

# Mossberg's Investor Digest

## Best Idea Profile:

## Elecsys Corporation (NASDAQ:ESYS)

### DESCRIPTION:

Headquartered in Olathe, Kansas, Elecsys Corporation provides innovative machine to machine (M2M) data acquisition, telemetry, and analysis systems, as well as custom electronic equipment for critical industrial applications. ESYS proprietary equipment and services encompass rugged remote monitoring; wireless communication, mobile computing, and radio frequency identification. ESYS also provides integrated displays and custom electronic assemblies to numerous industries. ESYS's primary markets include energy infrastructure, safety and security systems, industrial controls, irrigation and water management, transportation, military, and aerospace. ESYS markets and supports its proprietary technology and products and services under its NTG, Pipeline Watchdog, SensorCast, Radix, eXtremeTAG, and DCI trade names. ESYS believes that its design, manufacturing, and integration capabilities, combined with its materials management expertise, make it an effective single resource for product development and production that allows customers to integrate their supply chains and reduce their vendor bases.

### KEY INVESTMENT CONSIDERATIONS:

**New Defense Department Contract** - On March 7<sup>th</sup> ESYS announced that it received an order for remote monitoring systems to be delivered to the US DoD. This initial order for fifty WatchdogVIP remote monitoring units will be deployed to monitor cathodic protection systems used by the United States Navy and the United States Marine Corps throughout the world. Elecsys expects to ship the systems within the next two months. Roughly half of the equipment is destined for use on domestic military bases and the other half is slated for deployment overseas. This contract validates the reliability of and rugged construction that Elecsys is known for. Although the contract totals less than \$100k it provides a large potential sales channel for the company's proprietary high margin product lines.

**Recent Results** – Elecsys reported strong results for the 3Q11. The company reported revenues of \$6.1 million vs. \$4.7 million on a year-over-year basis. This increase helped the company post \$0.07 per share vs. \$0.02 over the same time frame last year. Investors should note that third quarter sales of the company's proprietary products and services were \$2.3 million for the three-month period ended January 31, 2010, which was a \$423,000, or 23%, increase from sales of \$1.9 million in the prior year period. The company appears to be poised for continued sequential growth.

**Gross Margins and Recurring Revenues** – Elecsys has a business model that could produce significant operating leverage. Future increases in revenues may lead to higher gross margins. Also, as the company's installed base grows, there is potential for the development of a recurring revenue base.

**Significant Backlog** – Total consolidated backlog was last reported at about \$6.3 million an increase of \$3.9 million, or 60%, from the year ago period. The growth in the company's backlog is the result of an increase in orders from a combination of current and new customers.

**Strong Management Team** – Karl Gemperli, the Company's President and CEO, was previously employed with Goodrich Aerospace and has over 20 years of electronic manufacturing and management experience. The senior management team includes three other top executives with significant remote monitoring and electronics manufacturing experience.

### VALUATION:

Elecsys appears to be at an inflection point. The company is now profitable and, with earnings leverage, the bottom line should grow at least twice as fast as the top line.

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Investment Data (as of 3/25/11)

<b>Recent Price</b>	<b>\$5.09</b>
52-Week Range	\$3.01 - \$5.28
Fiscal Year End	Apr
Shares Outstanding	3.8MM
Average Trading Volume (3 mos)	3,000
Market Capitalization	\$19MM
Cash	\$352k
Long Term Debt	6.5MM
Enterprise Value (EV)	\$23MM
LT Debt/ Equity	53%
BV/ Share	\$2.69
TTM Revenue	\$20MM
P/ Revenue	0.98x
TTM EPS	\$0.12
P/ EPS	nmf
TTM EBITDA	\$1.4MM
EV/ EBITDA	18X

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