



Porter
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ActivistInvestor

ISSUE #8 | JUNE 21, 2024

| SHOCK VALUE

The Biggest American Semiconductor Company You've Never Heard Of
It Produces Materials That Make Devices That Power the Digital World

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Hennig Brand needed 50 buckets of urine, quickly.

So he headed to his local tavern in Hamburg, Germany, where he figured (correctly!) that the town's beer drinkers had plenty of pee to spare.

It was 1669, and Brand – known today as “the last of the alchemists” – was on a quest to find the Philosopher's Stone... the mythical substance that could supposedly change any base metal into gold. Over the previous 1,300 years, the combined efforts of science and magic had come up empty-handed. But Brand thought he'd found the answer... in a chamber pot, or 50.

To make gold, you'd need something that was... well, golden.

Brand was on the right track, sort of. After collecting and boiling down the urine, he noticed an unusual shimmer at the bottom of the cauldron.

It wasn't gold, but it was valuable.

Brand had discovered the luminescent chemical element we now call phosphorus, an essential ingredient for fertilizers, baking powder, and fireworks. Brand's wife, who'd died penniless years earlier after her husband blew all their money on alchemy experiments, would no doubt be proud.

Humans have a long history of trying to fabricate precious stones and metals – and accidentally making other things instead. We never have found the Philosopher's Stone, but we've unearthed plenty of other treasures along the way.

Take the 180-year-long quest to make diamonds in a laboratory...

In 1772, French chemist Antoine Lavoisier performed a series of experiments proving that diamonds were formed from carbon... and the race was on. The trick was how to get from point A to point B.

In 1880, Scottish chemist James Ballantyne Hannay tried sealing carbon and lithium inside red-hot gun barrels, and waiting to see what would happen. He achieved some spectacular explosions, but not much else.

A few years later, French chemist Ferdinand Moissan crystallized carbon under pressure from molten iron. Again, no diamonds. But, like alchemist Hennig Brand, he found a different sparkly substance... the cheap, synthetic diamond substitute that today bears his name: Moissanite.

And then there was the Pennsylvania coal-miner's son Edward Acheson...

Acheson was a talented inventor who'd worked for Thomas Edison before starting his own rival electric-light factory. In his spare time, he, too, tried to make diamonds, by superheating carbon in an airless furnace.

Instead, he discovered a completely different treasure trove.

One evening in 1891, Acheson glimpsed a shiny crystalline substance in the mixture of clay and carbon dust that he had been heating up in the furnace. It was a fusion of silicon and carbon, later known as silicon carbide.

As he eventually learned, the tough, abrasive material was a fantastic conductor of electricity. And that was just the beginning.

Battery tests turned into working batteries, and soon Acheson was experimenting on machinery and buildings. After a few years, his work led to a project using silicon carbide to build an early electricity-generating plant in Michigan. Its use became more widespread and he secured a number of patents related to it. The process he used to create silicon carbide ("SiC") is now called the Acheson Process.

Little could Acheson know that this substance would revolutionize the digital world – more than 100 years later.

Scientists throughout the decades that followed would go on to use SiC to power electrical devices, and today it is critical in the manufacturing of many digital devices that use SiC's semiconductive properties.

As you likely know, scientists eventually did figure out the trick to creating lab diamonds... in 1954. But we're still waiting on the Philosopher's Stone.

Acheson's Creation Powers Today's Electronics

SiC is incredibly strong and used in many practical ways to conduct and store electricity. Besides high-tech connectivity, it is also found in car brake pads and clutches, bullet-proof vests, and abrasives like sandpaper.

