



Bulls Position in Viavi Calls for 5G Cycle

Ticker/Price: VIAV (\$15)

Analysis:

Viavi (VIAV) notable buy late day yesterday of 4,000 December 2020 \$17 calls for \$1.34 and name that has some notable March \$15 and \$17 call OI as well from last Fall. VIAV shares are coiled under 52-week highs and just above trend support from the December 2018 lows as well as the low-end of cloud support. The longer-term channel higher targets a move above \$20. The \$3.5B company trades 19.35X earnings, 3X sales, and 6.6X cash with double-digit EPS growth and sales guided to grow 3-4% in both FY20 and FY21. VIAV provides networking testing, monitoring, and other communications products including instruments and software used in the construction and development of enterprise projects. VIAV is coming off of a big investment cycle with more than \$1.3B put to work through R&D and M&A as they look to build up market share in 3D-sensing, anti-counterfeiting, fiber/cable instrumentation, and 5G which are all expected to be major tech themes for the next 5-10 years. They've expanded their TAM with new lines into RF field instrumentation while 3D-sensing builds their consumer, automotive, and industrial/aerospace verticals. The automotive segment is a smaller part of their overall mix now but potential to be a major opportunity given the adoption of driver/passenger monitoring in cabin and external monitoring for ADAS and autonomous. In September, the company held an analyst day where they laid out near-term plans for growth which include vying for new contracts in optics guidance and defense, expanding their fiber monitoring solutions as the number of field techs is set to grow above 100k in the US, and parlaying their leadership in lab test to actual deployment in 5G systems. VIAV is coming off a nice quarter with their core network enablement (NE) business showing strength. Short interest is 5.4%. Hedge fund ownership fell 10.85% in Q3. Analysts have an average target for shares of \$16. Susquehanna starting coverage at Positive in October with a \$19 PT. The firm thinks the global 5G rollout comes with significant opportunity for Viavi, which provides testing equipment for network manufacturers and carriers. Needham positive in September following their analyst day noting that VIAV is well positioned to continue expanding its margins and TAM as the fast growing 5G and 3D Sensing markets ramp while FY21 and FY22 outlooks may prove conservative.

Hawk Vision:



Hawk's Perspective: VIAV is a top small cap that I own for the longer term retirement account and continue to like the options positioning.

Confidence Ranking: \$\$