

## OVTI F1Q Exceeds on Chinese Smartphone Strength And Despite US Customer Weakness. Fine-tuning Estimates, Reiterate Buy.

Diluted Shares(mil):	60.1	<u>Closing Price 8/28/14</u>	<u>FTE April</u>	<u>FY14 act</u>	<u>FY15</u>	<u>FY16</u>
Market Cap(\$mil):	\$1,633	\$27.18	Revenue(\$mil)	\$1,453.9	\$1,454.7	\$14,889.0
Avg Volume(,000):	1,420		EPS <i>pf</i>	\$2.24	\$2.26	\$2.02
Net Cash/Share:	\$8.13	<u>Recommendation/Target</u>	Price/Sales	1.1	1.1	0.1
Tangible Book/Share:	\$16.15	Buy/\$35	Price/EPS	12.1	12.0	13.5

*OmniVision is a fabless semiconductor company that is a leading supplier of CMOS image sensors.*

**Summary:** July-ended F1Q revenue and adjusted EPS both exceeded the high-end of the range of expectations due to continuing strength from smartphones to China—and despite North American customer weakness. Revenue grew by +23% to \$407M, gross margin improved by 160 basis points to 22.0%, and pro forma EPS of \$0.91 included a one-time tax benefit of \$0.28. While guidance calls for a revenue decline this quarter due to customer transitional issues in North America, OVTI remains extremely well positioned to benefit from the rise of low-end and mid-range smartphones to China serving both domestic and export markets. I am fine-tuning my estimates; maintaining my 12-month target price of \$35 based on 1.5-times sales; and reiterate my Buy recommendation on the shares.

**Buyout Proposal:** OVTI received a buyout proposal for \$29 per share in cash on August 12 from a group of Beijing investors lead by Hua Capital Management (HCM). While management is ‘evaluating it; has not made a decision; and is focusing its efforts on operations,’ my guess is that management would prefer the company remain independent and that other suitors would be preferable should that not be a viable option. I choose to interpret their benign comments as not favorable, as opposed to not unfavorable. I think the company is worth at least \$35 and that OVTI’s wafer foundry and joint-venture partner TSMC would be a good strategic fit as a potential White Knight.

**F1Q Review:** Revenue grew by +22.8% sequentially to \$406.5M, exceeding the high-end of the range of both guidance and expectations as strength from smartphones to China more than offset North American customer weakness that is expected to persist for another quarter or two. Pro forma gross margin improved by 160 basis points to 22.0% on the ramp of new cost-effective PureCel-generation devices. Gross margin was negatively impacted by -170 basis points due to obsolete inventory write-offs, which were 10 basis points worse than the prior quarter. Pro forma EPS of \$0.91 included a one-time tax benefit of \$0.28, but still exceeded the high-end of the range of expectations on an adjusted basis due to the combination of sales and gross margin upside. Cash increased by \$73M to \$524M and inventory increased by \$17M to \$288M. The book value for OmniVision’s 30.3M shares of WLCSP is \$34.7M on the balance sheet, although this stake was worth \$197M based on the prior day’s closing price of WLCSP in China.

<i>FYE April</i> <i>pro forma, millions</i>	F1Q			Guidance	Consensus	Range
	Estimate	Actual	EPS Impact			
Revenue	\$385.0	\$406.5	\$0.07	\$360-400	\$382.8	\$375-392.4
Revenue Growth	16.3%	22.8%		+8.8+20.9%	15.7%	+13.3+18.6%
Gross Margin	20.8%	22.0%	\$0.08			
Op Expense	\$47.0	\$48.8	(\$0.03)			
Interest/Other Inc	\$1.5	\$1.5				
Taxes	\$3.5/10%	(\$12.2)	\$0.28/0.00	10.0%		
Shares	59.32	60.08	(\$0.01)			
Diluted EPS	\$0.52	\$0.91/0.63	\$0.39/0.11	\$0.43-\$0.63	\$0.53	\$0.48-\$0.61

Unit shipments grew by +24% to 249M from the prior quarter, ASPs slipped by a penny to \$1.63, and OEM sales continued to account for 78% of revenue. The company changed its product categories with this report from 2Mp+/1.3MP/VGA to 8Mp+/3-5Mp/2Mp-. 8Mp and greater accounted for 10% of shipments up from 9% the prior quarter; 3-5Mp devices accounted for 40% up from 34%; and 2Mp and smaller accounted for 50% down from 57%. Mobile phones continued to accounted for 69% of sales on strength from China; entertainment grew to 16% from 15% despite tablet weakness from North America; notebook PCs/webcams strengthened to 6% from 5% on the notebook PC market rebound; and the company is now breaking out automotive that grew by double-digits sequentially and accounted for 5% of sales, up from 4% for all of FY14.

