



FEATURED OPTIONS RADAR REPORT



Unusual Call Buying in Mercury Systems into DoD Budget, Potential M&A

Ticker/Price: MRCY (\$76.85)

Analysis:

Mercury Systems (MRCY) with unusual size trading on 4/8 as 3000 May \$75 calls were bought to open \$3.80 to \$3.80 with IV30 rising 12% and follows an unusual buy of 450 October \$75 calls on 4/7. MRCY has spent the last two years in a choppy \$64 to \$89 trading range, and this week shares breaking back above all key moving averages including a break through the 200-day moving average on 4/8. MRCY weekly RSI is breaking back over 50 and MACD nearing a bull crossover. Mercury Systems, Inc. is a leading technology company serving the aerospace and defense industry, positioned at the intersection of high-tech and defense. Its products and solutions are deployed in more than 300 programs with over 25 different defense prime contractors and commercial aviation customers. MRCY technologies and capabilities include secure embedded processing modules and subsystems, mission computers, secure and rugged rack-mount servers, safety-critical avionics, radio frequency (“RF”) components, multi-function assemblies, subsystems and custom microelectronics. MRCY estimates its addressable market at \$40B split between C4I and Sensor & Effector Mission Systems. MRCY has a \$4.2B market cap and is trading 27.5X Earnings, 5X Sales and 21X EBITDA with revenues seen rising 17.5% each of the next two years after delivering impressive growth the last few years with revenues near \$800M in 2020 from \$408.6M in 2017. MRCY is in rare territory with EBITDA margins above 20%, a 5-year revenue CAGR above 10%, and LTM revenue growth above 20%, only 29 companies of 1255 in the \$1B-\$7B market cap hit those targets. MRCY has a long history of utilizing M&A and makes no secret it has the financial strength to capitalize on more opportunities. MRCY is capturing more content on programs and platforms due to increased outsourcing by Defense customers at the subsystem level. Another positive tailwind is the government focusing on creating a domestic supply chain for secure and trusted advanced microelectronics. MRCY has a robust business pipeline and has record backlog. Analysts have an average target of \$97 and short interest is 1.8% of the float. Goldman out positive on 3/26 noting investor confusion with the backlog, and see valuation attractive to peers considering its historical premium and strong growth seen over the next few years. Baird out with a Fresh Pick on 3/10 and \$100 target expecting a strong 2H and sees the FY22 DoD budget in early May a potential catalyst.

Hawk Vision:



Hawk's Perspective: MRCY is a wonderful company and the best Defense small cap to own, one I have owned in the past and bought back into earlier this week.

Confidence Ranking: \$\$