



Large Bullish Trade in II-VI as Product Demand Surges

Ticker/Price: IIVI (\$50.50)

Analysis:

II-VI (IIVI) a name that has climbed 50% YTD and with a sharply rally off the March lows saw a large unusual buy to open of 2400 September \$50 calls on 6/3 for over \$1.4M and also has some elevated December call open interest. IIVI shares are back near the early 2018 highs and worked out of consolidation last week. The \$4.6B Company is a maker of optoelectronic components and devices. IIVI derives 68% of revenues from the Communications end-market with 5G and Data Center likely growth drivers moving forward while smaller segments include Industrial, Military, Consumer Electronics, Semi Equipment and Life Sciences. IIVI has differentiated lasers, optics and integrated circuits and enables the convergence of communications, computing and sensing. It is addressing some large markets with CY25 TAMs as follows: Optical Communications at \$22B with a 14% CAGR, 3D Sensing and LIDAR and \$7.5B with a 24% CAGR, RF and Power Electronics at \$6.2B with a 24% CAGR and Aerospace/Defense at \$2.6B with a 15% CAGR. A few applications include terrestrial and undersea wireless infrastructure/data centers, 3D sensing in consumer and LiDAR in automotive, electric vehicle and smart grids and hypersonics. It recently added \$2B to its TAM with its first shipments of indium phosphide components. IIVI shares currently trade 17.5X Earnings and 2.3X Sales. IIVI has \$388M in cash and equivalents. Analysts have an average target of \$50 on shares and short interest high at 19.5% of the float. IIVI has recently closed its deals for Finisar so expect short interest to come back down while Huawei has long been a headwind as a key customer and the worsening US/China relations but results have not seen a negative impact and the company noted on 5/18 it sees minimal impact from the Commerce Department's latest interim rule. On 5/12 Deutsche Bank raised its target to \$50 citing strong results with record orders and backlog level with transceiver demand 40% above expectations. Needham raised its target to \$52 citing strong margin beat and record booking/backlog due to a surge in optical communication strength while integration of the Finisar deal tracking ahead of expectations. Craig Hallum boosted its target to \$55 and sees very strong optical results and set-up for further beats the next few quarters. Cowen one of the top bulls in the name raising its target to \$71 with positive demand trends. Hedge Fund ownership rose 16.66% in Q1 filings.

Hawk Vision:



Hawk's Perspective: IIVI is an attractive growth name and like its position in growth TAMs, would love to see it come down to the 34 MA.

Confidence Ranking: \$\$