



Mossberg's Investor Digest

Best Idea Profile

Intevac (Nasdaq: IVAC)

DESCRIPTION:

Headquartered in Santa Clara, CA, Intevac operates two business segments: Equipment (80% of revenue) and Imaging (20% of revenue). With 60% market share, the equipment segment is the world's leading supplier of equipment used to make hard disk drives. The Imaging segment provides extreme low light imaging sensors, cameras and systems, for use in night vision goggles, targeting systems, and other military, law enforcement, industrial and scientific applications. Customers include Seagate Technology, Fuji Electric, Hitachi Global Storage Technologies and Showa Denko.

KEY INVESTMENT CONSIDERATION:

Demand for storage will continue to grow – Since IVAC makes machines that make hard drives, ultimately it's revenue is driven by demand for devices that use hard disk drives. While the near term outlook for demand is uncertain, it is almost certain that there will be demand for more digital storage in the future. Growth drivers for hard disk drives include increasingly popular consumer applications, such as video recorders and video game consoles, as well as PCs in developing countries, and storage solutions for large companies, among others.

Newly developed Lean Etch product will double the addressable market in next three to five years

– The next generation of storage technology, called perpendicular recording, greatly increases the amount of information that can be stored on a hard drive. The hard disk drive market is very competitive, and in order to remain competitive, IVAC's customers must invest in this technology. Not only will IVAC benefit from this upgrade cycle, the new technology requires twice as much equipment, effectively doubling the size of IVAC's addressable market. Major manufactures are expected to begin to transition their R&D efforts into pilot production soon, which should require spending beginning in the second half of 2009.

Imaging business products ramp – During a tough economic environment, the imaging business grew 19% during 2008. Continued development of products in this area can provide growth in 2009 and beyond. The company recently received a production order for a U.S. military application of a digital camera. This application is estimated to bring \$25 million in revenue over the next seven years. In the fourth quarter, the company received a \$20 million development contract to provide a digital cameral module for an existing avionics application. The company is also participating in a couple of night vision programs that are each worth \$150 million over a number of years, and several other programs with estimated value of \$100 million.

KEY RISKS:

Management has made cost cuts that will allow the company to have breakeven cash flow at revenue levels of \$115 million/year. However, guidance calls for first quarter revenue of \$9 million to \$12 million, which is just 35% to 40% of the breakeven levels. The lone analyst's revenue estimates for 2009 and 2010 are \$98 million and \$167 million, respectively. Therefore, it's likely that the company will burn additional cash until revenue levels approach breakeven, and/or additional cost cuts are made. An extended downturn in capital spending by the company's customers could lead to significant cash burn. Management has already made significant cuts. Additional cuts to improve profitability, in the R&D area in particular, could make the company less competitive coming out of the bottom of the cycle.

VALUATION:

Because the company is operating at a loss, it's not possible to value the company based on a multiple earnings or EBITDA. However, looking at the balance sheet, it appears there is limited downside for the stock that is trading near its 52-week low. Trading 30% below its tangible book value, the company has no debt, \$39 million in cash, and \$66 million in auction rate securities (AAA-rated student loans – backed by the federal government). Combined, cash and investments are worth nearly the entire market value.

(Nasdaq: IVAC) Investment Data (as of 3/27/09)	
Recent Price	\$5.34
52-Week Range	3.35 - 17.73
Fiscal Year End	Dec
Dividend	N/A
Yield	N/A
Shares Outstanding	21.9 MM
Average Trading Volume (3 mos)	118,000
Market Capitalization	113 MM
Cash & Investments	106 MM
Long Term Debt	N/A
Enterprise Value (EV)	7 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	7.35
TTM Revenue	110 MM
P/ Revenue	1.0x
TTM non-GAAP EPS	-0.19
P/ EPS	N/A
TTM EBITDA	-14.6 MM
EV/ TTM EBITDA	N/A

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