

CEVA, Inc. (CEVA)

Good 4Q09 with Major Win Announcement

- Solid quarter driven by royalty volume:** This morning CEVA announced non-GAAP 4Q09 earnings of \$0.11 per share (vs. \$0.08) on revenue of \$10.2 million (+5.4%) as 30.5% yr./yr. growth in royalties offset a decline in design services. Licensing revenue grew 2.0%. Results exceeded our/consensus forecast for EPS of \$0.10 on sales of \$10.0 million. Company had guided for EPS of \$0.08-0.11 on sales of \$9.9-10.4 million. GAAP EPS, including a capital gain was \$0.14 per share. The ability to exceed expectations was a function of mix/royalty, driving gross margins of 91.4% (non-GAAP) which exceeded our forecast by 90 basis points. Operating expenses were in-line.
- Good balance sheet performance:** Cash was up \$0.22 per share to \$4.68 (no debt) due to the earnings performance combined with the \$1.8 million capital gain (associated with an earn-out for assets divested previously) and decrease in DSO.
- Important licensing milestones:** Management announced the first licensee for the company's latest digital signal processor (DSP) core architecture, the CEVA-XC, with the licensee targeting 4G wireless applications. Company also announced that a tier-1 mobile phone company licensed with CEVA for the first time in 4Q09 and that the decision was driven by LTE requirements. In our view both of these deals imply positively for the company's ability to sustain/grow industry position as next generation technologies are adopted. Seven other licensees were announced with four more DSP cores, two for serial data and one phase locked loop design-win.
- Our forecast is largely unchanged with greater royalty volume offsetting handicapping of license and design services revenue.** This makes 2010 slightly more back-loaded.
- Our price target of \$14.00 reflects our NPV calculation.** If CEVA were to trade at the same TTM EV/sales multiple as its peers, then the shares would be above \$14 now, higher if the multiples of ARM Holdings and Imagination Technologies, which are two of the closest peers, were applied. The ability of CEVA to meet or beat overall expectations in any given quarter is still a function of licensing even more than royalty volume.
- Risks to the attainment of our price target include worsening of global economic conditions and associated demand for wireless, broad band access and consumer electronics equipment, competitive design-wins, and market share loss by CEVA licensees. However, we believe the largest risk to achieving forecast expectations is the inability to close license deals in a timely fashion. Licensing amounts to more than 45% of sales at the current time.

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Price (intraday 1/28/10)
\$11.56

Rating
OUTPERFORM

12- Month Price Target
\$14.00

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Company Information

52-Week Range	\$5.10 – 13.06
Shares Outstand.	21.5 million
Insider/Institutional	8% / 77%
Public Float	16.1 million
Market Cap.	\$ 251.8 million
ST / LT Debt (mil)	\$0 / \$0
Debt/Capital	0%
ROE (LQA)	8.4%
Cash & Inv/Share	\$4.68
Book Value/Share	\$6.48

Company Description

CEVA is the industry leading licensor of DSP cores and generates 85%–90% of sales from licensing (~55%) and royalty (~33%) fees. Customers include Broadcom, Infineon, and ST-Ericsson. Licensees typically compete with Qualcomm and Texas Instruments. Major end-market brands include Apple, LG, Nintendo, Nokia, Samsung, Sharp and Sony Ericsson.



Nasdaq.com

FYE DEC	2008A	2009A			2010E		
REV. (\$m)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$10.1	\$9.5A			\$10.5	\$10.8	\$10.5
Q2 Jun	10.1	9.1A			10.0	10.1	10.1
Q3 Sep	10.2	9.7A			10.2	10.5	10.9
Q4 Dec	10.0	10.2A	10.0E	10.0	11.3	11.2	11.6
Year**	\$40.4	\$38.5A	\$38.3E	\$38.3	\$42.0	\$42.6	\$43.1
Change	21.5%	-4.7%	-5.2%	-5.2%	9.1%	11.1%	12.5%

