

Mossberg's Investor Digest

Best Idea Profile:

Cascade Microtech Inc. (NASDAQ:CSCD)

DESCRIPTION:

Founded in 1983, Cascade Microtech, Inc. operates in an important niche in the semiconductor industry, providing precision mechanical electrical measurement probes and systems that aid in the testing of integrated circuits, optical devices, and other small structures. It sells systems and probes to semiconductor manufacturers, test subcontractors, research organizations, and designers, in the United States, Asia Pacific and Europe. The company is headquartered in Beaverton, Oregon, and has 450 employees worldwide.

KEY INVESTMENT CONSIDERATIONS:

Consumer Trends Fueling Growth – Multiple trends are accelerating the need for Cascade's products; primarily, the rapid emergence of wireless in almost all areas of life. Higher data rates and more data are driving the need in all types of wireless devices as these devices require extensive testing before they are sold. Cascade Microtech sells the systems to conduct this testing, as well as the consumable probes that are used in these systems. Speed, integration of functions and shrinking geometries in consumer devices, such as video, and in computing devices, also drive the need.

Dominates Target Markets – Cascade Microtech dominates the markets in which it sells and has the "who's who of the semiconductor industry" customers in all major sectors: this includes Qualcomm, SanDisk, Intel, Samsung, Toshiba, Texas Instruments, Sematech, Georgia Tech, and a host of other notable names. Each of the 20 largest semiconductor manufacturers in the world is a customer.

Beating Financial Expectations – Cascade Microtech achieved compound annual growth rate of 24% in revenues over the past five years, while continuing to expand its product portfolio. The third quarter achieved, or exceeded, the high end of guidance in all aspects. Gross margins and adjusted EBITDA both hit records in the third quarter.

Strong Guidance – Management is bullish across the board for the upcoming fourth quarter; it is projecting revenue in the range of \$35 million to \$38 million with diluted GAAP earnings per share in the range of \$0.12 to \$0.18, and non-GAAP earnings per share in the range of \$0.15 to \$0.21 per share. It has indicated that the impressive record gross margins are sustainable at this level.

Competitive Landscape – The market is constantly evolving technologically, so there is always a need for extensive research and development expenses, and to a lesser degree, capital expenditures. However, Cascade believes it has better visibility than most into the changing requirements of this dynamic industry. It carefully manages its spending, and expects to remain very competitive without sacrificing margins.

Strategic Service Initiative – In the first half of 2014, Cascade launched a strategic framework for collaboration with the best of breed companies in its service business. Management indicates this integrated test and measurement solution has substantial upside because it eliminates time and risk involved in sourcing products from multiple vendors. Service is now about 5% of revenues but could contribute 20% within three years.

VALUATION

Management has a history of achieving expectations. Given the strong 2015 guidance the company issued, the stock appears to have substantial upside from current levels. Furthermore, the stock has been fairly neglected by analysts, which often provides good buying opportunities. The balance sheet is strong and easily supports the ongoing share repurchase program in place. This company is a more stable play than most in what is typically a cyclical semiconductor equipment industry.

Cascade Microtech Inc. (NASDAQ:CSCD) Investment Data (as of 1/19/15)

Recent Price	\$14.02
52-Week Range	\$8.71 - \$14.89
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	16.4 M
Average Trading Volume (3 mos)	112k
Market Capitalization	\$221 M
Cash	\$31 M
Long-term Debt	0
Enterprise Value (EV)	\$192 M
Book Value	\$6.26
TTM Revenue	\$135 M
P/ Revenue	2x
TTM EPS	\$0.88
P/ EPS	15x
TTM EBITDA	\$19 M
EV/ EBITDA	10x