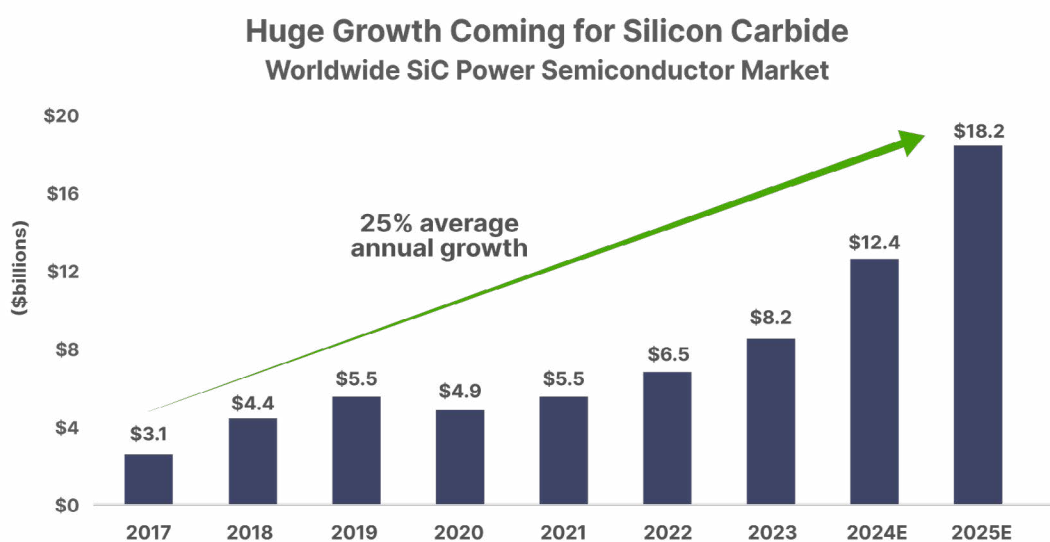
Below left is a small piece of synthetic SiC. On the right, we see SiC wafers that are used for electronic and digital components.



Today, electronics manufacturers are switching from silicon to SiC. SiC can handle 10 times the voltage than its less durable cousin, so by using SiC instead of silicon, today's electrical components can be smaller and still carry the same amount of computing power as before.

SiC is resilient under high temperatures as well. It can withstand temperatures over 5,000 degrees Fahrenheit, making it ideal in semiconductor manufacturing for next-generation power devices.

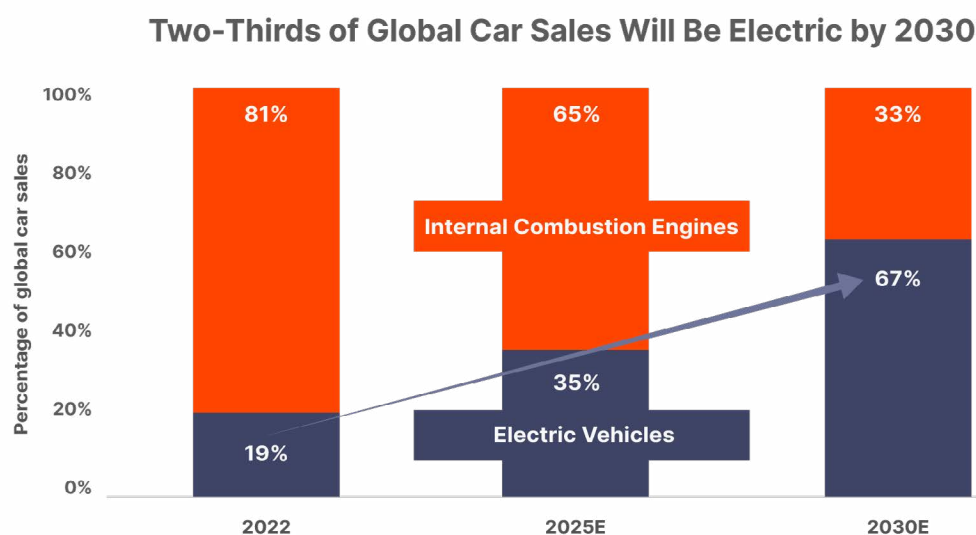
As such, the market is beginning to accelerate – in fact, the global market for power semiconductor devices has grown 25% annually since 2017.



Source: Statista, company reports, Porter & Co.

SiC demand is driven by our increasingly electrified world with super-fast devices requiring way more power than in the past.

A major driver of SiC demand is the electronic vehicle (“EV”) market. This includes both car manufacturers and the makers of car-charging stations. According to the McKinsey Center for Future Mobility, by 2030, two-thirds of global light-vehicle sales will be EVs.



Source: McKinsey & Co., Porter & Co.