	2008A	2009A			2010E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$0.09	\$0.11A			\$0.11	\$0.12	\$0.11
Q2 Jun	0.07	0.08A			0.10	0.10	0.09
Q3 Sep	0.09	0.12A			0.10	0.11	0.12
Q4 Dec	0.08	0.11A	0.10E	0.10	0.13	0.12	0.13
Year**	\$0.33	\$0.42A	\$0.41E	\$0.41	\$0.45	\$0.45	\$0.45
P/E	35.5x	27.9x	28.6x	28.6x	26.0x	26.0x	26.0x
Change	116.8%	27.8%	23.5%	6.1%	5.1%	10.9%	9.8%

Consensus estimates are from Thomson First Call.

* EPS is on a pro forma basis

** Numbers may not add up due to rounding.

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FURTHER DISCUSSION
Income Statement Summary* (\$ mil, except per share)

	4Q09 & variance to WS forecast	WS forecast
GAAP/Adj. EPS	\$0.14 / \$0.11	\$0.06 / \$0.10
Royalties/Licenses/ Design Services Revenue	\$4.8 / \$4.7 / \$0.7	\$4.4 / \$4.9 / \$0.8
Total Revenue/GP\$/GPM	\$10.2 +1.9% / \$9.3 +4.0% / 91.4% +185 b.p.	\$10.0 / \$9.0 / 89.5%
OpEx/ OP / OPM	\$7.1 +0.1% / \$2.2 +18.8% / 21.7% +309.9 b.p.	\$7.1 / \$1.9 / 18.6%
Interest, other income	\$0.5	\$0.5
Tax Rate/ Tax \$	13.6%/ 0.4	13.0%/ \$0.3
Shares outstanding	21,480	20,688

*Excludes restructuring, impairments, gain on the disposal of a minority investment and FAS 123R expenses and includes amortization.

Source: Company data and Wedbush estimates

Qualitative commentary on licensing deals was unusually incremental. The company announced the first license of its latest digital signal processor core architecture the CEVA-XC with a semiconductor company for 4G wireless applications. A new tier-1 mobile phone customer was also announced with management indicating the target application is LTE, and that the unnamed customer has not used CEVA technology in the past. Management also mentioned that the design-win will replace base band supply by Qualcomm and Texas Instruments. Due to design cycles that can exceed 24 months we do not regard these deals to be incremental to our income statement forecast, but they are positive milestones with regard to market share and participation in next generation industry activity.

Historical Segment Revenue and Unit Data

	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Segment Revenue (\$mm)									
Royalties	3.0 / 36.9%	3.7 / 37.1%	3.0 / 30.1%	3.3 / 32.3%	4.3 / 42.8%	3.8 / 39.5%	4.0 / 43.4%	3.7 / 38.2%	4.8 / 47.3%
Licenses	4.0	5.1	6.0	6.0	4.6	4.5	4.3	5.2	4.7
Design Services	1.2	1.2	1.1	0.9	1.1	1.2	0.9	0.7	0.7
Total Revenue	8.2	10.1	10.1	10.2	10.0	9.5	9.1	9.7	10.2
Unit Data									
Units shipped, inc. those under pre-paid royalty conditions (mm)	86.0	86.0	70.0	72.0	80.0	59.0	65.0	89.0	121.0
Units shipped for royalty dollars (mm)	52.0	60.0	48.0	54.0	65.0	49.0	57.0	75.0	99.0
Pre-paid licensees	7	7	7	6	6	6	4	4	4
Royalty paying licensees	20	20	20	21	21	21	24	25	27
Total licensees shipping	27	27	27	27	27	27	28	29	31
Cellular baseband (mm)	-	45.0	35.0	40.0	42.6	36.0	46.0	61.0	80.0
Cellular market share %	-	12%	12%	12%	12%	13%	18%	23%	27%

Source: Company data

4Q09 Unit royalty averaged \$0.05, which was the average for the year. 3 of the new licenses were U.S., 1 was with an Asian customer and 5 were European customers. Royalty growth was driven by cellular applications, but consumer also rebounded moderately.

