OVTI F2Q: Outstanding Quarter, Abysmal Guidance

Wild Dynamic of Chinese Smartphones. Lowering Estimates, Reiterate Buy.

Diluted Shares *(mil)*:	61.7
Market Cap *($mil)*:	$1,653
Avg Volume *(,000)*:	651
Net Cash/Share:	$7.93
Tangible Book/Share:	$16.41

Closing Price 12/2/14
$26.78
Recommendation/Target
Buy/$35

FYE April	**FY14 *act***	**FY15**	**FY16**
Revenue *($mil)*	$1,453.9	$1,400.6	$1,400.0
EPS *pf*	$2.24	$2.06	$1.83
Price/Sales	1.1	1.2	1.2
Price/EPS	12.0	13.0	14.6

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

Summary: The good news is that October-ended F2Q revenue and EPS both exceeded the high-end of the range of guidance and expectations due to better than anticipated strength from smartphones to China and automotive markets. Unfortunately, the bad news is that guidance calls for a worse than expected revenue decline this quarter of -30% to -23% due to Chinese smartphone vendor competitive pressure and a component inventory correction amid persistent North American customer weakness. While guidance is troublesome, I continue to believe OVTI remains extremely well positioned to benefit from the fiercely competitive and highly dynamic rise of low-end and mid-range smartphones to China serving both domestic and export markets. I am lowering my estimates; maintaining my 12-month target price of $35 based on 1.6-times sales; and reiterate my Buy recommendation on the shares.

Big Picture Growth: Acute expected near-term weakness is due to: continuing North American customer softness, as expected; slower than expected transition to 4G from 3G in China; possible Chinese handset market share loss to exports (Samsung dumping low-end inventory?); a Chinese handset inventory correction; and fiercely competitive markets. While overall smartphone market growth may not prove to be as robust as initially expected this year, I do not believe that OVTI is losing meaningful market share in China—if any, at all—and the big picture of growth remains intact. OVTI is extremely well positioned to supply 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 higher density offerings continue to account for an increasing percentage of revenue. In addition, management remains very bullish for the company's prospects in automotive, IP security, and medical applications.

F2Q Review: Revenue fell -3.1% sequentially to $394M but exceeded the high-end of the range of both guidance and expectations on strength from smartphones to China and automotive markets amid persistent North American customer weakness. Gross margin improved by 20 basis points to 22.2% on the ramp of new cost-effective devices. Gross margin was negatively impacted by -160 basis points basis points due to obsolete inventory write-offs, which was 10 basis points better than the prior quarter. Pro forma EPS of $0.60 exceeded the high-end of the range of guidance and expectations primarily due to revenue upside. Cash was little changed at $525.2M while inventory increased by $52M to $340M. The book value for OmniVision's 30.3M shares of WLCSP is $35.8M on the balance sheet, although this stake was worth $244M based on the prior day's closing price of WLCSP in China.

FYE April	**F2Q**					
pro forma, millions	**Estimate**	**Actual**	**EPS Impact**	**Guidance**	**Consensus**	**Range**
Revenue	$375.0	$394.0	*$0.07*	$360-390	$377.9	$374.3-385.7
Revenue Growth	-7.8%	-3.1%		-11.4-4.1%	-7.0%	-7.9-5.1%
Gross Margin	22.3%	22.2%	*($0.01)*			
Op Expense	$49.4	$49.2	*$0.01*			
Interest/Other Inc	$1.5	$0.9	*($0.01)*			
Taxes	10.0%	6.0%	*$0.02*	10.0%		
Shares	60.37	61.73	($0.01)			
Diluted EPS	$0.53	$0.60	***$0.07***	$0.43-$0.59	$0.51	$0.47-$0.54

Unit shipments fell by -1% to 246M from the prior quarter, ASPs slipped by 3-cents to $1.60 as competitive pressure more than offset upside from product mix, and OEM/VAR sales dropped to 70.6% from 79.7% while distribution rose to 29.4% from 20.3% due to strength from China. 8-Megapixel and greater density devices accounted for 12% of shipments up from 10% the prior quarter; 3-5Mp devices accounted for 42% up from 40%; and 2Mp and smaller accounted for 46% down from 50%. Mobile phones accounted for 68% of sales down from

69%; entertainment fell to 14% from 16% as continuing tablet weakness from North America more than offset strength from wearables; notebook PCs/webcams slid back to 5% from 6% on notebook PC weakness; automotive grew to 6% from 5% on persistent strength; and emerging markets spiked up to 7% from 4% on strength from security and surveillance applications. Shipments to India grew by +50% sequentially.

