

4Q23 Quarterly report for Clearfield (CFLD)

Date: 2023-11-10

Percentage change in Sales from year ago quarter -14%

Percentage change in Earnings per Share from year ago quarter -64%

Is the company meeting our target sales & earnings estimates? No

Pre-tax Profit on sales trend? (up, even, down) Down

Return on equity trends? (up, even, down) Up

Debt? (up, even, down) Insignificant (\$2M)

Current PE is 7.7.

Where does it fall in my estimated High/low range of PE's? Low end of range

Signature PE = 31

Club cost basis for this stock is \$50.27. Current price is \$24.10
(from latest valuation)

Current fair value: Morningstar: \$38.85

My SSG Total Return is 43% Projected Average Return is 38%

What will drive future growth: Rural broadband rollout under federal A-CAM and BEAD program in the second half of 2024 and 2025.

Additional comments:

Conference Call (November 9, 2023)

- Primary business is providing broadband equipment for rural and underserved communities
- Excellent company, but broadband equipment demand will be down for at least a year
- New products under development that will make its product more competitive (less labor to install broadband)
- Very little debt (\$2M) and more than \$100m in cash
- Broadband Equity Access and Deployment Program (BEAD) delayed in making awards
- Enhanced Alternative Connect America Model (A-CAM) is an alternate program but not as heavily fiber optics based
- Will be the second half of 2024 or 2025 before CLFD recognizes BEAD revenue
- Full rural broadband rollout will be as late as 2029
- Won't see improvement in revenue until at least Q3 or Q4 of 2024
- Large regionals have reduced CAPEX due in part to high interest rates
- Delay in A-CAM \$20B / BEAD. Providers must choose between A-CAM and BEAD. Mutually exclusive programs
- The time to implement new broadband systems takes between 3-4 months and 1 year, depending on engineering.
- Significant fiber construction (creating a market for CLFD) won't occur until late 2024 or 2025

Conclusion:

This is an excellent, well-managed company, but its revenues won't start growing until the second half of 2024 or early 2025.

Moose Pond only has a 1% position and a paper loss of \$1,361. Recommend selling CLFD now for the tax loss and studying the company next year if its revenue improves.