Cash was up \$0.22 per share to \$4.68 (no debt) due to the earnings performance combined with the \$1.8 million capital gain (associated with an earn-out for assets divested previously) and decrease in DSO.

Balance Sheet Developments (\$ mil, except per share)

	Reported	Prior quarter
Net cash & Investments/ per share	\$100.6/ \$4.68	\$91.8/ \$4.46
Accounts Receivables/ DSO	\$6.0/ 54	\$6.4/ 60
PP&E	\$1.1	\$1.2
Deferred Revenue	\$0.4	\$0.5

Source: Company data

Our forecast adjustments are slight and reflect a bit higher expectations for royalty volume offset by lower license and design services estimates. Also, with more royalty mix we expect margins to be greater.

Revenue Mix Forecast Summary and Company Guidance, Fiscal 2008A-2011E (prior estimate in parentheses, if changed)						
	2008A	2009A	1Q10E	2Q10E	2010E	2011E
Segment Revenue (\$mm)						
Royalties	14.3	15.3 (15.8*)	5.0	4.5 (4.4)	20.2 (19.6)	26.2 (25.5)
Licensing	21.7	18.8 (18.9)	4.8 (5.0)	4.8 (5.0)	19.2 (20.0)	19.2 (20.0)
Design Services	4.3	3.5 (3.8)	0.7 (0.8)	0.7 (0.8)	2.6 (3.0)	2.6 (3.0)
Total Revenue / Adjusted EPS	40.4 / \$0.33	37.6 (38.3) / \$0.42 (\$0.41)	10.5 (10.8) / \$0.11 (\$0.12)	10.0 (10.1) / \$0.10	42.0 (42.6) / \$0.45	48.0 (48.5) / \$0.58
Guidance (Revenue / Adj. EPS / GAAP EPS)	-	-	9.9-10.9 / \$0.10-\$0.12 / \$0.07-\$0.09	-	41.0-44.0 / \$0.43-\$0.49 / \$0.33-\$0.39	-

*Includes \$0.9 million of 2Q09 catch up payments

Source: Company data and Wedbush estimates

No change to our 12-month target of \$14.00.

FIGURE 1: WEDBUSH HANDSET UNIT MODEL

(in millions)	Q408	Q109	Q209	Q309	Q409E	2007	2008	2009E	2010E
Handset Vendors									
Nokia	113.1	93.2	103.2	108.5	126.9	437	468	432	482
Samsung	52.9	45.8	52.3	60.2	65.8	161	197	224	246
LG	25.7	22.6	29.8	31.6	33.9	80	101	118	133
Motorola	19.2	14.7	14.8	13.6	12.0	159	100	55	62
Sony-Ericsson	24.2	14.5	13.8	14.1	14.6	103	97	57	61
RIM	7.3	7.8	7.8	8.3	9.5	11	23	33	43
Apple	4.4	3.8	5.2	7.4	8.7	4	14	25	35
HTC	3.6	2.4	3.0	2.8	3.5	8	12	12	18
Palm	0.6	0.3	0.5	0.8	1.3	3	3	3	7
Other	48.2	48.6	39.9	37.8	59.5	209	215	186	192
Wedbush Industry Estimates	299.1	253.7	270.3	285.2	335.9	1,176	1,229	1,145	1,278

Source: Wedbush research

FIGURE 2: CEVA HISTORICAL PRICE TO TRAILING TWELVE MONTH EARNINGS



Source: CEVA historicals and Wedbush research

Multiples for CEVA earnings prior to 2008 reflect high cash per share more than earnings, in our opinion.

