

Comtech Telecommunications

Ex CEO Endorses Dissident Slate

Oct 09, 2024

Technology

CMTL

NASDAQ

Rating

Market Perform

Unchanged

Current Price

\$4.46

Market Capitalization

127.08M

Shares Outstanding

28.49M

Float

25.9M

Institutional Holdings

57.89%

12-Month Low/High

\$1.53/\$13.04

Average 90-Day Volume

395270

Fiscal Year End

07/31/2025

Peterman Endorsement. Former CEO Ken Peterman, who was terminated for "conduct unrelated to Comtech's business strategy, financial results or previously filed financial statements" this past March, has publicly declared his personal endorsement for the full slate of director nominees proposed by Michael Porcelain for the Company's upcoming 2024 Annual Meeting of Stockholders, adding another layer of intrigue to the dissident efforts.

Reasons. Mr. Peterman notes serious concerns about many decisions made by the current Board, including the June 2024 refinancing, and what he terms the Board's lack of critical domain expertise in Comtech's core satellite and NG 911 markets.

More. According to the release, Mr. Peterman states, "As a large stockholder, I hope my endorsement highlights the growing recognition that Comtech's future must be shaped by a Board of Directors with deep operational expertise and a proven track record of delivering long-term stockholder value. My endorsement is independent, is unrelated to my departure, and based solely on my personal assessment of what I believe is in the best interest of Comtech's stockholders, customers, and its talented employees."

The Board. Comtech's Board of Directors currently consists of six members, two were appointed during Mr. Kornberg's reign, one under Mr. Porcelain, one under Mr. Peterman, one to settle the Outerbridge dispute, and one, current Chairman Mr. Quinlan, as a result of his firm's convertible preferred stock investment. Mr. Poreclain is nominating a slate of eight new directors, including himself and Mr. Kornberg.

Maintaining Market Perform. We are maintaining our Market Perform rating on CMTL shares while we wait for the business to return to normal following the disruptive refinancing and CEO change. The proxy fight adds another layer of intrigue to the shares, in our view.

Equity Research

Joe Gomes, CFA, Managing Director, Equity Research Analyst, Generalist
561-999-2262, jgomes@noblecapitalmarkets.com, [in](#) Connect on LinkedIn

Joshua Zoepfel, Research Associate - jzoepfel@noblecapitalmarkets.com

Noble Capital Markets, Inc.

Trading: (561) 998-5489 Sales: (561) 998-5491
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Refer to the last two pages for Analyst Certification & Disclosures

Revenues (\$ MIL)

Period	2023A	2024E	2025E
Q1	131.1A	151.9A	
Q2	133.7A	134.2A	
Q3	136.3A	128.1A	
Q4	148.8A	130.0E	
	550.0A	544.2E	625.0E

EPS (\$)

Period	2023A	2024E	2025E
Q1	0.16A	0.24A	
Q2	0.09A	(0.15)A	
Q3	0.11A	0.20A	
Q4	0.29A	0.20E	
	0.65A	0.49E	0.62E

Company Profile

Comtech Telecommunications Corp. is a leading global provider of next-generation 911 emergency systems ("NG-911") and secure wireless and satellite communications technologies. Part of what Comtech has identified as the "Failsafe Communications Market." This includes the critical communications infrastructure that people, businesses, and governments rely on when durable, trusted connectivity is required, no matter where they are – on land, at sea, or in the air – and no matter what the circumstances – from armed conflict to a natural disaster. The Company's solutions are designed to fulfill customers' needs for secure wireless communications in the most demanding environments, including those where traditional communications are unavailable or cost-prohibitive, and in mission-critical and other scenarios where performance is crucial.

Comtech segments its business into two reportable segments: Satellite and Space Communications and Terrestrial and Wireless Networks. The Satellite and Space Communications segment designs, builds and supports a variety of sophisticated communications equipment that is designed to meet or exceed the highest standards for performance and quality by businesses and governments worldwide. Applications of the equipment include high-throughput cellular backhaul solutions, modern troposcatter communications equipment, satellite ground station systems, electronic components engineered for use in outer space and high-powered RF/microwave amplifiers and control components. Customers and end-users include the world's largest corporations, governments and defense agencies, including the U.S. government.