**Growth Opportunities:** OmniVision is well positioned to support Chinese handset OEMs serving value, mainstream and performance segments in China associated with the roll out of 4G LTE, as well as emerging markets migrating to 3G smartphones from feature phones in Asia, Africa and Latin America—and especially India. The company's new PureCel technology offers better performance including lower power as well as lower cost, and densities of 13/8/5/2-megapixels continue to ramp and accounted for revenue in the low-teens percentage last quarter. Management remains very bullish for the company's prospects in automotive and IP security applications, although challenges persist from competitive price pressure and fading sales to North America in the near-term.

**Fine-tuning Estimates:** Management guidance for F2Q includes: sales of \$360-390M; R&D slightly up; GAAP and pro forma tax rates in the mid-teens and 10%, respectively; GAAP EPS of \$0.29-\$0.45; and pro forma EPS of \$0.43-\$0.59. My F2Q estimate is at the mid-point of guidance. Weak F2Q revenue and higher operating expenses are being offset by last quarter's revenue, gross margin and tax benefit upside—all of which are trickling through my model over the next six quarters. Net-net, my estimates are being fine-tuned as noted in the table below.

FYE April pro forma, millions	F2Q		FY15		FY16	
	Previous	Update	Previous	Update	Previous	Update
Revenue	\$385.0	\$375.0	\$1,482.3	\$1,454.7	\$1,489.3	\$1,489.0
Revenue Growth	0.0%	-7.8%	1.9%	0.1%	0.5%	2.4%
Gross Margin	21.2%	22.3%	21.3%	22.3%	22.0%	22.5%
Op Expense	\$48.5	\$49.4	\$192.4	\$197.0	\$198.5	\$202.3
Interest/Other Inc	\$1.5	\$1.5	\$6.0	\$6.0	\$6.0	\$6.0
Taxes	10.0%	10.0%	10.0%	-2.3%	10.0%	10.0%
Shares	59.60	60.37	59.75	60.51	60.89	61.66
Diluted EPS	\$0.52	\$0.53	\$1.95	\$2.26	\$2.00	\$2.02

**Valuation Attractive:** Valuation tables for OVTI are shown on Page 6 of this report. The bottom table, Historical Valuation, captures the weekly averages since its IPO of trailing 12-month price-earnings, price-sales, and price-book ratios. Unfortunately, these historical averages are unrealistically high given the nature of equity markets at this time. The top table, Relative Valuation, measures OVTI against a set of peers in the current equity market environment and is considerably more relevant, in my opinion.

My first preference would be to choose a set of fabless, ASSP (application-specific standard product) semiconductor companies with comparable sales, margin, market cap, and historical average price-sales ratios that would look very much like the peer group I chose for SIMG that includes AMCC, ENTR, LSCC, MCRL, PLXT and SIMO. This would support an argument to value OVTI at 2-times sales and price target over \$45. Unfortunately, I don't think most investors would agree due to the lower gross margins at OVTI. Nevertheless, I reserve the right to introduce such a methodology in the future if and/or when OVTI's gross margins recover to higher levels.

Instead, I compiled a set of comparable peers whose current numerical magnitudes of sales, gross margin, market cap, and historical average price-sales ratios are more closely aligned. This was not a trivial exercise, and I could not come up with any peers that satisfied more than three out of those four criteria. The set of peers I generated as noted on Page 6 includes CODE, CY, DIOD, IRF, MX, RFMD and TQNT. I can justify this group on a quantitative basis at a very robust level. However, qualitatively I doubt I could dream up a more eclectic and motley crew in terms of product offerings, business models, corporate strategies, and corporate and product evolutionary lifecycles.