COMPANY OVERVIEW

With primary operations in Herzeliya, Israel, and Dublin, Ireland, CEVA, Inc. (www.ceva-dsp.com) emerged November 1, 2002 with the combination of Parthus Technologies Plc and CEVA, Inc., the latter having spun off from DSP Group, Inc. concurrent with the merger. CEVA generates 85%–90% of its revenue from licensing (~55%) and royalty (~33%) fees associated with delivery of intellectual property, primarily in the form of integrated circuit designs involving digital signal processing (DSP) cores and applications. CEVA is the industry leading licensor of DSP cores.

The remaining 10%–15% of revenue is derived primarily from design services (consultation). The company’s license and royalty revenue typically provides percentage gross margins in the low 90s. Non-licensing activities bring the company's blended average margin to the high 80s percentage level.

Currently CEVA offers platform designs for multi-media (MP3 audio, MPEG4 and H.264 video – the MobileMedia2000 platform), Voice-over-Packet, Bluetooth, high-speed serial communications (multi-Gigabit Serial ATA) for mobile phones, disk drives, digital TV, IP TV, and other consumer electronics products. The company's digital signal processor cores are suited for applications that range from narrow-band speech to digital communications (both wireless and wire-line), broadband, multi-media (audio/video), software defined radios (SDRs) and communications infrastructure. Mobile phones are currently the largest end-market applications for the company's core revenue, while AV/digital media applications represent a large portion of CEVA applications platform sales. The company currently follows Texas Instruments as the largest contributor of digital signal processing technology for non-CDMA mobile phones, but this is changing rapidly as licensees Broadcom, Infineon and ST-Ericsson make gains at LG, Nokia, Samsung, Sony Ericsson and other brands. In recent years, licensee privately held VIA Telecom (China) has emerged to compete with Qualcomm in the low-cost CDMA chip-sets.

CEVA’s primary direct competitor in DSP technology licensing is privately held VeriSilicon. Less direct competitors include ARC, Tensilica (privately held) and ARM Holdings, Ltd. These companies license more general purpose processor technology that in certain instances have digital signal processing features that can compete with CEVA in settings where power consumption is less critical than for core mobile communications functions. Though not a competitor with respect to DSP core licensing, Imagination Technologies overlaps competitively with CEVA in the area of applications licensing. One step further removed are Qualcomm and Texas Instruments, which are the two primary competitors to CEVA’s licensees on the merchant semiconductor front. In addition, companies like Cadence and Synopsys compete indirectly with CEVA for engineering budget “wallet” share and provide tools that can aid prospective customer in designing their own DSPs.

EXHIBIT 1: CEVA NET PRESENT VALUE CALCULATION

CEVA, Inc. (CEVA)

Discounted Cash Flow Analysis

Beta for 15% discount rate		2.06
3 - 5 Year Growth Rate		25%
6 - 10 Year Growth Rate		20%
Long-Term Growth Rate (uniform for all tech. stocks)		5%
Risk Free Rate	1/28/2010	3.64%
Market Equity Risk Premium		5.50%
Required Return on Equity for "Long Term" Beta		15.0%
Shares Outstanding (millions)		21.5
Most Recent Quarter (December Fiscal Year)		0.3

		3-5 Year Growth Rate ==>					6 - 10 Year Growth Rate ==>					LT Growth ==>
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Perpetuity--2020 and Beyond
Net Income --- >>>		9.6	13.1	16.3	20.3	25.3	30.3	36.3	43.6	52.2	62.6	659.8
	Present Value											
2010	1	\$8.46										
2011	2	\$10.03										
2012	3	\$10.86										
2013	4	\$11.76										
2014	5	\$12.73										
2015	6	\$13.28										
2016	7	\$13.85										
2017	8	\$14.44										
2018	9	\$15.06										
2019	10	\$15.71										
Perpetuity--2020 and Beyond	11	\$143.89										

