

Mossberg's Investor Digest

Best Idea Profile:

Datalink Corporation (NASDAQ:DTLK)

DESCRIPTION:

Headquartered in Chanhassen, MN; Datalink Corporation offers consolidation and virtualization solutions and services to ensure that data center infrastructures are flexible, shared, and manageable. DTLK's virtualization portfolio supports near-term needs and helps organizations develop and execute long-term strategies for data center efficiency. DTLK virtualization infrastructure assessments provide end-to-end views of existing resources, including servers (both physical and virtual) applications and storage. DTLK has a portfolio of solutions concentrated in three areas; consolidation and virtualization, enhanced data protection and advanced network infrastructures. Datalink offers a full suite of practice-specific analysis, design, implementation, management, and support services. DTLK has 120 service professionals and support service members based throughout the U.S. Customers view these professional services teams as an extension of their IT organization which is a key differentiator.

KEY INVESTMENT CONSIDERATIONS:

Expanding Market - Businesses are beginning to focus on cautious growth—how to retain customers and maintain a competitive position. Datalink expects this priority shift will motivate customers to assess and deploy technologies that add strategic business value to their organizations through scalable, shared and flexible IT capabilities. A key component of these new trends in technology is virtualization as organizations continue to consolidate and virtualize their server environments. Gartner estimates the server virtualization management market will grow by nearly a 30% compound annual growth rate (CAGR) between 2008 and 2013.

Strong Value Proposition – Migrating data centers to those that are more efficient, scalable, and flexible, is complex. As a result, companies are looking for providers, such as Datalink to sort through their options, define migration plans, and execute accordingly. Organizations are increasingly looking outside their in-house staff to leverage the expertise of companies, such as DTLK, for strategy definition and execution. The downsizing of IT departments in light of current economic conditions also necessitates increased reliance on external service providers.

Differentiated Approach – Unlike many of its competitors, Datalink is not tied to a limited number of manufacturers or particular technologies. This gives the company the flexibility to be consultative in its approach. Datalink customers value objectivity and rely on DTLK to help choose the best available hardware and software and tailor it to their individual needs.

Strong Vendor Relationships – Datalink has strong, established relationships with the major storage, server, and networking hardware and software suppliers. The company has expertise in open system environments that includes UNIX, Microsoft Windows, Linux, Solaris, and in-depth knowledge of all major hardware platforms manufactured by industry leaders, such as NetApp, Inc., Hitachi Data Systems Corporation, Cisco Systems, Inc., Symantec Corporation, and Dell Inc. This expertise has earned DTLK preferred status with many of its principal suppliers. Preferred status often enables DTLK to participate in our suppliers' new product development, evaluation, introduction and marketing programs.

Improving Results – Datalink had a profitable history prior to the recession. After several quarters of losses, the company has recently returned to profitability with two consecutive quarters of profitability. During 3Q10, rev increased 62% to \$69MM. The combination of cloud computing, technical innovation and an improving IT environment should provide a better operating environment for the company going forward.

VALUATION:

At the end of the most recent quarter, the company had a record backlog of \$52 million and a strong balance sheet with \$17 million in cash and no long term debt. The street is currently confirming Datalink's return to profitability with estimates of \$0.30 for FY10 and \$0.43 for FY11. If recent trends continue, the company could have some real upside in its operating results.

(Datalink Corp: NASDAQ)

Investment Data (as of 12/17/10)

Recent Price	\$4.50
52-Week Range	\$2.96 - \$5.00
Fiscal Year End	Dec
Shares Outstanding	13.4MM
Average Trading Volume (3 mos)	35,000
Market Capitalization	\$60MM
Cash	\$17.2MM
Long Term Debt	NA
Enterprise Value (EV)	\$41MM
LT Debt/ Equity	NA
BV/ Share	\$3.32
TTM Revenue	\$254MM
P/ Revenue	\$0.2x
TTM EPS	\$(0.02)
P/ EPS	NA
TTM EBITDA	\$5.6MM
EV/ EBITDA	\$7.3x

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