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.

Lowering Estimates: Management guidance for F3Q includes: sales of $275-305M; R&D slightly up and SG&A slightly down; GAAP and pro forma tax rates in the mid-teens and mid-single digits, respectively, plus a $3M benefit; GAAP EPS of $0.09-$0.25; and pro forma EPS of $0.22-$0.38. My estimate is at the higher-end of the range of guidance and my longer-term estimates remain among the highest among published expectations. While near-term guidance is very disappointing, it would have largely offset last quarter's strength and resulted in limited changes to my previous estimates for this fiscal year and next if I had maintained the dynamic profile of my earnings model (i.e. sequential quarterly changes by line-time on a relative basis). Nevertheless, I am adjusting my expectations downward due to both near-term challenges as well as uncertainty amid a highly dynamic and competitive market environment for the foreseeable future.

FYE April	**F3Q**		**FY15**		**FY16**	
pro forma, millions	**Previous**	**Update**	**Previous**	**Update**	**Previous**	**Update**
Revenue	$330.0	$300.0	$1,454.7	$1,400.6	$1,489.0	$1,400.0
Revenue Growth	-12.0%	-23.9%	0.1%	-3.7%	2.4%	0.0%
Gross Margin	22.5%	21.6%	22.3%	21.9%	22.5%	22.3%
Op Expense	$49.4	$49.3	$197.0	$195.5	$202.3	$192.4
Interest/Other Inc	$1.5	$1.0	$6.0	$4.4	$6.0	$4.0
Taxes	10.0%	7%-$3.0	-2.3%	-9.2%	10.0%	7.0%
Shares	60.65	62.19	60.51	61.62	61.66	63.22
Diluted EPS	$0.39	$0.29	$2.26	$2.06	$2.02	$1.83

Attractive Valuation: 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. While it currently trades well below all three of these averages, these historical metrics are somewhat inflated 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.

I compiled a set of comparable peers whose current numerical magnitudes of sales, gross margin, market cap, and historical average price-sales ratios are relatively 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 in terms of both price-sales and price-earnings. It is trading as the second or third lowest of both price-earnings and price-sales ratios of its peers across all time periods identified in the table. My 12-month target price of $35 is based on 1.6-times sales (up from 1.5-times) despite the fact that its forward peer-average price-sales ratio has inflated to 2.1-times from 1.5-times since the beginning of the year. I continue to believe upside potential exceeds downside risk, and reiterate my Buy recommendation on the shares.

pro forma EPS	**F3Q**	**FY15**	**FY16**
Tokeneke-revised	*$0.29*	*$2.06*	$1.83
Tokeneke-previous	$0.39	$2.26	$2.02
Consensus-previous	$0.33	$1.94	$1.62
Highest Est-previous	$0.39	$2.07	$1.79
Lowest Est-previous	$0.28	$1.72	$1.41

Revenue (11 est)	**F3Q**	**FY15**	**FY16**
Tokeneke-revised	*$300.0*	*$1,400.6*	*$1,400.0*
Tokeneke-previous	$330.0	$1,454.7	$1,489.0
Consensus-previous	$331.7	$1,420.0	$1,430.0
Highest Est-previous	$348.6	$1,450.0	$1,480.0
Lowest Est-previous	$307.8	$1,370.0	$1,360.0

—Dan K. Scovel
Semiconductor Analyst

OmniVision Technologies **4275 Burton Drive, Santa Clara, CA 95054** **408-567-3000**
www.ovt.com

