



## Unusual Call Size Bought in Mercury Systems

Ticker/Price: MRCY (\$75.3)

### Analysis:

**Mercury Systems (MRCY)** interesting small-cap that has traded down from 52-week highs and forming a nice multi-week base. MRCY yesterday traded over 40X average calls with buyers active in the February \$75 calls as well as the March \$75 and \$80 calls. MRCY doesn't have any other notable open interest. Shares have been in a strong long-term trend and basing at the low-end of a weekly channel that targets a run up to \$95-\$100 over the next year. MACD is also turning higher on the weekly and near a bull crossover. The \$4.1B company trades 31X earnings and 6X sales with mid-teens EPS growth and expected to hit \$1B in annual sales by FY23. MRCY is a leading supplier of electronics for aerospace and defense. MRCY is now a tier 2 supplier which is allowing them to grow their content share within certain systems and a long-term goal of growing their content per system by 12X as they expand into adjacent markets and submarkets. Their business is broken into two segments: command/control management and sensor systems. The former is a \$22.6B market within global defense and growing at a 4% CAGR, slightly better than the traditional market. Their communications platform is used in prime projects like the JLTV, WIN-T, and Aegis naval fleet and features products like displays, storage, network management, and servers. These are primarily used for control of mission systems and processing of information aboard certain systems. Their sensors are used across massive programs like the F-16, F35, Triton, Stormbreaker, and more. The sensor/mission systems market is \$17.4B and growing 4.6% CAGR. Their products like radar, acoustics, and weapons focus on things like RF signals for tracking and seekers. Short interest is 3.5%. Hedge fund ownership fell almost 19% in Q3 but Silvercrest a notable new position and top five holder in the stock. Analysts have an average target for shares of \$75.50 with 5 buy ratings and 2 hold ratings. Baird with a Street High \$87 PT and positive on 12-4 noting that weakness should be bought as they have long-term opportunity for share gains increase from industry outsourcing and expanded capabilities within the Tier-2 subsystems market. BAML positive on 12-4 with an \$85 PT. The firm still thinks share trade rich but a clean balance sheet and company ready to deploy capital. They also note that MRCY has a unique benefit from the US/China tensions. "As China trade tensions continue to intensify, there has been a clear push from the DoD to de-couple the US critical technology supply chain from China. Mercury is poised to benefit from this secular pivot, as it is a trusted supplier in embedded computing, secure processing, microelectronics, and more."

### Hawk Vision:



**Hawk's Perspective:** MRCY has long been a favorite small cap and carved out a great multi-week base, a nice level to add shares in my view.

**Confidence Ranking:** \$\$