

Mossberg's Investor Digest

Best Idea Profile:

Interphase Corporation (NASDAQ:INPH)

DESCRIPTION:

Headquartered in Plano, Texas; Interphase provides electronic systems and subsystems for use in communications and electronic aerospace/defense equipment. The company's solutions are used in next generation wireless 4G (LTE and WiMAX), cloud computing, voice/video/data convergence applications. Interphase has sales offices in the United States and Europe. In addition, the company also provides design and manufacturing services (approximately 5% of revenue). Clients include Alcatel-Lucent, Emerson Network Power, Fujitsu Ltd., Genband, Hewlett Packard, ip.access, Nokia Siemens Networks, Samsung, and Sun Microsystems.

KEY INVESTMENT CONSIDERATIONS:

Companywide Restructuring & Repositioning – Over the past two years, Interphase has taken several steps to lower its cost base and diversify into new markets. Much of the restructuring effort, (> \$5 million in annual savings) has already been completed and now that revenue growth has resumed, the company has returned to profitability in first quarter. In addition, INPH is diversifying its product portfolio by adding new telecom/IO building blocks, new engineering and design services and aero defense solutions and components. Interphase is leveraging its reputation and market leadership in legacy T-1 based products to penetrate new markets.

Expansion of 4G Networks – Interphase is moving into 4G mobile base stations at a time when the new network is the early stages of build out. To provide high density coverage to meet the bandwidth demand of 4G networks, more base stations are required. Instead of building out large (and unsightly) towers, small base stations, such as those that sit on top of light or utility poles, are being developed. These smaller base stations, which use INPH solutions, are so small that they can be deployed in small and even mobile footprint, such military vehicles and defense networks, utility companies, ships and airport vans.

Engineering Design Services – The emerging market build out (especially Asia) is expanding the market for contract engineering. The contract manufacturing market for computers and telecom products is estimated to grow from just over \$200mm in 1999 to nearly \$350MM in 2013 (source BCC Research). Interphase has the design and manufacturing capabilities to pursue these expanding markets.

Aero Defense Communications Systems – This is a new market which is value added and has higher margins. Due to the nature of the offerings needed this market is unlikely to draw intense competition from Asian Competitors.

Mystery Market – The company has entered a new technology in the embedded computer vision market and is being tight lipped about giving any specific details. The new market will diversify the company and provide a potential growth opportunity. The market initially targeted is expected to be \$1.2 billion

Risks - On April 7th, 2011 MOSAID Technologies announced that it has initiated patent infringement litigation against NVIDIA Corporation, Freescale Semiconductor, Inc. and Interphase Corporation. In its complaint, MOSAID asserts that Freescale infringement on a chip that is used by Interphase. Freescale has agreed to indemnify INPH against any damages, which should mitigate this as a significant issue.

VALUATION:

Interphase appears to be making headway on repositioning itself and expanding into potentially much larger and diverse end markets. The company has turned the corner on profitability and shares are likely to appreciate as more detail is provided on end market opportunities.

(NASDAQ:INPH)

Investment Data (as of 4/29/11)

Recent Price	\$5.41
52-Week Range	\$1.17 - \$7.59
Fiscal Year End	Dec
Shares Outstanding	6.8MM
Average Trading Volume (3 mos)	400k
Market Capitalization	\$37MM
Cash	\$9.6MM
Long Term Debt	N/A
Enterprise Value (EV)	\$27MM
LT Debt/ Equity	N/A
BV/ Share	\$1.70
TTM Revenue	\$21.1M
P/ Revenue	1.8x
TTM EPS	(\$0.86)
P/ EPS	NA
TTM EBITDA	(\$5MM)
EV/ EBITDA	NA

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