Income Statement

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	Q2A	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	394,045	300,000	300,000	1,400,581	345,000	370,185	370,185	314,657	1,400,027
COGS	676,494	646,782	1,159,993	307,555	321,398	281,892	263,400	1,174,245	317,131	306,382	235,200	234,600	1,093,313	269,100	287,634	286,893	243,859	1,087,486
Gross Profit	279,982	250,948	247,936	66,133	75,851	70,131	67,569	279,684	89,405	87,663	64,800	65,400	307,268	75,900	82,551	83,292	70,798	312,541
R&D	78,964	97,368	97,001	23,908	25,187	26,660	27,007	102,762	30,472	29,977	30,577	29,659	120,685	29,659	29,659	29,659	29,659	118,637
SG&A	54,491	52,858	59,462	14,470	14,904	14,360	14,963	58,697	16,006	16,949	16,441	16,112	65,507	16,112	16,112	16,112	16,112	64,447
Stk Crg/Write-off	774	9,286	9,286	2,321	2,322	2,321	2,322	9,286	2,321	2,322	2,322	2,322	9,287	2,322	2,322	2,322	2,322	9,288
Operating Expenses	134,229	159,512	165,749	40,699	42,413	43,341	44,292	170,745	48,799	49,248	49,339	48,093	195,479	48,093	48,093	48,093	48,093	192,372
Operating Income	145,753	91,436	82,187	25,434	33,438	26,790	23,277	108,939	40,606	38,415	15,461	17,307	111,789	27,807	34,458	35,199	22,705	120,169
Interest/Other	2,768	(1,107)	348	(608)	3,127	24,409	4,105	31,033	590	(178)	1,000	1,000	2,412	1,000	1,000	1,000	1,000	4,000
Pre-tax Income	148,521	90,329	82,535	24,826	36,565	51,199	27,382	139,972	41,196	38,237	16,461	18,307	114,201	28,807	35,458	36,199	23,705	124,169
Taxes	151	4,464	4,645	(6,901)	1,630	10,774	3,477	8,980	(12,247)	2,340	(1,848)	1,281	(10,473)	2,016	2,482	2,534	1,659	8,692
Minority Interest	32	9,643	1,140	0	0	0	0	0	935	1,034	0	0	1,969	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	36,931	18,309	17,026	126,643	26,791	32,976	33,665	22,046	115,477
EPS-basic	$2.68	$1.69	$1.48	$0.58	$0.63	$0.72	$0.43	$2.36	$0.96	$0.64	$0.31	$0.29	$2.19	$0.46	$0.56	$0.57	$0.37	$1.95
Shares-basic	55,324	56,667	53,529	54,611	55,584	55,913	56,042	55,538	56,583	57,617	58,193	58,484	57,719	58,777	59,070	59,366	59,663	59,219
EPS-diluted	$2.49	$1.60	$1.41	$0.55	$0.60	$0.69	$0.40	$2.24	$0.91	$0.60	$0.29	$0.27	$2.06	$0.43	$0.52	$0.53	$0.35	$1.83
Shares-diluted	59,664	59,510	56,094	57,509	58,649	58,936	59,088	58,546	60,081	61,730	62,193	62,484	61,622	62,777	63,070	63,366	63,663	63,219