OVTI remains inexpensive any way that I look at it: price-sales, price-earnings, and price-book. It is trading as the second or third lowest of both price-earnings and price-sales ratios of its peers across all but one time period identified in the table. My 12-month target price of \$35 remains based on just under 1.5-times forward sales, despite the fact that its peer-average price-sales ratio has inflated to 1.8-times from 1.5-times over the last 3 months. Upside potential exceeds downside risk at current price levels, in my opinion, and I continue to recommend OVTI as a Buy.

pro forma EPS	F2Q	FY15	FY16	Revenue (11 est)	F2Q	FY15	FY16
Tokeneke-revised	\$0.53	\$2.26	\$2.02	Tokeneke-revised	\$375.0	\$1,454.7	\$1,489.0
Tokeneke-previous	\$0.52	\$1.95	\$2.00	Tokeneke-previous	\$385.0	\$1,482.3	\$1,489.3
Consensus-previous	\$0.49	\$1.62	\$1.63	Consensus-previous	\$374.5	\$1,400.0	\$1,410.0
Highest Est-previous	\$0.56	\$1.95	\$1.85	Highest Est-previous	\$408.0	\$1,490.0	\$1,480.0
Lowest Est-previous	\$0.37	\$1.48	\$1.19	Lowest Est-previous	\$322.8	\$1,340.0	\$1,330.0

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Income Statement

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dollars in thousands, except per share data  
fiscal year ends April

