

RMBS 3Q Exceeds, Busy Place

| RMBS | | Rambus | |
|-------------|--------|---------------|-----|
| Qtr: | 3Q | Grade: | B |
| Rev: | 89.9 | Rev: | +++ |
| GM: | 78.4% | EPS: | +++ |
| EPS: | \$0.16 | Fcst: | + |

Rambus (RMBS, \$11.99 +0.37)

3Q Earnings: RMBS reported 3Q results late yesterday above the high-end of the range of expectations due to strength from licensing programs (royalties on unit shipments, semiconductor IP, software, architectural IP), memory buffer products, and security technology development projects—as well as acquisitions.

Memory and interface (MID) revenue was \$63.1M up +16% sequentially and +14% year-to-year, security was \$22.5M up +37% sequentially and +84% on the year, and lighting and display technology (LDT) revenue was \$4.2M down -35% sequentially and -32% on the year. Cash and equivalents declined by \$108.5M to \$150.8M primarily due to \$122M used to acquire the Inphi Memory Interconnect Business and Snowbush IP assets.

Rambus is a very busy place. In the MID segment: it recently signed a license agreement with Xilinx; acquired Inphi's Memory Interconnect products; added semiconductor IP cores through the acquisition of Snowbush IP; has ported its DDR4 PHY to GlobalFoundries on its 14nm LPP process node; has SerDes designs at all major foundries; is working on FPGA acceleration to improve performance on big data applications; is collaborating with Microsoft Research on cryogenic computing; and working on resistive RAM technology at Tsinghua University.

In the security segment, much revenue comes from DPA countermeasures deployed in the 7 billion banking and SIM smartcards shipped annually (albeit at a tiny royalty). It just announced a license with NVIDIA to protect visual computing against side-channel attacks; the Bell ID mobile payments team announced the Token Gateway mobile wallet solution for banks; UK rail ticket purchasing via smartphone is available from its Ecebs smart ticketing group; showcased its CryptoManager platform at the QUALCOMM 4G/5G Summit; a number of defense applications; anti-counterfeiting solutions for printers and networking equipment; and mobile apps like NFC.

I like the quantity and diversity of programs offering potential growth, and the enthusiasm and flexibility exhibited by management after strategic changes at the company in recent years. The shares currently trade around 4x sales and 20x earnings in the middle of their 52-week range. I consider the valuation attractive compared to its historical average as a pure-play IP firm, but fairly valued for a conventional fabless company. The problem is that its current business model straddles both. I'm bullish over the next several years, although shorter-term I think the shares will move mostly on less-certain revenue growth. Buy it on weakness for the long-term, I guess.

—Dan K. Scovel
Semiconductor Analyst

LEGEND

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

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