

MTSI		M/A-COM Technology			
Qtr:	F4Q	Grade:	C	Growth(qtr-qtr)	
Rev:	114.3	Rev:	o	Rev:	+1.7%
GM:	54.1%	EPS:	+++	Fcst:	-2+1%
EPS:	\$0.35	Fcst:	+++	Div:	

M/A-COM Technology (MTSI, \$22.98 +0.89, Rated Hold/Not Compelling in my latest Chip Investment Ideas)

F4Q and Acquisition: MTSI announced F4Q results and guidance largely consistent with expectations on an absolute basis, although exceeded EPS and guidance on a relative basis due to a very narrow range of expectations. Strength from networking, catalog and automotive was partially offset by radar program delays. It also announced the acquisition of privately-held InP laser maker BinOptics for \$230M in cash necessitating \$100M of debt.

Revenue grew by +6.8% sequentially adjusting for \$5M-worth of business sold to FSL the prior quarter, and gross margin improved by 240bps due to a richer mix of optical products to networking customers amid share gains. Networking accounted for 49% of sales, aerospace/defense 18%, automotive 18%, and multi-market 15%. BinOptics is generating triple-digit growth in a capacity-constrained market and includes photonic IC expertise, although probably generates no more than a few million dollars in annual sales. The deal is expected to close next quarter and be accretive on a pro forma basis the first full quarter of combined operations.

MTSI has resurrected growth via acquisitions, including four deals last year resulting in +30%, and expects double-digit growth again this fiscal year—thanks in part to BinOptics. The famed technology has always been good and profitability has been restored and continues to improve. There is a legitimate argument here for incremental share price upside depending on the magnitude of double-digit growth over the next year or two with trailing price/sales and price/EPS at 2.7x and 18.4x, respectively, in my opinion. However, I am not convinced of indigenous growth and acquisitions appear to have largely tapped-out the balance sheet at this point. If the macro-environment was healthier I would probably take a sporting chance, but I remain on the sidelines for now.

RF Micro Devices (RFMD, \$13.75 +0.40, Rated Hold/Not Compelling in my latest Chip Investment Ideas)

TriQuint (TQNT, \$22.93 +0.73, Rated Hold/Not Compelling in my latest Chip Investment Ideas)

Qorvo Analyst Day: Was a nice, long, and comprehensive advertisement for all the expected benefits associated with the proposed merger that still hasn't closed pending regulatory approvals—despite shareholder approvals. While the argument for world domination by the combined companies in the growing market for RF has been fine-tuned to a polished symphony, execution and progress against the expected opportunity still can't be evaluated. And unfortunately: customers, competitors and partners continue to move forward unencumbered by regulatory delays.

—Dan K. Scovel
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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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