	FY2014 act			FY2015 est				FY2016										
	FY2011	FY2012	FY2013	Q1	Q2	Q3	Q4	FY2014	Q1A	Q2	Q3	Q4	FY2015	Q1	Q2	Q3	Q4	FY2016
Revenue	956,476	897,730	1,407,929	373,688	397,249	352,023	330,969	1,453,929	406,536	375,000	330,000	343,200	1,454,736	343,200	377,520	415,272	352,981	1,488,973
COGS	676,494	646,782	1,159,993	307,555	321,398	281,892	263,400	1,174,245	317,131	291,375	255,750	265,980	1,130,236	265,980	292,578	321,836	273,560	1,153,954
Gross Profit	279,982	250,948	247,936	66,133	75,851	70,131	67,569	279,684	89,405	83,625	74,250	77,220	324,500	77,220	84,942	93,436	79,421	335,019
R&D	78,964	97,368	97,001	23,908	25,187	26,660	27,007	102,762	30,472	31,081	31,081	31,081	123,716	31,081	32,169	32,169	32,169	127,589
SG&A	54,491	52,858	59,462	14,470	14,904	14,360	14,963	58,697	16,006	16,006	16,006	16,006	64,024	16,006	16,486	16,486	16,486	65,465
Stk Crg/Write-off	774	9,286	9,286	2,321	2,322	2,321	2,322	9,286	2,321	2,321	2,321	2,321	9,284	2,321	2,321	2,321	2,321	9,284
Operating Expenses	134,229	159,512	165,749	40,699	42,413	43,341	44,292	170,745	48,799	49,408	49,408	49,408	197,024	49,408	50,976	50,976	50,976	202,338
Operating Income	145,753	91,436	82,187	25,434	33,438	26,790	23,277	108,939	40,606	34,217	24,842	27,812	127,476	27,812	33,966	42,460	28,444	132,681
Interest/Other	2,768	(1,107)	348	(608)	3,127	24,409	4,105	31,033	590	1,500	1,500	1,500	5,090	1,500	1,500	1,500	1,500	6,000
Pre-tax Income	148,521	90,329	82,535	24,826	36,565	51,199	27,382	139,972	41,196	35,717	26,342	29,312	132,566	29,312	35,466	43,960	29,944	138,681
Taxes	151	4,464	4,645	(6,901)	1,630	10,774	3,477	8,980	(12,247)	3,572	2,634	2,931	(3,110)	2,931	3,547	4,396	2,994	13,868
Minority Interest	32	9,643	1,140	0	0	0	0	0	935	0	0	0	935	0	0	0	0	0
Net Income	148,402	95,508	79,030	31,727	34,935	40,425	23,905	130,992	54,378	32,145	23,707	26,380	136,611	26,380	31,919	39,564	26,950	124,813
EPS-basic	\$2.68	\$1.69	\$1.48	\$0.58	\$0.63	\$0.72	\$0.43	\$2.36	\$0.96	\$0.57	\$0.41	\$0.46	\$2.40	\$0.46	\$0.55	\$0.68	\$0.46	\$2.15
Shares-basic	55,324	56,667	53,529	54,611	55,584	55,913	56,042	55,538	56,583	56,866	57,150	57,436	57,009	57,723	58,012	58,302	58,593	58,158
EPS-diluted	\$2.49	\$1.60	\$1.41	\$0.55	\$0.60	\$0.69	\$0.40	\$2.24	\$0.91	\$0.53	\$0.39	\$0.43	\$2.26	\$0.43	\$0.52	\$0.64	\$0.43	\$2.02
Shares-diluted	59,664	59,510	56,094	57,509	58,649	58,936	59,088	58,546	60,081	60,366	60,650	60,936	60,508	61,223	61,512	61,802	62,093	61,658