GAAP EPS	$2.11	$1.13	$0.71	$0.42	$0.47	$0.54	$0.26	$1.70	$0.78	$0.47	$0.15	$0.13	$1.50	$0.27	$0.35	$0.36	$0.20	$1.18
Margin Analysis																		
Gross Margin	29.3%	28.0%	17.6%	17.7%	19.1%	19.9%	20.4%	19.2%	22.0%	22.2%	21.6%	21.8%	21.9%	22.0%	22.3%	22.5%	22.5%	22.3%
R&D	8.3%	10.8%	6.9%	6.4%	6.3%	7.6%	8.2%	7.1%	7.5%	7.6%	10.2%	9.9%	8.6%	8.6%	8.0%	8.0%	9.4%	8.5%
SG&A	5.7%	5.9%	4.2%	3.9%	3.8%	4.1%	4.5%	4.0%	3.9%	4.3%	5.5%	5.4%	4.7%	4.7%	4.4%	4.4%	5.1%	4.6%
Stk Chrg/Write-off	0.1%	1.0%	0.7%	0.6%	0.6%	0.7%	0.7%	0.6%	0.6%	0.6%	0.8%	0.8%	0.7%	0.7%	0.6%	0.6%	0.7%	0.7%
Operating Income	15.2%	10.2%	5.8%	6.8%	8.4%	7.6%	7.0%	7.5%	10.0%	9.7%	5.2%	5.8%	8.0%	8.1%	9.3%	9.5%	7.2%	8.6%
Pre-tax Income	15.5%	10.1%	5.9%	6.6%	9.2%	14.5%	8.3%	9.6%	10.1%	9.7%	5.5%	6.1%	8.2%	8.3%	9.6%	9.8%	7.5%	8.9%
Tax Rate	0.1%	4.9%	5.6%	-27.8%	4.5%	21.0%	12.7%	6.4%	-29.7%	6.1%	-11.2%	7.0%	-9.2%	7.0%	7.0%	7.0%	7.0%	7.0%
Net Income	15.5%	10.6%	5.6%	8.5%	8.8%	11.5%	7.2%	9.0%	13.4%	9.4%	6.1%	5.7%	9.0%	7.8%	8.9%	9.1%	7.0%	8.2%
Qtr-to-Qtr Growth																		
Revenue				11.1%	6.3%	-11.4%	-6.0%		22.8%	-3.1%	-23.9%	0.0%		15.0%	7.3%	0.0%	-15.0%	
Operating Expenses				2.0%	4.2%	2.2%	2.2%		10.2%	0.9%	0.2%	-2.5%		0.0%	0.0%	0.0%	0.0%	
Operating Income				29.2%	31.5%	-19.9%	-13.1%		74.4%	-5.4%	-59.8%	11.9%		60.7%	23.9%	2.1%	-35.5%	
Pre-tax Income				25.3%	47.3%	40.0%	-46.5%		50.4%	-7.2%	-57.0%	11.2%		57.4%	23.1%	2.1%	-34.5%	
Net Income				81.7%	10.1%	15.7%	-40.9%		127.5%	-32.1%	-50.4%	-7.0%		57.4%	23.1%	2.1%	-34.5%	
EPS				78.6%	8.0%	15.2%	-41.0%		123.7%	-33.9%	-50.8%	-7.4%		56.6%	22.5%	1.6%	-34.8%	
Year-to-Year Growth																		
Revenue	58.6%	-6.1%	56.8%	44.8%	1.8%	-16.9%	-1.6%	3.3%	8.8%	-0.8%	-14.8%	-9.4%	-3.7%	-15.1%	-6.1%	23.4%	4.9%	0.0%
Operating Expenses	13.7%	18.8%	3.9%	-1.8%	-2.2%	5.6%	11.0%	3.0%	19.9%	16.1%	13.8%	8.6%	14.5%	-1.4%	-2.3%	-2.5%	0.0%	-1.6%
Operating Income	387%	-37.3%	-10.1%	188%	49.9%	-14.6%	18.2%	32.6%	59.7%	14.9%	-42.3%	-25.6%	2.6%	-31.5%	-10.3%	127.7%	31.2%	7.5%
Pre-tax Income	340%	-39.2%	-8.6%	203%	59.0%	62.3%	38.2%	69.6%	65.9%	4.6%	-67.8%	-33.1%	-18.4%	-30.1%	-7.3%	119.9%	29.5%	8.7%
Net Income	374%	-35.6%	-17.3%	174%	88.3%	28.5%	36.9%	65.7%	71.4%	5.7%	-54.7%	-28.8%	-3.3%	-50.7%	-10.7%	83.9%	29.5%	-8.8%
EPS	320%	-35.5%	-12.2%	163%	80.5%	23.1%	31.0%	58.8%	64.1%	0.4%	-57.1%	-32.6%	-8.1%	-52.8%	-12.6%	80.5%	27.1%	-11.1%

