



MOI
GLOBAL

Telsys Ltd. (TLSY.TA)

Best Ideas 2022, Hosted by MOI Global

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Legacy Value Partners - Recap

- Founded - 2016
- Focused on Software and Services niches, the Digital Economy and Real Estate
- **Omri Velvart**, Managing Partner, brings experience in Management Consulting, Research and Strategy and holds a Law degree from The Hebrew University of Jerusalem
- All Three previous pitches with the **MOI Global** community have generated double digits IRRs
- Past pitches: **2018 - ADO Group (Israel)**, **2020 – Formula Systems (Israel)**, **2021 – Salesforcrc.com (U.S)**

Telsys - Elevator Pitch

- Through its controlling stake (70.2%) at privately held **Varicsite**, Israel based Telsys is a **global niche leader** in Arm based **System On Modules (SOM)**
- Current Market Cap is \$325M, while float size is ~\$130M
- Historically Telsys is known to be a components distribution business, the Legacy operation is currently less than 3% of total valuation
- Arm based SOMs are a niche industry with a TAM of **~\$1B, growing ~15% p.a**
- Founded in 2003, **Variscite** has established a **wide economic moat** around its business
- **Variscite** is highly profitable, with a demonstrated Re-investments runway
- Current global Semiconductors and Components shortage has created a unique opportunity in TLSY.TA shares

A Theory about Leveling the Playing Field Tech

Being in a position of eliminating barriers for others is highly lucrative



IAAS & PAAS



Professional Web presence



Marketing to the Masses



Semiconductors manufacturing



Selling online

The “Computization” of Everything Era

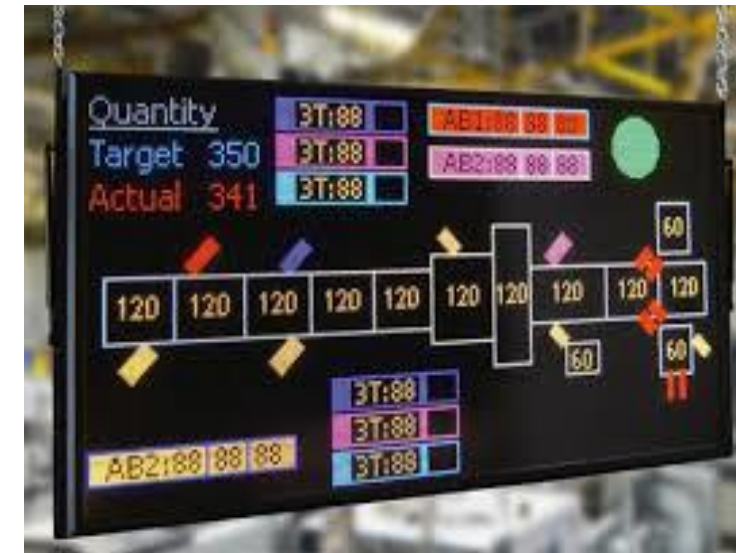
Computing, Screens and Connectivity are expected in every corner these days



Automotive



Agriculture



Industrial



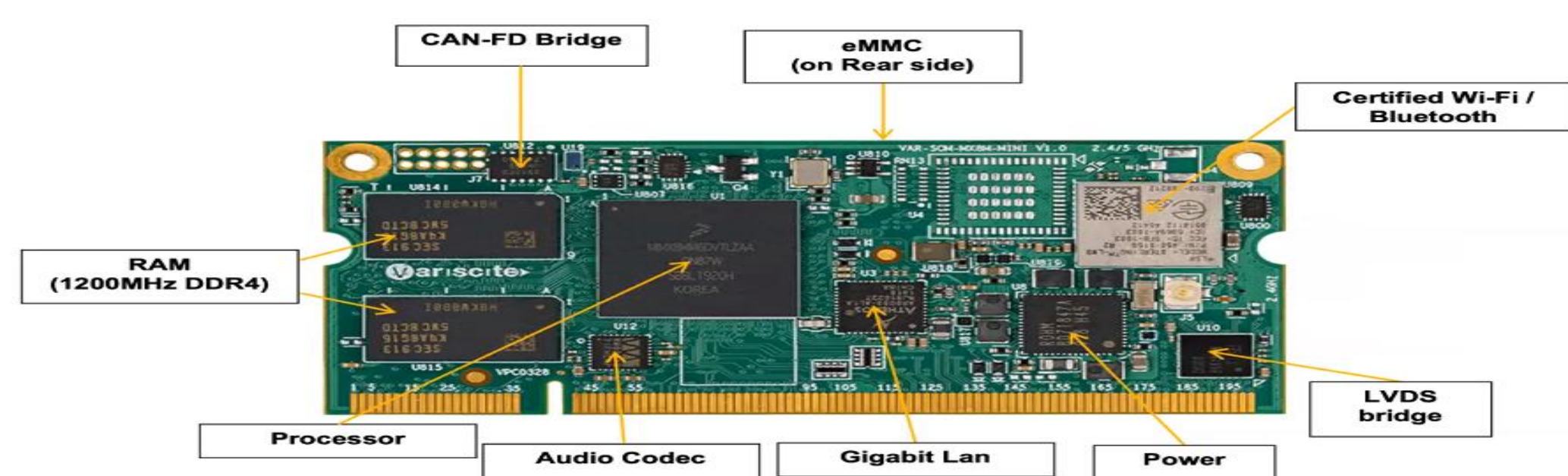
Medical

Not to mention all things Consumer...