The company we recommend in this issue is the domestic leader in the production of SiC and many devices that use it. According to McKinsey & Co., this company held 53% of the 2022 SiC wafer market and 15% of the market for devices using SiC. This makes it the number-one and number-three market-share holders, on a global basis. The company also generated about 80% of its new business from the EV market.

As the company has grown it has needed to invest in its future by building billions of dollars of new plants. In the process of these expansions, the company let operational performance suffer – and the stock has suffered as well.

Activist Angle

In this issue, we’re recommending **Wolfspeed (Nasdaq: WOLF)**, an under-the-radar semiconductor company that produces silicon carbide (SiC) and many electronic components that use SiC. SiC has many applications, but Wolfspeed is focused specifically on electronic devices that move and store energy, and operate at a high voltage and temperature.

It makes small switches, inductors, and transformers that consumers don't see but that fit within larger pieces of machinery such as EVs and EV charging stations. It has pushed hard into the EV market and has Lucid, Jaguar Land Rover, Mercedes-Benz, and car-charging manufacturer Rhombus Energy Solutions as key customers.

Wolfspeed's revenue fell from more than \$1 billion in 2019 to \$471 million in 2020 due to the pandemic slowdown, major supply-chain issues, and the sale of a division. By 2023, revenue rebounded to \$922 million and is on pace to reach \$1 billion again by 2025.

But this promising producer of next-generation digital and power devices saw its profitability – and stock price – fall considerably. Revenue has begun to return, but profitability and the share price have not.

Despite improved revenue for the last several years, profit margins have crumbled because of hefty capital investments that are taking a long time to produce returns. These are investments into new manufacturing facilities to prepare Wolfspeed for decades of growth in semiconductors.

While investment in the future is critical, management's communication of the progress being made by these investments has been poor.

The sluggish performance of Wolfspeed stock caught the eye of activist firm Jana Partners. Earlier this year, the firm bought 4.6 million shares – making it a top-10 shareholder with 3.6% ownership of the \$3 billion market-cap company. We would not be surprised to see this ownership level rise especially if the share price remains low.

In an April 22, 2024, letter to the board, Jana highlighted company strengths by saying it has “differentiated manufacturing capabilities” and is an “American supplier supporting the energy transition.”

In our view, the fact that it's a U.S.-based semiconductor manufacturer makes Wolfspeed a hedge against Asian geopolitical risk. For example, four Taiwanese companies account for 63% of the revenue of global semiconductor suppliers. Should China take a more aggressive stance with Taiwan, this supply of semiconductors could be threatened – and a non-Taiwanese company like Wolfspeed would benefit. (Porter & Co.'s [*The Big Secret on Wall Street*](#) recently focused a full issue on the Taiwanese semiconductor industry and its global leadership position.)

Building this capability in the U.S. is paramount, Jana believes, because it puts Wolfspeed in a strong position if a crisis happens elsewhere. And making the most of the company's three-plus years and billions of dollars investing in its future is Jana Partners' focus.

Specifically, Jana wants Wolfspeed to do these four things:

1. Establish a well-articulated game plan for finalizing expansions
2. Improve how the company allocates capital across projects
3. Conduct a full strategic review of company operations
4. Explore the potential possibility of a full sale

As expansion projects begin to come online, we expect healthy profits to return. Long term, we see increasing demand for semiconductor materials, chips, and devices that control and store power. And companies such as Wolfspeed should be well-positioned to capitalize on the growing demand.

Let's get into the story...

A Long, Electrified History

Wolfspeed has been in the electronics business for nearly 40 years. Founded in 1987 as Cree, Inc., it went public in 1993. The company has produced many silicon-containing electronic products and other cutting-edge devices. These include the first blue-light-emitting LED technology, which enabled the development of large flat screens, the first commercially available SiC wafers for electronics, and advanced consumer-focused LED light bulbs.

More recently, the company has focused exclusively on power-system devices for EVs, EV charging stations, solar-energy uses, and servers and data centers. In 2021, Wolfspeed sold its LED-light and other businesses so that it can focus exclusively on SiC applications.

Below are a few of Wolfspeed's manufactured devices that use the SiC that the company produces.