Total (millions): **\$270.05**

NPV Per Share on 15% discount rate 2.06 **\$12.57**

CEVA FTM Valuation

Beta for 15% discount rate		2.06
3 - 5 Year Growth Rate		25%
6 - 10 Year Growth Rate		20%
Long-Term Growth Rate (uniform for all tech. stocks)		5%
Risk Free Rate	1/28/2010	3.64%
Market Equity Risk Premium		5.50%
Required Return on Equity for "Long Term" Beta		15.0%
Shares Outstanding (millions)		21.5
Most Recent Quarter (Dec Fiscal Year)		0

		3-5 Year Growth Rate ==>				6 - 10 Year Growth Rate ==>				LT Growth ==>	
		2011	2012	2013	2014	2015	2016	2017	2018	2019	Perpetuity--2020 and Beyond
Net Income --- >>>		13.1	16.3	20.3	25.3	30.3	36.3	43.6	52.2	62.6	659.8
	Present Value										
2011	1	\$11.53									
2012	2	\$12.48									
2013	3	\$13.52									
2014	4	\$14.64									
2015	5	\$15.27									
2016	6	\$15.92									
2017	7	\$16.60									
2018	8	\$17.31									
2019	9	\$18.06									
Perpetuity--2020 and Beyond	10	\$165.43									

Total (millions): **\$300.75**

NPV Per Share on 15% discount rate 2.06 **\$14.00**

Source: Wedbush research

EXHIBIT 2: COMPARATIVE VALUATION AGAINST PEERS

CEVA, Inc.

(in millions, except per share data)

Company	Symbol	Rating	Intraday 1/28/2010	Shares Outstanding	Market Cap.	Debt	Cash	Enterprise Value (EV)	TTM Revenue	EV / TTM Rev.	2009 P/E	2010 P/E
ARM Holdings	ARMH	NR	\$9.26	433.7	4,016	0.0	204.2	3,812	501	7.6	37.8	29.9
Imagination Technologies	IMG.L	NR	264.70 p.	231.4	989	0.0	30.1	958	103	9.3	59.6	30.4
InterDigital Communications	IDCC	NR	\$25.14	44.3	1,114	13.0	216.6	910	280	3.3	14.4	8.7
MIPS Technologies	MIPS	NR	\$4.10	45.5	186	12.8	44.5	155	77	2.0	13.8	10.5
QUALCOMM	QCOM	NR	\$40.78	1,691.0	68,959	0.0	18,928.0	50,031	11,048	4.5	18.2	16.5
Peer Average (excluding ARC International) ----->>										5.3	28.8	19.2
CEVA, Inc.	CEVA	O	\$11.56	21.5	248.3	0.0	100.6	147.7	38.5	3.8	27.3	26.0
Implied Valuation (peer revenue multiple applied to CEVA revenue)												
CEVA, Inc.	CEVA		\$14.23	21.5	305.8			205.2		5.3		
Implied valuation at ARM Holdings multiple												
	CEVA		\$18.30	21.5	393.0			292.4		7.6		

Sources: Company data, Thomson data and Wedbush research

Note: O = Outperform, N = Neutral, U = Underperform, NR = Not Rated at Wedbush

EXHIBIT 3: BALANCE SHEET

CEVA, Inc. (CEVA)

Balance Sheet

FY Ended Dec

(\$000, except per share data)