GAAP EPS	\$2.11	\$1.13	\$0.71	\$0.42	\$0.47	\$0.54	\$0.26	\$1.70	\$0.78	\$0.37	\$0.24	\$0.28	\$1.65	\$0.28	\$0.36	\$0.47	\$0.28	\$1.38
<b>Margin Analysis</b>																		
Gross Margin	29.3%	28.0%	17.6%	17.7%	19.1%	19.9%	20.4%	19.2%	22.0%	22.3%	22.5%	22.5%	22.3%	22.5%	22.5%	22.5%	22.5%	22.5%
R&D	8.3%	10.8%	6.9%	6.4%	6.3%	7.6%	8.2%	7.1%	7.5%	8.3%	9.4%	9.1%	8.5%	9.1%	8.5%	7.7%	9.1%	8.6%
SG&A	5.7%	5.9%	4.2%	3.9%	3.8%	4.1%	4.5%	4.0%	3.9%	4.3%	4.9%	4.7%	4.4%	4.7%	4.4%	4.0%	4.7%	4.4%
Stk Chrg/Write-off	0.1%	1.0%	0.7%	0.6%	0.6%	0.7%	0.7%	0.6%	0.6%	0.6%	0.7%	0.7%	0.6%	0.7%	0.6%	0.6%	0.7%	0.6%
Operating Income	15.2%	10.2%	5.8%	6.8%	8.4%	7.6%	7.0%	7.5%	10.0%	9.1%	7.5%	8.1%	8.8%	8.1%	9.0%	10.2%	8.1%	8.9%
Pre-tax Income	15.5%	10.1%	5.9%	6.6%	9.2%	14.5%	8.3%	9.6%	10.1%	9.5%	8.0%	8.5%	9.1%	8.5%	9.4%	10.6%	8.5%	9.3%
Tax Rate	0.1%	4.9%	5.6%	-27.8%	4.5%	21.0%	12.7%	6.4%	-29.7%	10.0%	10.0%	10.0%	-2.3%	10.0%	10.0%	10.0%	10.0%	10.0%
Net Income	15.5%	10.6%	5.6%	8.5%	8.8%	11.5%	7.2%	9.0%	13.4%	8.6%	7.2%	7.7%	9.4%	7.7%	8.5%	9.5%	7.6%	8.4%
<b>Qtr-to-Qtr Growth</b>																		
Revenue				11.1%	6.3%	-11.4%	-6.0%		22.8%	-7.8%	-12.0%	4.0%		0.0%	10.0%	10.0%	-15.0%	
Operating Expenses				2.0%	4.2%	2.2%	2.2%		10.2%	1.2%	0.0%	0.0%		0.0%	3.2%	0.0%	0.0%	
Operating Income				29.2%	31.5%	-19.9%	-13.1%		74.4%	-15.7%	-27.4%	12.0%		0.0%	22.1%	25.0%	-33.0%	
Pre-tax Income				25.3%	47.3%	40.0%	-46.5%		50.4%	-13.3%	-26.2%	11.3%		0.0%	21.0%	24.0%	-31.9%	
Net Income				81.7%	10.1%	15.7%	-40.9%		127.5%	-40.9%	-26.2%	11.3%		0.0%	21.0%	24.0%	-31.9%	
EPS				78.6%	8.0%	15.2%	-41.0%		123.7%	-41.2%	-26.6%	10.8%		-0.5%	20.4%	23.4%	-32.2%	
<b>Year-to-Year Growth</b>																		
Revenue	58.6%	-6.1%	56.8%	44.8%	1.8%	-16.9%	-1.6%	3.3%	8.8%	-5.6%	-6.3%	3.7%	0.1%	-15.6%	0.7%	25.8%	2.9%	2.4%
Operating Expenses	13.7%	18.8%	3.9%	-1.8%	-2.2%	5.6%	11.0%	3.0%	19.9%	16.5%	14.0%	11.6%	15.4%	1.2%	3.2%	3.2%	3.2%	2.7%
Operating Income	387%	-37.3%	-10.1%	188%	49.9%	-14.6%	18.2%	32.6%	59.7%	2.3%	-7.3%	19.5%	17.0%	-31.5%	-0.7%	70.9%	2.3%	4.1%
Pre-tax Income	340%	-39.2%	-8.6%	203%	59.0%	62.3%	38.2%	69.6%	65.9%	-2.3%	-48.6%	7.0%	5.3%	-28.8%	-0.7%	66.9%	2.2%	4.6%
Net Income	374%	-35.6%	-17.3%	174%	88.3%	28.5%	36.9%	65.7%	71.4%	-8.0%	-41.4%	10.4%	4.3%	-51.5%	-0.7%	66.9%	2.2%	-8.6%
EPS	320%	-35.5%	-12.2%	163%	80.5%	23.1%	31.0%	58.8%	64.1%	-10.6%	-43.0%	7.0%	0.9%	-52.4%	-2.6%	63.8%	0.3%	-10.3%