The Terrestrial and Wireless Networks segment is a leading provider of the hardware, software, and solutions critical to any modern 911 public safety and mobile network operator ("MNO") infrastructure, as well as for applications services requiring the specific location of a mobile user's geospatial position. From the moment a 911 call is made, Comtech provides highly reliable solutions that contribute to emergency calls being processed instantly, with proper routing to first responders. The Company's solutions include feature-rich data sets (such as: precise location information, route optimization, text messaging, photos and real-time video), putting first responders in the best possible position to make decisions when every second counts. Customers are the businesses, communities and governments that need to implement and improve 911 infrastructure in the U.S., as well as MNOs in the U.S. and abroad that have a need to determine subscriber location within a network or to facilitate messaging services.

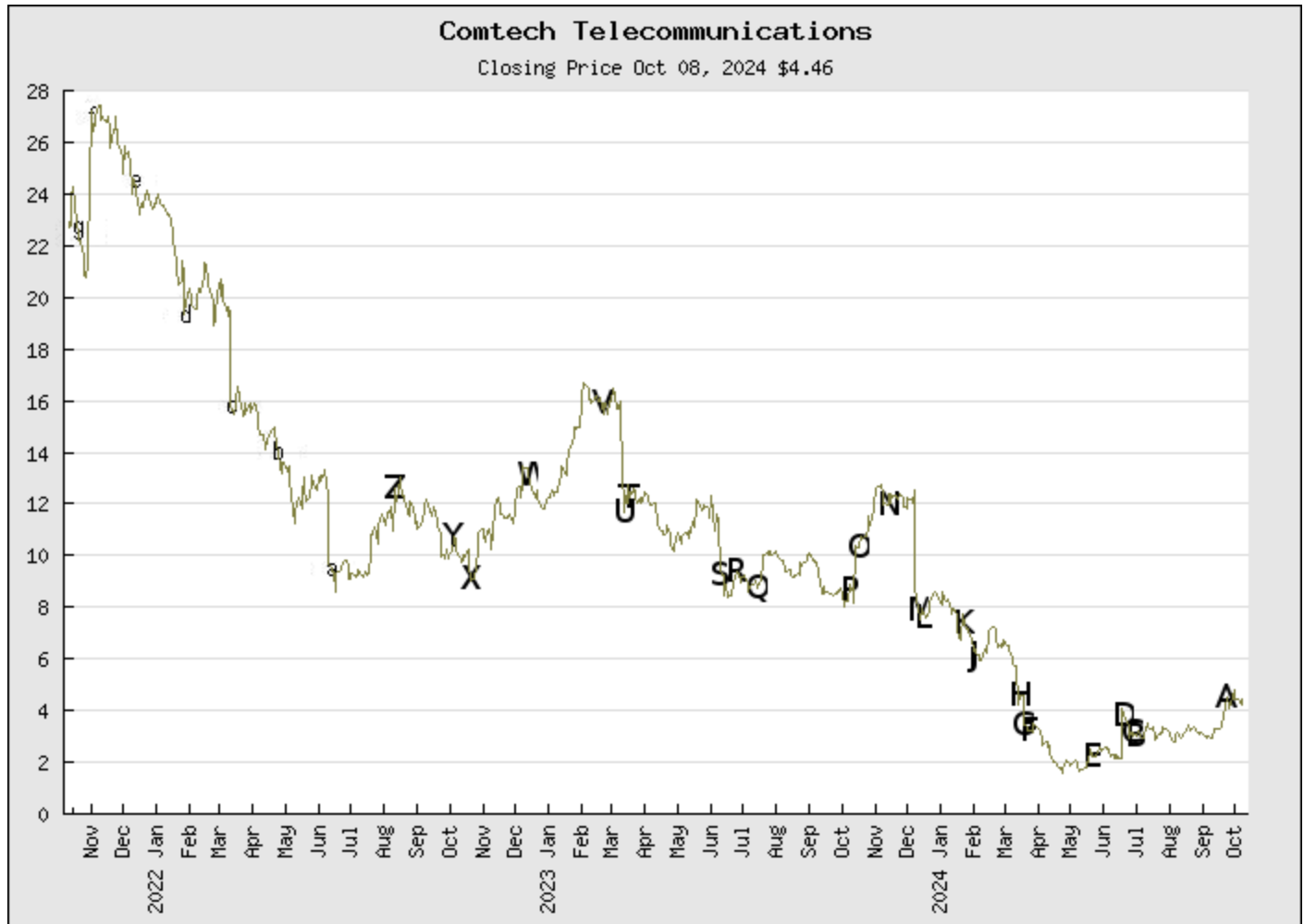
Fundamental Analysis - 4.5/5.0 checks

In our assessment, we give CMTL 4.5 checks out of 5.0, which falls within our "Superior" range of 4.0 to 5.0 checks. The market opportunity for both commercial and government businesses is significant, driven by the need for State/Local upgrades to NG-911 systems, Army upgrades to the critical BFT-2 platform and potential large orders for troposcatter systems. We also believe the management team is of high quality, effectively positioning the business to capture these major opportunities and crafting a capital allocation strategy that has created meaningful shareholder value over the past twenty four months. Deleveraging efforts since the TCS acquisition and a restructured dividend policy have greatly improved the balance sheet, resulting in top marks for financial leverage. Operating leverage also receives high marks, given the margin structure and positioning of the business cycle, which appears to be favorable for the foreseeable future. The market positioning is also positive but a tick below our top ratings given the competitive nature within much of the target market, especially on the commercial side. However, CMTL enjoys a strong market position in several key areas, including satellite modems, NG-911 systems and troposcatter systems. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

Valuation Summary

Given the uncertainty surrounding when the Company returns to a normalized operating environment and still uncertain CEO position, we are maintaining our Market Perform rating.