	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Current Assets																				
Cash & Cash Equivalents	33,220	37,929	24,492	43,446	31,690	30,113	36,509	37,968	37,177	43,026	42,679	40,697	52,501	43,093	11,144	13,328	15,483	8,215	8,657	12,104
Marketable Securities & Investments	27,118	21,717	35,869	18,174	28,424	33,480	27,259	26,266	27,251	21,880	23,278	35,678	33,013	43,382	76,713	71,301	69,596	79,528	83,122	88,494
Accounts Receivables, Net	9,045	9,284	7,331	6,159	9,090	6,086	7,091	8,421	8,663	9,949	10,994	2,502	6,004	5,884	3,838	5,390	4,553	5,544	6,364	5,995
Inventories	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	158	147	-	600	550	543	571	613	537	642	761	861	993	1,336	1,300	1,085	925	945	1,075	912
Prepaid Expenses & Other	2,482	2,859	3,473	2,082	2,159	2,036	2,255	2,454	2,843	2,623	2,297	3,295	3,508	3,555	3,994	4,921	5,019	5,127	4,675	5,345
Assets of discontinued operation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	72,023	71,936	71,165	70,461	71,913	72,258	73,685	75,722	76,471	78,120	80,009	83,033	96,019	97,250	96,989	96,025	95,576	99,359	103,893	112,850
Property/Equip., Net	4,184	4,066	3,642	3,226	2,851	2,111	1,883	1,706	1,941	1,887	1,767	1,626	1,558	1,630	1,510	1,271	1,217	1,187	1,217	1,148
Severance Pay Fund	1,693	1,725	1,808	1,912	2,020	2,205	2,332	2,338	2,220	2,291	2,573	3,091	3,539	3,859	3,943	3,441	3,238	3,690	4,071	4,455
Long Term Lease Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	5,984	4,233	4,233	4,233	4,233	4,233	4,233	-	-	-	-	-	-	-	-
Goodwill & Intangibles, Net of Amortization	40,850	40,241	40,049	39,858	39,668	36,782	36,740	36,699	36,657	36,616	36,575	36,551	36,530	36,510	36,498	36,498	36,498	36,498	36,498	36,498
Deferred Income Taxes	59	56	57	292	342	382	434	382	624	703	600	455	732	807	616	351	552	475	419	309
Total Assets	118,809	118,024	116,721	115,749	116,794	119,722	119,307	121,080	122,146	123,850	125,757	128,989	138,378	140,056	139,556	137,586	137,081	141,209	146,098	155,260
Current Liabilities																				
Accounts Payable	1,555	1,702	575	548	588	630	638	718	838	884	541	455	870	713	501	615	400	614	560	530
Accrued & Other Current Liabilities	8,026	8,755	9,730	7,778	8,026	8,929	8,629	9,462	9,575	10,013	8,691	8,452	8,638	8,827	8,809	10,446	9,342	8,186	8,290	9,669
Deferred Revenue	1,987	2,056	1,234	453	406	377	589	406	385	626	683	727	701	2,110	1,732	1,034	730	734	541	432
Related Party - DSP Group, Inc.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes Payable	624	676	589	442	392	363	331	135	140	119	131	320	3,391	1,815	862	44	77	389	99	46
Deferred Tax Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	183	984
Total Current Liabilities	12,192	13,189	12,128	9,221	9,412	10,299	10,187	10,721	10,938	11,642	10,046	9,954	13,600	13,465	11,904	12,139	10,549	9,923	9,673	11,681
Accrued Severance Pay and other LT liabilities	2,514	2,561	2,213	4,295	4,369	4,304	4,320	4,216	3,938	3,838	4,147	4,647	3,724	4,063	4,153	3,788	3,592	4,031	4,337	4,483
Total Liabilities	14,706	15,750	14,341	13,516	13,781	14,603	14,507	14,937	14,876	15,480	14,193	14,601	17,324	17,528	16,057	15,927	14,141	13,954	14,010	16,164
Retained Earnings (Accumulated Deficit)	(33,711)	(35,927)	(36,457)	(36,604)	(37,405)	(37,622)	(37,281)	(36,702)	(36,702)	(36,272)	(35,160)	(35,411)	(29,900)	(29,209)	(27,928)	(26,972)	(25,791)	(23,498)	(22,053)	(19,500)
Other Stockholders' Equity	137,814	138,201	138,837	138,837	140,418	142,741	142,081	142,845	143,972	144,642	146,724	149,799	150,954	151,737	151,427	148,631	148,731	150,753	154,141	158,596
Total Stockholders' Equity	104,103	102,274	102,380	102,233	103,013	105,119	104,800	106,143	107,270	108,370	111,564	114,388	121,054	122,528	123,499	121,659	122,940	127,255	132,088	139,096

