

Proactive Group

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Intevac is the name to watch over the next 5 years as it benefits from diverse product offering

Diversity, consistency, and growth opportunities are the keys to success for small companies. Many small companies offer only a portion of the trifecta, so when one comes along touting all three, it's worth close examination.

Intevac (NASDAQ:IVAC) has not one, but two core, diverse businesses: Thin-film equipment and Photonics.

Thin-film equipment

The company's thin-film equipment business represents the current growth side for Intevac, a change from years past. Initially, Intevac focused on storage.

As the HDD storage market began running over capacity, Intevac pivoted to the ever-evolving cloud computing segment of storage needs. The increased complexity in HDD structures to meet the additional processing needs for cloud computing has enabled it to achieve continued strong results from its HDD equipment.

Unfortunately, with the industry reaching overcapacity and many of the largest HDD vendors issuing earnings warnings, the growth expectations should be tempered.

Fortunately, Intevac has positioned itself in a \$500 million Internet of Things (IoT) opportunity over the next five years. The company recently introduced its Vertex Optical Diamond-Like Carbon (oDLC) for Display cover panels. oDLC is an optically-transparent, protective thin-film coating.

It is a thin-film technology that is applied to protect decorative back cover glass options on smartphones. The use of backside cover glass on smartphones is a rapidly-growing portion on the high-end.

The Intevac Vertex system permits a new approach for cell phone providers. It has shown to increase durability and scratch resistance while being cost sensitive. When combined with glass, oLDC is shown to be 20x more scratch resistance, have 10x the haze reduction, and increase breakage resistance by 20% when compared to glass alone or glass plus anti-smudge coating, and at a lower cost.

Intevac has already landed a top three cellphone maker as a client. Furthermore, another Tier-1 producer is currently evaluating oDLC as well.

IoT is much more than just smartphones. Tablets, wearables, point-of-sales stations, and auto-infotainment offer potential for oDLC. While the total addressable for the next five years may be as much as \$500 million, the next decade should offer upside of two-to-three times that amount.

Additionally, the company has landed two tier-1 customers in the solar market with expectations that a low-cost market alternative will come fully online by the second half of 2019 to boost Intevac's sales in this sector.

While not a significant financial driver yet, Intevac does have a dozen backorders for its low-cost ENERGi solar-ion

Share Information

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implant system.

Altogether, the Thin-film equipment business consisting of IoT, Solar Power, Cloud Computing, and Storage has a 5-year total addressable market of \$1 billion. With current sales approaching \$100 million, there is significant upside from this business segment alone; however, when you consider the total addressable market for the Photonics portion of Intevac is another \$1.4 billion, things get interesting.

Military contracts

What's more consistent than government and military contracts?

Very little, which is why the digital vision systems (photonics) business Intevac holds appeal. The company produces night vision & target ID camera systems, night visions & head mounted displays for soldiers, and integrated night vision systems for heads up displays. Its largest client is the US military.

On December 20, 2018, IVAC announced not one, but two US Army contract wins. The company received a \$6.9 million contract for the production of night vision cameras for the Apache Helicopter's Pilot Night Vision Sensor program for the US Army.

After the initial purchase of 144 cameras, the US Army can procure additional units through May 2020 at a pre-negotiated price. Additionally, Intevac received a \$28.6 million contract for the development and production of digital night vision cameras for the US Army's Integrated Visual Augmentation System program.

Over the next two years, IVAC will develop and deliver 2,300 camera modules. The Integrated Visual Augmentation System is designed to incorporate head, body, and weapon technologies on individual Soldiers. It is a single platform that Soldier/Marines can use to fight, rehearse, and train through augmented reality.

Intevac's digital vision systems offer several advantages including high-definition night imagery, fused infrared and low light imagery, low-halo operation, and complete augmented reality capability.

Can IVAC build on third-quarter momentum?

The company is set to report its fourth quarter 2018 at the end of January and investors will be looking to see if the company can build on the momentum of the third quarter.

IVAC reported a loss of \$0.05 per share, which was far better than the (\$0.13) estimate Wall Street had on the company. Revenue of \$19.5 million also exceeded expectations of \$18.63 million. Fiscal year 2019 should see Intevac turned profitable on the bottom line which could be a positive for shares.

It's worth watching though as any misstep could set its share price back to the early 2018 levels.

The Company ended the quarter with \$45.7 million of total cash, restricted cash and investments and \$78.3 million in tangible book value. Management has put some of its cash and free-cash-flow to work via stock buybacks.

After repurchasing 4.8 million shares for a total of \$28.5 million, Intevac had utilized the majority of its previously approved \$30 million stock repurchase plan, so the Board of Directors recently authorized an additional \$10 million to the \$30 million plan bringing the total to \$40 million.

The company's strong cash flow should continue, given the recent US Army contracts, combined with the uptake of oDLC in the smartphone markets enabling Intevac to complete its intended buyback while offering investors appealing cash flow.

After the spring of 2018, Intevac appears to have righted the ship. The company is poised to benefit from a diverse product offering along with deep-pocketed clients with high growth potential. This is a name to watch for the next five years.

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