In 2019, the company built in upstate New York the largest SiC *device manufacturing* plant in the world. This plant builds the items you see above.

It also is building two SiC *production* plants in North Carolina – one of which will be the largest in the world once completed. These produce actual SiC, SiC componentry, and 200-millimeter (“mm”) SiC wafers for electronic components and chip development. They are larger than standard 150-mm wafers giving Wolfspeed some competitive advantage as they are the only company currently producing wafers this size.

Additionally, in early 2023 Wolfspeed announced the construction of a huge SiC-device manufacturing plant in Saarland, Germany, to meet the growing needs of the European Union and adjacent countries. This will be similar to the upstate New York facility in that it will manufacture end-use devices.

This focus on plant development has been distracting for the company and investors. It has also been expensive. Billions of dollars of shareholder funds have been spent to make these investments in the future (more on that later). The stock price has suffered as a result.

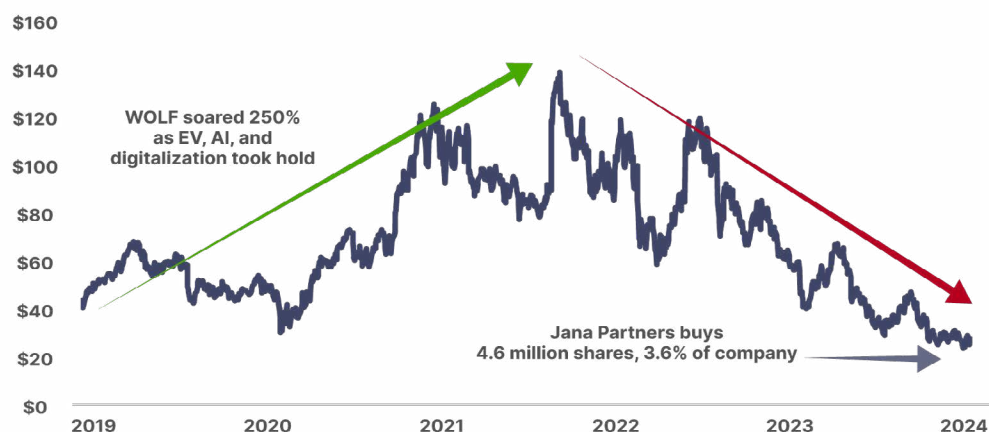
In the charts below, we can see the ups and downs in the stock price over a 15-year period as well as the decline over the last two years.

15 Years of Ups and Downs
Wolfspeed (WOLF) Stock Price 2009-2024



Source: Factset, Porter & Co. estimates.

Stock Price Over the Last Five Years



Source: Factset, Porter & Co. estimates

Progress is being made with its expansion efforts, but it feels like a pause is in order – the board and management need to take a breath and fine-tune the outlook for the next few years.

Let's look at the three primary reasons why the stock has been so volatile over the last five years.

1. Selling Off Profitable Businesses and Investing Billions in New Factories

Wolfspeed operates facilities in Arizona, California, New York, and North Carolina, and it is building that plant in Saarland, Germany to serve existing European customers and to gain new ones.

In 2019, the company embarked on a major strategic plan. Management and the board decided to focus exclusively on the high-growth semiconductor market, and sold two divisions that were deemed non-core businesses to the future of the company. These were the LED-lighting business, sold in 2021, and the radio-frequency business, in 2023.

The two sales generated \$425 million for Wolfspeed. However, the divestiture of the LED business meant losing \$400 million in annual revenue.

These sales produced an immediate drop in revenue. At the same time, Wolfspeed also took on significant costs – launching new construction and expansion plans in North Carolina and New York. This also added operating complexity.

The company runs a SiC production facility in Durham, North Carolina, that makes 200-mm SiC wafers for its own products and for those of other manufacturers. It also began work on a new plant in Siler City, North Carolina, expected to begin SiC production this summer.

The company has become more vertically integrated than it was in the past, controlling much of the manufacturing process from SiC production to the creation of finished devices. The newly built device-fabrication facility in Marcy, New York, which opened in 2023, will take the SiC materials produced in North Carolina and fabricate them into chips and other finished products.