Source: Company reports

COVERED PUBLIC COMPANIES MENTIONED IN THIS REPORT (INTRADAY 1/28/2010)

Company	Ticker	Price	Rating	Price Target
LM Ericsson Telephone	ERIC	\$9.66	OUTPERFORM	\$12.00
Nintendo	JP:7974	¥26,320	NEUTRAL	¥32,000
Texas Instruments	TXN	\$23.16	OUTPERFORM	\$33.00

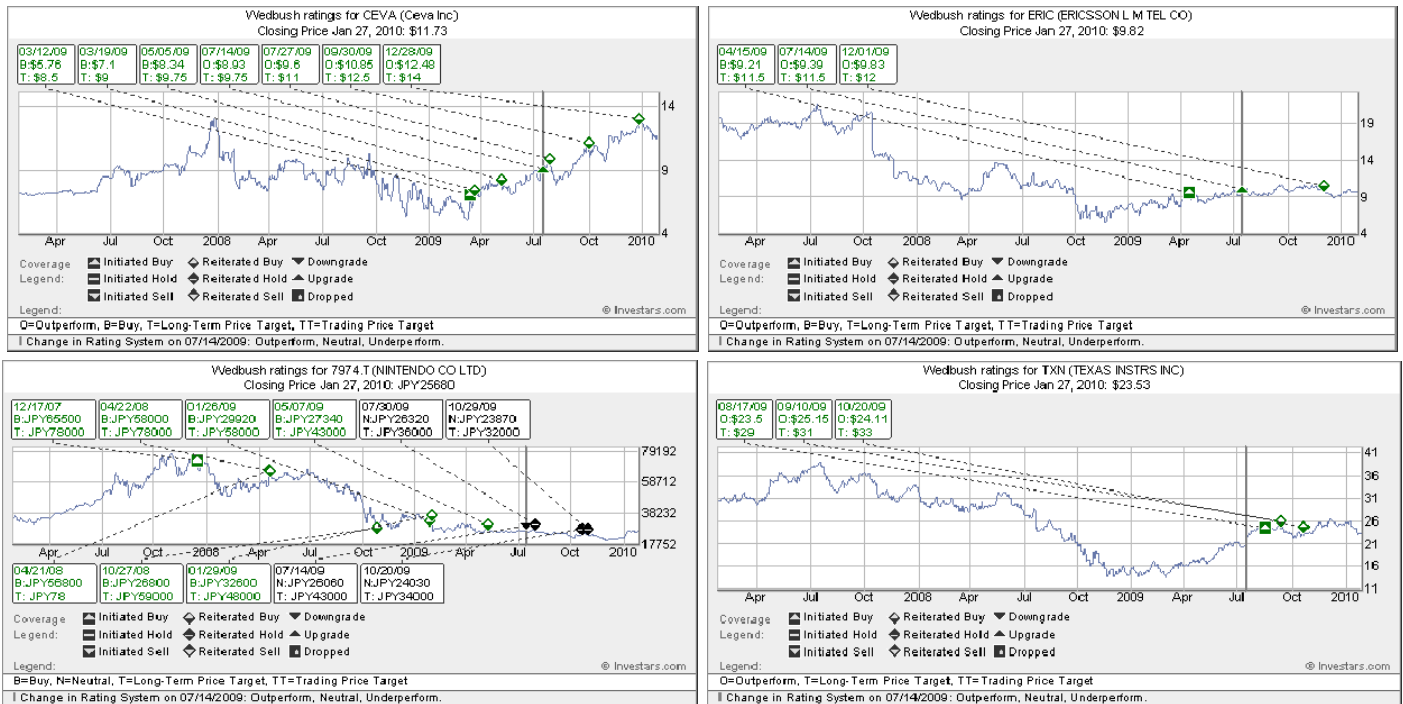
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