## OmniVision Technologies

## Financial Summary

(dollars in thousands)

Fiscal year ends April

	FY11	FY12	FY13	FY14	1QF14	2QF14	3QF14	4QF14	1QF15
<b>Assets</b>									
Cash and equivalents	379,379	290,492	190,171	297,952	196,748	207,171	308,927	297,952	326,695
Short-term investments	87,505	40,515	22,164	152,993	43,773	58,427	84,113	152,993	197,478
Net accounts receivable	<u>142,606</u>	<u>107,793</u>	<u>166,517</u>	<u>172,472</u>	<u>174,529</u>	<u>170,871</u>	<u>134,706</u>	<u>172,472</u>	<u>176,764</u>
<b>Quick Assets</b>	609,490	438,800	378,852	623,417	415,050	436,469	527,746	623,417	700,937
Inventories	106,873	291,340	430,315	270,935	426,556	390,275	342,153	270,935	288,146
Other	<u>14,608</u>	<u>12,625</u>	<u>16,010</u>	<u>11,549</u>	<u>9,874</u>	<u>10,728</u>	<u>25,790</u>	<u>11,549</u>	<u>9,087</u>
<b>Current Assets</b>	730,971	742,765	825,177	905,901	851,480	837,472	895,689	905,901	998,170
Property, plant and eqt, net	115,446	144,792	160,630	153,792	160,310	157,400	156,208	153,792	152,093
Long-term investments	104,616	128,940	139,746	154,409	145,066	145,643	154,044	154,409	158,353
Goodwill and intangibles	71,014	79,255	67,031	76,444	63,860	60,956	79,957	76,444	72,931
Other assets	<u>12,111</u>	<u>7,205</u>	<u>34,430</u>	<u>32,529</u>	<u>37,397</u>	<u>37,413</u>	<u>32,964</u>	<u>32,529</u>	<u>32,178</u>
<b>Total Assets</b>	1,034,158	1,102,957	1,227,014	1,323,075	1,258,113	1,238,884	1,318,862	1,323,075	1,413,725
<b>Liabilities and Shareholders Equity</b>									
Current portion of long-term debt	4,323	3,146	3,769	3,802	3,791	3,809	3,830	3,802	3,797
Accounts payable	102,519	159,860	188,261	142,012	180,858	127,019	149,016	142,012	182,738
Deferred revenue	16,594	10,115	15,493	25,783	24,399	24,791	20,252	25,783	32,685
Other liabilities	<u>25,483</u>	<u>36,403</u>	<u>43,178</u>	<u>34,275</u>	<u>43,662</u>	<u>42,271</u>	<u>59,879</u>	<u>34,275</u>	<u>34,199</u>
<b>Current Liabilities</b>	148,919	209,524	250,701	205,872	252,710	197,890	232,977	205,872	253,419
Long-term debt	41,916	39,337	35,709	32,030	35,652	35,586	32,246	32,030	31,878
Deferred tax liability/other	<u>91,998</u>	<u>93,217</u>	<u>95,395</u>	<u>98,316</u>	<u>86,558</u>	<u>87,457</u>	<u>90,364</u>	<u>98,316</u>	<u>84,969</u>
<b>Total Liabilities</b>	282,833	342,078	381,805	336,218	374,920	320,933	355,587	336,218	370,266
Minority interest	0	0	0	0	0	0	0	0	0
Common stock	533,847	578,978	620,406	664,679	630,894	640,508	655,979	664,679	675,999
Retained earnings	394,735	460,584	503,486	598,483	526,547	552,850	583,410	598,483	643,810
Other/Treasury Stock	<u>(177,257)</u>	<u>(278,683)</u>	<u>(278,683)</u>	<u>(276,305)</u>	<u>(274,248)</u>	<u>(275,407)</u>	<u>(276,114)</u>	<u>(276,305)</u>	<u>(276,350)</u>
<b>Total Shareholders Equity</b>	<u>751,325</u>	<u>760,879</u>	<u>845,209</u>	<u>986,857</u>	<u>883,193</u>	<u>917,951</u>	<u>963,275</u>	<u>986,857</u>	<u>1,043,459</u>
<b>Total Liabilities and Equity</b>	1,034,158	1,102,957	1,227,014	1,323,075	1,258,113	1,238,884	1,318,862	1,323,075	1,413,725
<b>Sales and Income</b>									
Revenue	956,476	897,736	1,407,929	1,453,929	373,688	397,249	352,023	330,969	406,536
COGS	678,459	649,719	1,163,815	1,178,207	308,527	322,383	282,891	264,406	318,116
Net income	124,482	65,849	42,902	94,997	23,061	26,303	30,560	15,073	45,327
<b>Other</b>									
Capital Expenditures	10,313	24,186	35,323	14,849	7,100	2,401	3,653	1,695	
Depreciation and Amortization	20,564	29,771	32,524	32,726	7,349	8,182	8,220	8,975	
Shares (weighted average diluted)	59,664	58,233	53,671	56,043	57,509	55,732	56,186	56,882	58,158
Employees (units)	1,465	1,796	2,057	2,008					
Stock Repurchased			0						
<b>Ratios</b>									
<b>Liquidity</b>									
Quick Ratio	4.09	2.09	1.51	3.03	1.64	2.21	2.27	3.03	2.77
Current Ratio	4.91	3.55	3.29	4.40	3.37	4.23	3.84	4.40	3.94
<b>Leverage</b>									
Debt Ratio	0.27	0.31	0.31	0.25	0.30	0.26	0.27	0.25	0.26
Long-term Debt/Capital	0.13	0.12	0.11	0.10	0.10	0.10	0.09	0.10	0.08
<b>Asset Management</b>									
Fixed Asset Turnover	8.07	6.90	9.22	9.25	9.31	10.00	8.98	8.54	10.63
Total Asset Turnover	1.04	0.84	1.21	1.14	1.20	1.27	1.10	1.00	1.19
Receivables DSO	54	43	43	43	42	39	34	47	39
Inventory Days	57	161	133	83	124	109	109	92	82
Inventory Turnover	5.63	3.26	3.23	3.36	2.88	3.16	3.09	3.45	4.55
Revenue/Employee	656	551	731	715					
<b>Profitability</b>									
Gross Margin	29.1%	27.6%	17.3%	19.0%	17.4%	18.8%	19.6%	20.1%	21.7%
Net Margin	13.0%	7.3%	3.0%	6.5%	6.2%	6.6%	8.7%	4.6%	11.1%
Return on Assets	13.6%	6.2%	3.7%	7.5%	7.4%	8.4%	9.6%	4.6%	13.2%
Return on Equity	19.4%	8.7%	5.3%	10.4%	10.7%	11.7%	13.0%	6.2%	17.9%
<b>Per Share Data</b>									
Book Value/Share	\$12.59	\$13.07	\$15.75	\$17.61	\$15.36	\$16.47	\$17.14	\$17.35	\$17.94
Tangible Book/Share	\$11.40	\$11.71	\$14.50	\$16.24	\$14.25	\$15.38	\$15.72	\$16.01	\$16.69
Cash/Share	\$7.83	\$5.68	\$3.96	\$8.05	\$6.70	\$7.38	\$9.74	\$10.64	\$11.74
Net Cash/Share	\$7.05	\$4.95	\$3.22	\$7.41	\$3.50	\$4.06	\$6.35	\$7.30	\$8.40
Earnings/Share	\$2.09	\$1.13	\$0.80	\$1.70	\$0.40	\$0.47	\$0.54	\$0.26	\$0.78