These expansion efforts have come at considerable cost. The new North Carolina facility in Siler City cost \$5 billion while the Marcy, New York, location cost \$1 billion.

When opened in 2029, the facility that Wolfspeed is building in Germany will be one of the largest SiC chip production factories in Europe. This is costing the company \$3 billion.

Three Major Expansion Projects

Location	Opening Date	Cost to Build
Marcy, New York	2022	\$1 billion
Siler City, North Carolina	2024	\$5 billion
Saarland, Germany	2029	\$3 billion
Total Cost		\$9 billion

In total, in just five years the company has invested \$9 billion into expansion projects – which is 117% of the company’s average market capitalization from 2019 to 2023. Management was spending more than the entire average value of the company to build out these new facilities. These funds came from a combination of existing cash, long-term debt, and tax incentives provided by local municipalities.

The projects are more or less going as planned. At the company’s investor day meeting in November 2021, management told investors about the expansion efforts and provided a rosy five-year revenue forecast through 2026. After expansions were finished, the company estimated it would drive \$2.1 billion in annual revenue by fiscal year end (June 30) 2026.

Seven months later the company provided even more robust growth estimates – the revenue forecast was increased 35% to \$2.8 billion. For context, the company generated \$746 million of revenue in 2022. So at that point, the estimates called for Wolfspeed to increase revenue 40% per year for the next four years.

Management dangled a big carrot in front of investors. It not only said revenue would grow almost four-fold in four years, but it said that Wolfspeed would become an even bigger part of the multibillion-dollar semiconductor-chip and device industry headquartered in the U.S.

Look at the massive rise in the price of Nvidia (NVDA) shares in recent years – up 30x since July 2019. This is exactly the increase in valuation Wolfspeed was looking to produce by its massive expansion as a U.S.-based company free of geopolitical risks prevalent in Asia and the Middle East. And to some degree it worked: shares rose 250% from 2019 to 2022.

But things began to get difficult, as the CEO said in October 2022 during an investor call about the first-quarter 2023 earnings report. The first sentence said it all (our emphasis).

“We're entering a period of significant expansion and are experiencing the associated growing pains. If you think about where we've come from in the last five years, from a \$200-million semiconductor business back in 2017 to a global semiconductor powerhouse that is expected to generate over \$1 billion of revenue in fiscal 2023 on the way to approximately \$2.8 billion in fiscal 2026, it speaks to the massive amount of change we are driving across the business in a relatively short period of time.”

Management went on to explain how all this investment would eat into operational performance and be a drag on profits. It had dangled the carrot but did not explain what it would take to reach the carrot.

The stock was about \$103 when this statement was made in October 2022. Since then it has fallen to \$27, where it trades today, as the market began to realize the enormity of the investments and speculate on potential complications.

2. Expansions Cause Accounting Confusion on the Income Statement

How the \$9 billion-plus in expansion efforts played out in the company's income statement was not fully explained to investors. Jana Partners believes this lack of transparency led to damaging volatility in the stock.

So let's look at Wolfspeed's income statement to explain how the classification of expenses led to poor communication to investors from management. Revenue, cost of goods sold (“COGS”), and gross profit are the first three items on an income statement. Gross profit is revenue minus COGS – costs directly related to making the product.

Next, we subtract operating expenses from gross profit. These are all the costs that go into operating the company – salaries, employee benefits, and sales, general, & administrative expenses. Subtracting operating costs from gross profit results in operating profit. One term we regularly use for operating profit is EBITDA (earnings before interest, taxes, depreciation, and amortization), which measures a cash-focused, operating profit without the influence of financing and tax decisions that differ from one company to the next.