Dan K. Scovel, Tokeneke Research LLC, 203-554-4621, dscovel@tokenekeresearch.com **12/3/14**

OmniVision Technologies

Financial Summary

(dollars in thousands)

Fiscal year ends April

	FY11	FY12	FY13	FY14	2QF14	3QF14	4QF14	1QF15	2QF15
Assets									
Cash and equivalents	379,379	290,492	190,171	297,952	207,171	308,927	297,952	326,695	313,995
Short-term investments	87,505	40,515	22,164	152,993	58,427	84,113	152,993	197,478	211,170
Net accounts receivable	142,606	107,793	166,517	172,472	170,871	134,706	172,472	176,764	171,805
Quick Assets	609,490	438,800	378,852	623,417	436,469	527,746	623,417	700,937	696,970
Inventories	106,873	291,340	430,315	270,935	390,275	342,153	270,935	288,146	340,036
Other	14,608	12,625	16,010	11,549	10,728	25,790	11,549	9,087	18,269
Current Assets	730,971	742,765	825,177	905,901	837,472	895,689	905,901	998,170	1,055,275
Property, plant and eqt, net	115,446	144,792	160,630	153,792	157,400	156,208	153,792	152,093	149,482
Long-term investments	104,616	128,940	139,746	154,409	145,643	154,044	154,409	158,353	143,149
Goodwill and intangibles	71,014	79,255	67,031	76,444	60,956	79,957	76,444	72,931	69,459
Other assets	12,111	7,205	34,430	32,529	37,413	32,964	32,529	32,178	24,669
Total Assets	1,034,158	1,102,957	1,227,014	1,323,075	1,238,884	1,318,862	1,323,075	1,413,725	1,442,034
Liabilities and Shareholders Equity									
Current portion of long-term debt	4,323	3,146	3,769	3,802	3,809	3,830	3,802	3,797	3,808
Accounts payable	102,519	159,860	188,261	142,012	127,019	149,016	142,012	182,738	181,960
Deferred revenue	16,594	10,115	15,493	25,783	24,791	20,252	25,783	32,685	20,368
Other liabilities	25,483	36,403	43,178	34,275	42,271	59,879	34,275	34,199	40,938
Current Liabilities	148,919	209,524	250,701	205,872	197,890	232,977	205,872	253,419	247,074
Long-term debt	41,916	39,337	35,709	32,030	35,586	32,246	32,030	31,878	31,771
Deferred tax liability/other	91,998	93,217	95,395	98,316	87,457	90,364	98,316	84,969	80,518
Total Liabilities	282,833	342,078	381,805	336,218	320,933	355,587	336,218	370,266	359,363
Minority interest	0	0	0	0	0	0	0	0	0
Common stock	533,847	578,978	620,406	664,679	640,508	655,979	664,679	675,999	687,148
Retained earnings	394,735	460,584	503,486	598,483	552,850	583,410	598,483	643,810	671,854
Other/Treasury Stock	(177,257)	(278,683)	(278,683)	(276,305)	(275,407)	(276,114)	(276,305)	(276,350)	(276,331)
Total Shareholders Equity	751,325	760,879	845,209	986,857	917,951	963,275	986,857	1,043,459	1,082,671
Total Liabilities and Equity	1,034,158	1,102,957	1,227,014	1,323,075	1,238,884	1,318,862	1,323,075	1,413,725	1,442,034
Sales and Income									
Revenue	956,476	897,736	1,407,929	1,453,929	397,249	352,023	330,969	406,536	394,045
COGS	678,459	649,719	1,163,815	1,178,207	322,383	282,891	264,406	318,116	307,548
Net income	124,482	65,849	42,902	94,997	26,303	30,560	15,073	45,327	28,044
Other									
Capital Expenditures	10,313	24,186	35,323	14,849	2,401	3,653	1,695	5,171	
Depreciation and Amortization	20,564	29,771	32,524	32,726	8,182	8,220	8,975	8,886	
Shares (weighted average diluted)	59,664	58,233	53,671	56,043	55,732	56,186	56,882	58,158	59,423
Employees (units)	1,465	1,796	2,057	2,008					
Stock Repurchased			0						
Ratios									
Liquidity									
Quick Ratio	4.09	2.09	1.51	3.03	2.21	2.27	3.03	2.77	2.82
Current Ratio	4.91	3.55	3.29	4.40	4.23	3.84	4.40	3.94	4.27
Leverage									
Debt Ratio	0.27	0.31	0.31	0.25	0.26	0.27	0.25	0.26	0.25
Long-term Debt/Capital	0.13	0.12	0.11	0.10	0.10	0.09	0.10	0.08	0.08
Asset Management									
Fixed Asset Turnover	8.07	6.90	9.22	9.25	10.00	8.98	8.54	10.63	10.45
Total Asset Turnover	1.04	0.84	1.21	1.14	1.27	1.10	1.00	1.19	1.10
Recievables DSO	54	43	43	43	39	34	47	39	39
Inventory Days	57	161	133	83	109	109	92	82	100
Inventory Turnover	5.63	3.26	3.23	3.36	3.16	3.09	3.45	4.55	3.92
Revenue/Employee	656	551	731	715					
Profitability									
Gross Margin	29.1%	27.6%	17.3%	19.0%	18.8%	19.6%	20.1%	21.7%	22.0%
Net Margin	13.0%	7.3%	3.0%	6.5%	6.6%	8.7%	4.6%	11.1%	7.1%
Return on Assets	13.6%	6.2%	3.7%	7.5%	8.4%	9.6%	4.6%	13.2%	7.9%
Return on Equity	19.4%	8.7%	5.3%	10.4%	11.7%	13.0%	6.2%	17.9%	10.6%
Per Share Data									
Book Value/Share	$12.59	$13.07	$15.75	$17.61	$16.47	$17.14	$17.35	$17.94	$18.22
Tangible Book/Share	$11.40	$11.71	$14.50	$16.24	$15.38	$15.72	$16.01	$16.69	$17.05
Cash/Share	$7.83	$5.68	$3.96	$8.05	$7.38	$9.74	$10.64	$11.74	$11.25
Net Cash/Share	$7.05	$4.95	$3.22	$7.41	$4.06	$6.35	$7.30	$8.40	$8.24
Earnings/Share	$2.09	$1.13	$0.80	$1.70	$0.47	$0.54	$0.26	$0.78	$0.47

