

Mossberg's Investor Digest

Best Idea Profile:

Interphase Corp. (NASDAQ:INPH)

DESCRIPTION:

Interphase is a diversified information and communications technology company. Its embedded computing solutions include communications networking products for connectivity, interworking and packet processing. Its services business includes electronic engineering design services and electronic contract manufacturing services that assist customers with their communications and networking needs from conceptual design to production. It also has a line of embedded computer vision products that addresses the education and enterprise markets. Interphase was founded in 1974 and is located in Carrollton, Texas.

KEY INVESTMENT CONSIDERATIONS:

Dynamic New Product – Interphase began shipping its newest product, penvue, at the end of May. This is a wireless presentation tool that is a digital pen and a wireless mouse. It can be used to write, draw, highlight and erase. It exceeds the ability of an electronic whiteboard in that it can be used directly on a display or from anywhere in the room. It is also more affordable; for the same price a school can put an electronic whiteboard in one classroom or penvue in six classrooms. Management states that there is no competitive alternative to the capabilities of penvue.

During the second quarter Interphase presented penvue at the largest education technology conference in the country and was very enthusiastic about the level of interest in its product, which won the Best of Show award. The penvue team was also named as an award finalist by the largest technology trade organization in Texas. Interphase had orders pending before the launch and is selling through direct sales, penvue website, Amazon and resellers. There are 31 million K through 12 classrooms in the world, with 4.5 million in the United States. Management believes so far they are “merely scratching the surface of the available opportunities for penvue.” They have already had first meetings with high-level decision makers in Texas and Florida alone that could yield up to 49,000 placements.

Need More Powder in the Keg –A week after the company’s second quarter conference call, when they discussed the need for additional capital, management announced a \$3.3 million private placement with Hodges Small Cap Fund. The net proceeds will allow it to expand and accelerate the penvue sales strategy, including more specialized sales personnel, social media and targeted advertising that can penetrate this market. It is also

pursuing placement in corporations, higher education and non-profit schools.

Networking Product Revenues Recovering – There was continued weakness in the communication networking product business that was driven by the major telecom customers in Europe. However, a major customer has now completed consolidation of its facilities, which caused it to work off inventory in previous quarters. It began purchasing again and appears to be reestablishing its run rate of purchases. Management expects third-quarter revenue will increase more than 40% for communication network products. The growth in services business, which had its third consecutive quarter of year-over-year growth, had offset some of the previous revenue decline but at a lower margin, so recovery in communication networking product revenues should boost margins.

VALUATION:

Management does not issue financial projections but it is clear they believe penvue will have a game-changing impact. Margins should increase with the expected improvement in revenue mix; and sales of penvue will begin to make an impact on revenues, margins, and quite simply, enthusiasm from investors. The stock could rise accordingly.

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Investment Data (as of 8/26/14)

Recent Price	\$3.04
52-Week Range	\$1.97 - \$6.91
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	7.0 M
Average Trading Volume (3 mos)	35k
Market Capitalization	\$21.3 M
Cash	\$4.5 M
Long-term Debt	\$3.5
Enterprise Value (EV)	\$19.5 M
Book Value	\$0.73
TTM Revenue	\$15.2 M
P/ Revenue	1.4x
TTM EPS	\$(0.33)
P/ EPS	NA
TTM EBITDA	\$(2.2 M)
EV/ EBITDA	-8.8x

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