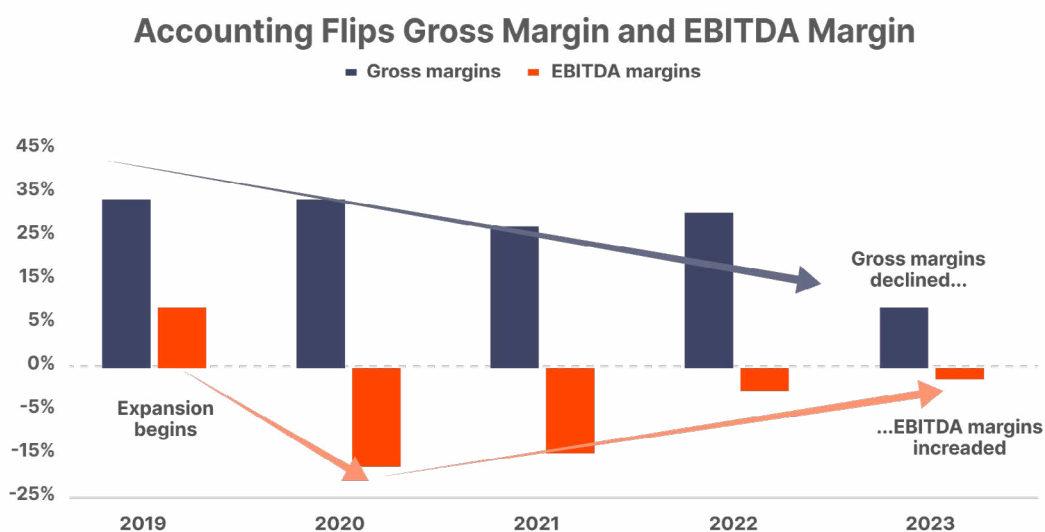
Here is where the confusion arose. Accounting rules stipulate that when expansions or additions are made to a facility that will eventually generate revenue, the expenses used to make those expansions or additions are treated as operating expenses until the facility comes online and revenue starts to flow from it.

But once the new facility begins to generate revenue, some of those expansion expenses get reclassified as COGS as they are now directly associated with producing the product.

For Wolfspeed, this switch in how expenses were recorded to the income statement occurred in 2020. As a result, EBITDA margins fell significantly.

The chart below illustrates the initial impact to EBITDA margins in 2020. As the LED business and its \$400 million in annual revenue went away and new construction began, operating expenses from building new projects skyrocketed, driving EBITDA margins from 13% to *negative* 20%.

Once new expansion facilities in North Carolina and New York began to produce revenue, the expenses associated with them shifted up on the income statement from operating expenses into COGS and impacted gross profits. The drag on EBITDA margins subsides over the years while gross margins take a tumble in 2023.



Management did not fully discuss this accounting dynamic for two years, until the fourth-quarter 2023 earnings release in August 2023. Additionally, a further complication was added: The allocation of expenses for a factory as it transitions from partly operational to fully operational.

We mentioned above that as the new facility opens and begins to generate revenue, the portion of expenses related to those new sales move from operating expenses to COGS. However, when Wolfspeed opens a new manufacturing facility, it is not producing at full capacity. For example, when it opened, the New York facility was only producing 20% of what the new plant would ultimately produce. As such, only 20% of the direct costs associated with producing this revenue moved to COGS. The 80% remaining expenses represent what are called underutilization costs. Those stay in operating expenses and continue to impact EBITDA.

What scared investors was the final comment management made in August 2023 about these costs: “We expect that these costs will be substantial as we ramp up the facility to the expected utilization level.”

At this point, the stock had fallen almost by half in two years, to about \$60 per share.

There is little doubt that the strategic plan began in 2020 created the accounting confusion that led to stock-price volatility seen since then. We do not believe management nor the board was negligent by letting this happen – but they could have managed the communication better.

But management and the board could have done a better job at managing expectations. The cost and complexity of the expansion projects and the accounting shifts created significant operating distraction.

Jana Partners doesn’t seek to replace management or the board. However, it does want to see a light at the end of this massive expansion tunnel sooner than management currently expects to get there. We refer to this strategy as taking a “time out,” where all progress can be assessed, plans finalized, and all of it explained for shareholders. This should come with realistic revenue and earnings targets for the next two years.

Meanwhile, something else happens that sends the stock to \$22.57 per share – very close to its 15-year low of \$20.49

3. Musk Slaps the Wolf – A Slowdown in Electric Vehicle Sales

Decisions made by Elon Musk and his market-leading Tesla EV brand can have major consequences for ancillary companies in the EV industry.