OmniVision Technologies
Sales Analysis

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY2012 1Q	FY2012 2Q	FY2012 3Q	FY2012 4Q	FY2013 1Q	FY2013 2Q	FY2013 3Q	FY2013 4Q	FY14 1Q	FY14 2Q	FY14 3Q	FY14 4Q	FY15 1Q	FY15 2Q
Product Metrics																					
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	246.0
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%	-1.2%
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	$1.60
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%	-1.8%
8Mp and greater																			9%	10%	12%
3Mp-5Megapixel																			34%	40%	42%
2Mp and smaller																			57%	50%	46%
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%		
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%		
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%		
By Market																					
Cell Phone				65.0%	56.0%	59.0%		62%	60%	52%	52%	48%	59%	61%	65%	63%	60%	52%	69%	69%	68%
Digital Camera																					
Security/Surveillance																					
Entertainment/Tablets								14%	20%	28%	28%	27%	29%	26%	17%	22%	25%	31%	15%	16%	14%
PC Camera/notebook								15%	9%	8%	11%	15%	6%	7%	8%	7%	5%	7%	5%	6%	5%
Other																			5%	4%	7%
Automotive							4.0%													5%	6%
Total								91%	89%	88%	91%	90%	94%	94%	90%	92%	90%	90%	94%	100%	100%
By Territory																					
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				7,912	
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	23,174	
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	334,247	
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	24,997	
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	1,611	
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	9587	15145	21,056	14,595	
Total (,000)	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	406,536	0
By Channel																					
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%	70.6%
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%	20.3%	29.4%
By Customer																					
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%				11.4%				12.1%	
unidentified OEM									11.0%	10.7%			14.7%	13.9%		12.4%	11.7%	13.5%		14.2%	
unidentified OEM										10.2%			12.6%	12.2%		11.5%	10.8%	13.4%		11.3%	
unidentified Disti										11.6%						11.4%	10.8%			7.4%	
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%			50.7%	

