



MCLEAN CAPITAL



memo

McLean Capital
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C-Com Satellite (CMI.V) memo

Buy the legacy business for a fair price and get a potential multiple bagger return as a bonus.

C-Com is a satellite antenna designer. It is a well-run company that has a particularly strong balance sheet characterized by a cash pile and no debt. They also hold a large inventory, because the nature of this business sometimes requires fulfilling large purchase orders (PO) very quickly in response to natural disasters for example. At the end of the third quarter, current assets minus total liabilities are roughly 23 million Canadian dollars (CAD), with almost 17 million CAD in cash and guaranteed investment certificates. On a per share basis, this 23 million CAD translates to having a net current asset position worth 0.54\$ per share. As the stock price trades at around 1.00 CAD per share, the per share price of the business trades south of 50 cents, or 20 million CAD.

C-Com's business model is characterized by income volatility, as sales are not recurring, and large POs bring fluctuations on the income statement. Having said that, the CEO and major owner, Dr. Leslie Klein, estimates that the normalized net income is 2M\$. Being an intellectual property business, they don't own significant PP&E as they delegate the fabrication of the antennas to third parties. Consequently, their free cash flow (FCF) is higher than net income, due to low capital expenditures. For your reference, C-Com's net income and adjusted FCF from the past 10 years in thousands of CAD is presented in the table below.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	TTM	Average
Net income	2,805	1,597	1,020	1,036	2,300	2,843	-95	1,423	1,140	1,673	1,987	1,782
Adjusted free cash flow	2,587	2,275	2,161	1,811	3,512	3,285	-207	3,312	2,972	1,928	4,169	2,801

To try to capture C-Com's normalized free cash flow, the figure is adjusted by removing the change in working capital to take out the large fluctuation in inventory investments as discussed above. The average does not consider the data from the year 2020, as the results from that year do not correctly capture C-Com's profitability.

These profit measures come from C-Com's legacy business: cumbersome but powerful commercial use satellite antennas. This legacy business has recently suffered from the fact that Starlink is eating satellite companies' lunch (C-Com's partners), and C-Com can't sell to customers in Russia since the beginning of the war in Ukraine. These customers were responsible for frequent purchases. On the other hand, because of C-Com's strong financial position and quality products, they are gaining market share in a declining market.

After removing its net current asset position to its market capitalization, C-Com trades at a PE multiple of 11 or adjusted FCF multiple of 7. We need to note that the cash pile has been there for years and we cannot consider that it will be distributed to shareholders. That being said, it still protects the values of the shares. It might be a fair price for its legacy business. However, C-Com developed a new technology in collaboration with the University of Waterloo: an electronically steered antenna (ESA) that is compatible with the Ka-band. This relatively inexpensive, customizable ESA is very thin and light. This powerful antenna is satellite constellation agnostic¹, a major advantage to other products in the market. This new technology is the culmination of 7 years of research, development and testing by C-Com's experienced team.

This Ka-band ESA brings high speed internet to moving vehicles such as planes, drones, boats, etc. The Ka-band is the highest satellite communication frequency. As such, it offers the highest data transfer speeds.

According to the CEO, the ESAs will have a gross profit margin comparable to C-Com's historic gross margin, in the 50 to 60% range. The antenna component that has the biggest impact on the cost of manufacturing is the price of the

¹ Can be used with GEO/LEO and MEO constellations



Beamforming Integrated Circuit (BFIC), in other words, chips: the ones bought by C-Com cost 10\$ per chip, but Dr. Klein expects to be able to bring the cost down to 2\$ per chip with their new design, a project that is currently underway and should be ready for testing during the third quarter of 2025. The new chip is, by itself, a major technological achievement and might drive significant sales. Interest in buying the exclusivity of the fabrication of this chip has already been presented. Considering that the ESAs available this year are composed of 500 or 2000 IC's, that cost saving would have a significant impact on the gross margin and on sales.

Satellite company providers and defense contractors are lining up to test the antenna, a testament to the excitement that this technology brings in the industry. Telesat, an important satellite service provider in Canada, will be the first company to finish their tests, which should be done before the end of this January. The tests are going smoothly, and Dr. Klein seems confident that the results will be satisfactory. When the Telesat results become public, the market might recognize this incredible game-changing antenna, of which volume production will start in the middle of 2025.

The market capitalization of C-Com does not consider the sheer potential of their new products and interest has been shown by potential buyers.

By buying shares of C-Com right now, you buy a proven legacy business that generates a considerable free cash flow yield, which protects the downside, and you get, almost for free, the upside potential of the new Ka-band ESA. The buying opportunity has been improved by C-Com's latest decision to stop its dividend, which decreased the share price. Cash generation is not the issue. We think that this decision is strategic, as it will enhance their flexibility in their new phase of growth. The dividend cut could also be explained by a strategic review that could already be underway.

Other than the potential growth of the company, there are multiple catalysts that can happen this year, beginning with the Telesat results in the short term and the chip design test results.

The TAM is hard to estimate, which makes the evaluation of the fair price of the shares a guessing game. If this antenna generates the interest that it deserves, it could be installed on thousands of aircraft, drones, boats, military vehicles and others. As improvements are made to the manufacturing costs, I would not be surprised that their antennas become available in cars as well.

C-Com's [teaser](#) on their new technology states that the market for this "antenna technology is expected to reach \$4 billion in the next 3 to 5 years and over \$17 billion in the next decade". Moreover, the market for BFICs is "valued at \$2.2 billion in 2020" and is expected to grow to \$4.9 billion by 2031.

As the monetary potential of these new products lies in the hundreds of millions, this company trades at a net value of roughly 20 million dollars. There is no need for a valuation model to see that the stock is a potential multiple bagger.