Risks include: Broad economic risk (exposure to weak oil prices and a stronger dollar) as a majority of the company's satellite modems are sold into lesser developed countries for cellular back haul; program funding risk at the Department of Defense; timing of international troposcatter equipment orders can be delayed.



A - 09/23/2024 Market Perform Current \$4.51	B - 07/02/2024 Market Perform Current \$3.03
C - 06/27/2024 Market Perform Current \$3.12	D - 06/20/2024 Market Perform Current \$3.81
E - 05/22/2024 Market Perform Current \$2.22	F - 03/25/2024 Market Perform Current \$3.23
G - 03/19/2024 Market Perform Current \$3.43	H - 03/14/2024 Market Perform Current \$4.55
I - 02/06/2024 Outperform Target \$20.00 Current \$5.96	J - 02/05/2024 Outperform Target \$20.00 Current \$6.14
K - 01/23/2024 Outperform Target \$20.00 Current \$7.38	L - 12/18/2023 Outperform Target \$20.00 Current \$7.60
M - 12/11/2023 Outperform Target \$20.00 Current \$7.87	N - 11/13/2023 Outperform Target \$20.00 Current \$11.97
O - 10/17/2023 Outperform Target \$20.00 Current \$10.32	P - 10/10/2023 Outperform Target \$20.00 Current \$8.69
Q - 07/14/2023 Outperform Target \$20.00 Current \$8.73	R - 06/26/2023 Outperform Target \$20.00 Current \$9.38
S - 06/12/2023 Outperform Target \$20.00 Current \$9.23	T - 03/17/2023 Outperform Target \$20.00 Current \$12.23
U - 03/13/2023 Outperform Target \$20.00 Current \$11.70	V - 02/22/2023 Outperform Target \$20.00 Current \$15.93
W - 12/13/2022 Outperform Target \$16.00 Current \$13.07	X - 10/20/2022 Outperform Target \$15.00 Current \$9.08
Y - 10/05/2022 Outperform Target \$15.00 Current \$10.77	Z - 08/11/2022 Outperform Target \$15.00 Current \$12.60
a - 06/13/2022 Outperform Target \$12.00 Current \$9.49	b - 04/25/2022 Market Perform Current \$14.03
c - 03/11/2022 Market Perform Current \$15.83	d - 01/27/2022 Market Perform Current \$19.33
e - 12/10/2021 Market Perform Current \$24.54	f - 11/02/2021 Market Perform Current \$26.99
g - 10/19/2021 Market Perform Current \$22.75	

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclical, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	90%	25%
Market Perform: potential return is -15% to 15% of the current price	10%	3%
Underperform: potential return is >15% below the current price	0%	0%

NOTE: On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

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Noble Capital Markets, Inc.
150 E Palmetto Park Rd, Suite 110
Boca Raton, FL 33432
561-994-1191

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