

Mossberg's Investor Digest

Best Idea Profile

White Electronic Designs (Nasdaq: WEDC)

DESCRIPTION:

Headquartered in Pheonix, Arizona, White Electronic Designs provides ruggedized electronic components and systems for defense and aerospace applications such as smart bombs, missiles, tactical radio systems, fighters and helicopters. WEDC's technology includes semiconductor packaging components, circuit card assemblies and electromechanical assemblies. In addition, the company has proprietary anti-tamper protection technology that reduces the enemy's ability to access data or reverse engineer the technology.

KEY INVESTMENT CONSIDERATIONS:

Focus on Government Electronics...an attractive market for a niche player like WEDC – Last year the company made the strategic decision to exit commercial electronics markets and focus on defense and aerospace applications. High-end electronics require significant investment in R&D and specialized manufacturing equipment. Getting the most out of these investments requires long product life cycles with attractive margins. While these conditions don't exist in most commercial electronics markets, they do in government electronics. For example, the company is still shipping products that were first shipped in the year 2000. To put that in perspective, ask yourself if you use any technology that was first produced in 2000.

Strong backlog gives visibility – Customers schedule production over approximately one year and give orders to WEDC accordingly. Approximately 60 to 70% of the company's backlog will ship in the coming year, which gives the company significant visibility in forecasting future revenue. At the end of WEDC's June quarter, backlog was \$45.7 million, roughly two-thirds of the company's annual revenue.

Book to bill trend suggest a strong 4Q and 2010 results – During its fiscal third quarter (June09) the company received \$18.2 million in orders and recorded \$16.6 million in revenue. The resulting book to bill ratio of 1.1 and the company's expectations for continued strength in booking trends suggest a strong fiscal fourth quarter and 2010.

Anti-tamper technology gains traction – During October 2006, the U.S. Government mandated that certain electronics used in military applications are required to have anti-tamper technology. WEDC has developed a proprietary process for applying anti-tamper protection, which offers greater scalability and higher yields than its competitors. WEDC's anti-tampering bookings were \$18.8 million for the first nine months of fiscal 2009, versus \$4.8 million for all of fiscal 2008.

VALUATION:

The valuation is attractive by multiple metrics. Shares are trading near their tangible book value, which includes \$2.56 per share in cash. On an Enterprise value to EBITDA basis, shares are trading at a very reasonable 6.3x. The company has recently made significant changes to its corporate governance and leadership including the removal of a poison pill provision, the replacement of its Chairman and hiring a new Chief Executive Officer. Desert Equity, an entity controlled by the company's new Chairman recently completed a tender offer and acquired 3.3 million shares at \$4.25 per share. This was a premium to the market price of \$4.05. The tender offer represents a significant endorsement that the shares are undervalued at current levels. WEDC's new Chairman now owns approximately 18% of WEDC.

(Nasdaq: WEDC)

Investment Data (as of 9/21/09)

| | |
|--------------------------------|---------------|
| Recent Price | \$4.52 |
| 52-Week Range | 3.00 - 5.05 |
| Fiscal Year End | September |
| Shares Outstanding | 22 MM |
| Average Trading Volume (3 mos) | 80,000 |
| Market Capitalization | 103 MM |
| Cash | 59 MM |
| Long Term Debt | N/A |
| Enterprise Value (EV) | 44 MM |
| LT Debt/ Equity | N/A |
| Tangible BV/ Share | 4.45 |
| TTM Revenue | 62 MM |
| P/ Revenue | 1.6x |
| TTM EPS | -.06 |
| P/ EPS | N/A |
| TTM EBITDA | 7 MM |
| EV/ EBITDA | 6.3x |

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