**OmniVision Technologies**

**Sales Analysis**

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY2012				FY2013				FY14				FY15
								1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
<b>Product Metrics</b>																				
Units Shipped (mil)	425.0	327.0	475.0	682.0	614.0	855.0	860.0	171.0	153.0	143.0	147.0	166.0	249.0	252.0	188.0	208.0	237.0	214.0	201.0	249.0
Unit growth (calculated)	70.0%	-23.1%	45.3%	43.6%	-10.0%	39.3%	0.6%	1.2%	-10.5%	-6.5%	2.8%	12.9%	50.0%	1.2%	-25.4%	10.6%	13.9%	-9.7%	-6.1%	23.9%
ASP	\$1.88	\$1.55	\$1.27	\$1.40	\$1.46	\$1.65	\$1.69	\$1.61	\$1.42	\$1.29	\$1.48	\$1.55	\$1.56	\$1.68	\$1.79	\$1.79	\$1.67	\$1.64	\$1.64	\$1.63
ASP change		-17.5%	-18.2%	10.5%	4.3%	12.6%	2.7%	5.2%	-11.8%	-9.2%	14.7%	4.7%	0.6%	7.7%	6.5%	0.0%	-6.7%	-1.8%	0.0%	-0.6%
8Mp and greater																				9%
3Mp-5Megapixel																				34%
2Mp and smaller																				57%
VGA and smaller		71.5%	66.6%	54.6%	52.6%	20.8%	12.8%	45%	53%	59%	55%	32%	21%	16%	17%	14%	14%	12%	11%	11%
1.3-megapixel		12.8%	9.9%	12.8%	18.5%	40.5%	42.8%	18%	23%	19%	14%	31%	48%	45%	33%	39%	50%	44%	37%	37%
2-megapixel and greater		17.8%	23.2%	32.6%	28.8%	38.7%	44.4%	37%	24%	22%	31%	37%	31%	39%	50%	47%	36%	44%	52%	52%
<b>By Market</b>																				
Cell Phone				65.0%	56.0%	59.0%		62%	60%	52%	52%	48%	59%	61%	65%	63%	60%	52%	69%	69%
Digital Camera																				
Security/Surveillance																				
Entertainment/Tablets								14%	20%	28%	28%	27%	29%	26%	17%	22%	25%	31%	15%	16%
PC Camera/notebook								15%	9%	8%	11%	15%	6%	7%	8%	7%	5%	7%	5%	6%
Other																				5%
Automotive							4.0%													5%
<b>Total</b>								91%	89%	88%	91%	90%	94%	94%	90%	92%	90%	90%	94%	100%
<b>By Territory</b>																				
UK 2Q14, Sing 3Q																	4521	6325		
Taiwan	55,924	41,154					23,748	6,348	4,719	2,984		6,218	7,474	6,210		8,191				
Japan	4,686	4,410	7,961	11,546	46,108	57,604	89,311	12,895				13,796	18,626	15,246	9,936	15,511	28,259	33,006	12,535	
China	666,344	383,875	504,940	614,891	520,452	955,378	1,122,802	159,276	137,387	112,079	111,710	175,106	265,433	278,923	235,916	278,911	305,918	259,935	278,038	
Korea	3,125	4,670	5,406	199,747	147,390	275,105	158,693	69,252	22,016	12,659	43,463	48,819	64,954	96,163	65,169	56,137	47,624	36,466	18,466	
Malaysia	55,015	36,358	21,890	66,827	50,887	60,243		13,940	15,106	12,895	8,946	7,858	27,839	15,364	9,182					
US	12,810	33,912	3,513	16,203	61,766	3,997	4,781		13,450	22,646	25,670				3,997	1,421	1,340	1,146	874	
ROW	1,634	2,937	59,283	47,262	71,127	55,602	54,594	14,360	25,241	21,930	28,758	6,267	5,811	11,607	31,917	13,517	9,587	15,145	21,056	
<b>Total (,000)</b>	799,538	507,316	602,993	956,476	897,730	1,407,929	1,453,929	276,071	217,919	185,193	218,547	258,064	390,137	423,513	356,117	373,688	397,249	352,023	330,969	0
<b>By Channel</b>																				
OEM & VARs	66.8%	58.0%	51.5%	75.3%	78.1%	81.2%	81.2%	77.2%	79.0%	79.2%	77.4%	72.5%	85.2%	85.2%	78.4%	81.6%	84.1%	80.3%	78.0%	79.7%
Distributors	33.2%	42.0%	48.5%	24.7%	21.9%	18.8%	18.8%	22.8%	21.0%	20.8%	22.6%	27.5%	14.8%	14.8%	21.6%	18.4%	15.9%	19.7%	22.0%	22.3%
<b>By Customer</b>																				
LG Innotec				17.6%	15.2%	18.0%		23.0%	11.9%	11.8%		17.2%	15.8%	21.8%						
WPI (HK distributor)	19.9%	22.4%	27.0%	13.8%	13.5%	11.7%	11.0%	14.0%		13.7%		16.0%								
unidentified OEM									11.0%	10.7%			14.7%	13.9%		12.4%	11.7%	13.5%		
unidentified OEM										10.2%			12.6%	12.2%		11.5%	10.8%	13.4%		
unidentified Disti										11.6%						11.4%	10.8%			
Nam Tai (cell)																				
Primax (Motorola cell)																				
X-10 (security)																				
Creative Labs (PC)																				
Concord (DSC)																				
Aiptek (DSC)																				
Foundate/Lite-On (cell)																				
unidentified (cell)																				
unidentified (cell)																				
Foxconn	15.0%	10.4%	11.2%			10.7%	13.8%													
Cowell						10.3%	12.5%													
Sanshin (OEM)																				
SiDa (distributor)																				
Top 5		59.5%	60.0%	55.0%	52.0%	57.7%	55.1%						58.6%				56.0%			