12/3/14

OmniVision

Valuation

Relative Valuation

Company	Ticker	Price 12/2/14	52-Week Low	52-Week High	CY EPS 2012	CY EPS 2013	CY EPS 2014	CY EPS 2015	CY P/E 2012	CY P/E 2013	CY P/E 2014	CY P/E 2015	Shares (mil)	CAP ($ mil)	Price-Sales TTM	Price-Sales Cur FY	Price-Sales Nxt FY	FY Ends
OmniVision *	**OVTI**	**26.78**	**14.17**	**28.95**	**1.30**	**2.15**	**2.20**	**1.75**	**20.6**	**12.5**	**12.2**	**15.3**	**62**	**1,652**	**1.1**	**1.2**	**1.2**	Apr
Spansion	CODE	27.86	12.12	28.73	0.99	0.76	0.98	1.84	28.1	36.7	28.4	15.1	62	1,715	1.4	1.4	1.3	Dec
Cypress Semiconductor	CY	11.92	8.04	12.42	0.55	0.40	0.53	0.61	21.7	29.8	22.5	19.5	168	2,005	2.8	2.8	2.6	Dec
Diodes	DIOD	27.00	19.66	30.79	0.56	1.06	1.41	1.77	48.2	25.5	19.1	15.3	49	1,316	1.5	1.5	1.4	Dec
International Rectifier	IRF	39.91	23.85	39.95	-1.01	0.09	1.21	1.73	NM	NM	33.0	23.1	73	2,913	2.6	2.4	2.3	Jun
MagnaChip	MX	11.79	9.91	20.61	2.23	2.00	2.07	0.00	5.3	5.9	5.7	NM	37	442	0.5	0.5	0.5	Dec
RF Micro Devices	RFMD	14.67	4.50	14.98	0.10	0.40	0.99	1.21	NM	36.7	14.8	12.1	297	4,350	3.6	3.1	2.8	Mar
TriQuint	TQNT	24.47	7.75	24.99	0.18	0.08	0.79	1.14	NM	NM	31.0	21.5	186	4,544	4.8	4.5	3.8	Dec
Average									25.8	26.9	22.1	17.8			2.4	2.3	2.1	

** Tokeneke estimate*

Source: consensus as of 12/3/14

Historical Valuation

Company	Ticker	Price 12/2/14	Trailing 12-month Price/Earnings Current	Price/Earnings Historical*	Price/Sales Current	Price/Sales Historical*	Price/Book Current	Price/Book Historical*
OmniVision	OVTI	$26.78	10.3		1.1		1.5	
			Average	55.6	**Average**	2.3	**Average**	2.4
			High	1129.0	**High**	8.2	**High**	12.2
			Low	4.6	**Low**	0.5	**Low**	0.5

** weekly since 2000*

The Company

Tokeneke Research is an independent research firm specializing in semiconductor industry business issues, providing fundamental research focused on US equities across all market capitalizations within the sector to investors. The company was founded in 2005 and is based in Connecticut.

The Offering

- *Monthly Newsletter:* A summarized review of noteworthy industry business developments, sales statistics, and sector equity market performance, as well as a near-term and annual outlook for sector business fundamentals and share prices. This report typically includes two pages of text and a handful of recurring charts and tables. It is intended for relatively broad-based distribution.
- *Industry Reports:* A publication offering insight and perspective to industry-wide, multi-year forecast updates; periodic sub-sector product type and/or end-market reviews; fundamental and valuation perspectives on sector equity relationships; and an industry introduction and overview. These are more detailed reports with varying shelf-lives, and are intended for narrow distribution to interested clients.
- *Company Reports:* Fundamental equity research including earnings estimates and customized valuation analysis.
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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 Fahnestock & 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.

—Dan K. Scovel
Semiconductor Analyst

Tokeneke Research LLC
Rowayton, CT 06853
dscovel@tokenekeresearch.com
www.tokenekeresearch.com
203-554-4621