System On Modules Explanatory

Applying CS&C capabilities is a Massive engineering challenge for small players

- Chips customization and self building of proprietary systems is outside of most manufacturers' **Core Mission**
- A System On Module is a Computing **shelf product**, with must have components around a processor core



SOMs Explanatory – Variscite’s Value Proposition

Variscite’s SOMs unlock major benefits to Small, under 5000 units OEMs

- Faster Time to Market
- Reduced R&D costs
- Better financial resources allocation
- Production-ready software support
- Tested and used by hundreds of customers
- **Lower risk**



While the cost is usually **only 5-7%** of OEMs products Average Sales Prices...

Variscite's Footprint is Unique and Expanding

Variscite is the only Scaled player with sole focus on Arm based SOMs

- 5000 active OEM customers and growing
- **Integrated platform** – Including 100% in-house manufacturing
- A tier of its own in **Software partners network and Services support**
- The only SOM Platinum Partners of Dutch giant **NXP Semiconductors**
- Several Decade+ old SOM cohorts **are still generating sales**
- Between 2015-2020 revenues increased at a **~29% CAGR**, while **operating margins scaled to 37-45%**

An Emerging Wide Economic Moat

Variscite's success is built on trust, excellence and long term relationships

- Active customers have major **Switching Costs** after initially choosing to build products around Variscite's SOM
- SOMs is a lucrative industry, but its small size and customer fragmentation prevent larger players from stepping in
- Samsung and Intel have both opened and shut a SOM business between 2000-2010, **leaving many customers unanswered**
- Variscite possesses an expanding **Network Effect** of software and components partners that design and build specifically to perform on its SOMs

2020 Was a Moat Tour de Force

The crisis showed that Variscite is Diversity, Agile and Mission Critical for customers

- Many Markets participants have historically questioned Variscite's Moat since it doesn't possess any patents
- 2020 has proven them to be narrow sighted
- In the midst of a global supply chain tear down, and a collapse in some of its major end markets, the company has managed to grow ~20%
- Growth was aided by end industries and geographical diversification

A Track Record of Superb Capital Allocation

Management vision is clear – Efficient Re-investments alongside capital returns

- Manufacturing capacity has increased methodically since going full in-house in 2014
- Capacity adds were always a proxy for major growth unlocking
- The business constantly maintains low to negative Working Capital
- FCF margins are over 35%, Telsys Dividend yield is ~5.5%
- R&D pipeline is industry leading with less than 10 employees, while the business enjoys major scale economics:

	2018	2019	2020
Employees #	62	66	72
Rev. (NIS, Millions)	132	173	199
Rev per Employee (NIS, Millions)	2.13	2.62	2.76

Dealing With The 2021 Chip Shortage

Variscite's growth has stalled in 2021, but overall performance is impressive. It stands on:

- 100% control on manufacturing that limits supply chain woes
- NXP Platinum status and Telsys' relationships with NXP
- Telsys' deep roots in global components markets
- Revenues have increase 2% (\$ denominated) while many peers and OEMs suffered 40-50% declines
- Operating margins have stayed above 40%
- The company stuck to growth Capex plans and a new manufacturing line has been deployed

A Long Term Opportunity

The Chip Shortage has probably changed OEMs point of View for the next decade

- Supply issues haven't passed anyone – Not even Apple
- Small and Medium sized OEMs that design core computing in-house are especially suffering
- Being last to be served with Semi giants like NXP, and totally reliant on outsourced computing manufacturing has proven very risky
- Variscite management talks about increased interest from OEMs across End Markets

Pent Up Demand Might Make Current Valuation Extremely Compelling

Growing signs that current TLSY.TA market cap implies a cheap 2023 valuation

- Telsys share (70.2%) in Variscite's 2021E profit implies a current **~17X EV/OP** multiple, with a 7% Tax rate
- Per management, Variscite is **increasing prices successfully** to offset rising costs
- Q3-2021 included a **~105% increase in customers prepayments**
- Historic TAM growth is 15% p.a, SOMs attractiveness has risen and Variscite has historically grew 2X faster than TAM
- Arledan, a controlling shareholder, **has bought 1.8% of TLSY.TA in the open market recently**, their first such move since 2013. They also own 20% of Variscite directly.

Risks

Main risks for permanent capital loss are

- **Supplier Risk from NXP Semiconductors** – Low, since Variscite has just been promoted to a Platinum Partner status (the only one to date), and NXP's relationship with Telsys distribution services in Israel has deepen materially in 2020
- **Key Personnel Risk in Ohad Yaniv, CEO** – Low, Yaniv has replaced the founder in 2017, holds a significant position of Variscite's shares and is under 50 years of age
- **Chip Shortage Risk** – The visibility of when the current situation ends is blurry, which may affect growth



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PARTNERS**

Thank You

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