8/29/14

**OmniVision**

**Valuation**

**Relative Valuation**

Company	Ticker	Price 8/28/14	52-Week		CY EPS				CY P/E				Shares (mil)	CAP (\$ mil)	Price-Sales			FY Ends	
			Low	High	2012	2013	2014	2015	2012	2013	2014	2015			TTM	Cur FY	Nxt FY		
OmniVision *	OVTI	27.18	13.55	28.34	1.30	2.15	2.23	2.02	20.9	12.6	12.2	13.5	60	1,633	1.1	1.1	1.1	Apr	
Spansion	CODE	21.60	9.70	23.36	0.99	0.76	1.06	1.89	21.8	28.4	20.4	11.4	61	1,313	1.1	1.0	0.9	Dec	
Cypress Semiconductor	CY	10.87	8.61	11.84	0.55	0.40	0.54	0.69	19.8	27.2	20.1	15.8	167	1,812	2.6	2.5	2.3	Dec	
Diodes	DIOD	25.06	19.26	30.79	0.56	1.06	1.46	1.91	44.8	23.6	17.2	13.1	48	1,213	1.4	1.4	1.3	Dec	
International Rectifier	IRF	39.32	22.78	39.50	-1.01	0.09	1.25	1.70	NM	NM	31.5	23.1	73	2,866	2.6	2.3	2.1	Jun	
MagnaChip	MX	11.77	11.38	23.89	2.23	2.00	2.17	0.00	5.3	5.9	5.4	NM	37	441	0.5	0.5	0.5	Dec	
RF Micro Devices	RFMD	11.76	4.50	12.12	0.10	0.40	0.91	1.07	NM	29.4	12.9	11.0	295	3,464	3.0	2.6	2.4	Mar	
TriQuint	TQNT	19.40	6.80	19.93	0.18	0.08	0.45	0.89	NM	NM	43.1	21.8	181	3,517	3.8	3.6	3.2	Dec	
Average									22.9	22.9	21.5	16.0				2.1	2.0	1.8	

\* Tokeneke estimate  
Source: consensus as of 8/28/14

**Historical Valuation**

Company	Ticker	Price 8/28/14	Trailing 12-month					
			Price/Earnings		Price/Sales		Price/Book	
			Current	Historical*	Current	Historical*	Current	Historical*
OmniVision	OVTI	\$27.18	10.5		1.1		1.6	
			<b>Average</b>	62.0	<b>Average</b>	2.5	<b>Average</b>	2.6
			<b>High</b>	1129.0	<b>High</b>	8.2	<b>High</b>	12.2
			<b>Low</b>	4.6	<b>Low</b>	0.5	<b>Low</b>	0.5

\* weekly since 2000

### **The Company**

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### **My Background**

I have an electrical engineering background, nearly 12 years of semiconductor industry experience, and was on Wall Street for nearly eight years where I was selected as the Best On The Street semiconductor analyst for 2002 by The Wall Street Journal, and third-rated Best of the Best across all sectors.

I obtained my undergraduate BS degree in electrical engineering from the University of Washington, and my MBA from Santa Clara University. My industry experience consists of nearly 12 years in various technical sales and marketing roles at four different semiconductor firms located in Silicon Valley beginning with Advanced Micro Devices in 1984, followed by two small start-up companies, and ending at Cirrus Logic where I supported the firm's Japanese market development. I joined Fahnstock & Co. as a senior semiconductor analyst in 1996 and was recruited by Needham & Co. in April 2000.

My formal coverage list as a sell-side analyst included the following equities: AMD, ALSC, ALTR, ARTI, ATML, CUBE, CY, ESST, GNSS, INTC, ISSI, LSI, MOSY, MU, OIIM, OVTI, RMTR, SIII, SMSC, STEC, SVTG, TDFX, TSRA, TXN, and ZRAN.

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