In March 2023, Tesla delivered 423,000 cars globally – an increase of 36% from the prior year quarter, maintaining the company’s number-one market share for EVs. Normally that would be good for Wolfspeed, which makes silicon carbide used in EVs. However, Tesla announced that its next-generation powertrain would reduce the use of silicon carbide by 75%.

A year later, announcing its first-quarter 2024 results, Tesla reported that car deliveries and new car sales were down from the prior year quarter. Total deliveries had fallen 9% – more than had been anticipated. Car sales declined 13%.

While it was not immediately clear if other EV car makers would follow Tesla's reduced reliance on SiC, that news plus Tesla's sluggish sales was a further drag on Wolfspeed shares.

In our view, the slowdown in EV sales is the result of a combination of factors, including changes in consumer preferences, market saturation of early adopters, and the fact that EVs in general and Teslas in particular are not cheap.

However, the EV market remains poised for substantial growth, especially as automakers adapt their strategies to meet evolving demands.

In fact, following the news of Tesla's disappointing sales, *Bloomberg* called the reduced growth in EV sales more of a "blip" than a slowdown. Overall EV sales in the U.S. increased 35% in 2023 from 2022. Of the top-10 EV producers, seven saw gains during the first quarter of 2024. Only Tesla, General Motors, and Volkswagen saw year-over-year declines.

Regardless, Tesla's decline has driven the EV narrative over the past year and it has not been helpful for companies that serve this market – such as Wolfspeed.

Over the last four years, Wolfspeed management has been distracted, as it focused on the future. Perhaps too much so for shareholders. That said, we believe there is a lot to like about Wolfspeed – especially for a *semiconductor stock* that is 80% off its high in 2021.

As Porter & Co. is reporting in a [four-part series](#) in its flagship *The Big Secret on Wall Street*, the Parallel-Processing Revolution that will drive AI and machine learning over the next few decades relies almost exclusively on the use of semiconductor chips and related devices. A well-positioned Wolfspeed could be a major U.S. player in this revolution.

Moving From Confusion to Clarity

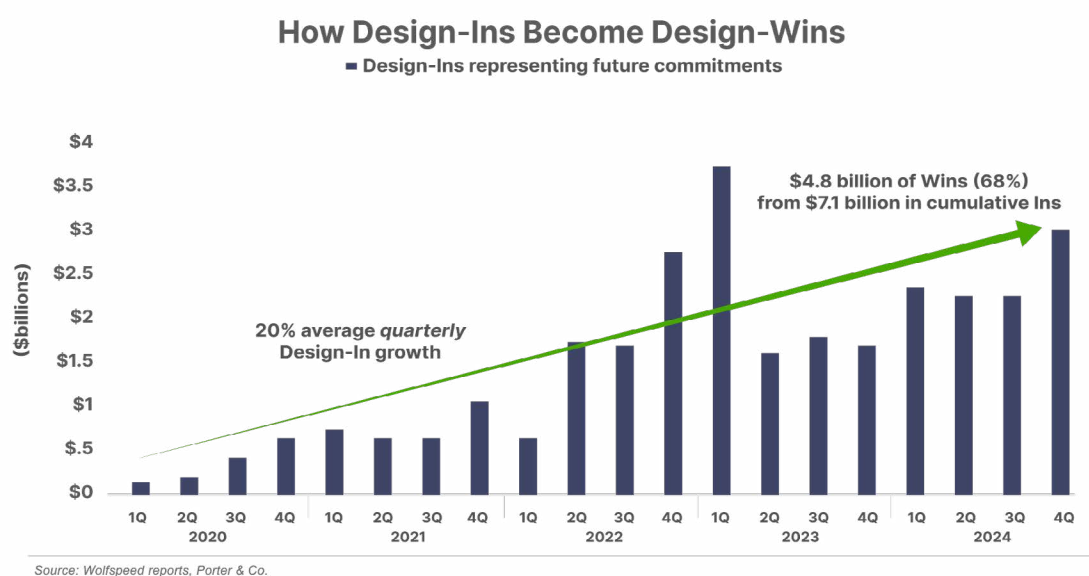
What do we and Jana Partners like about the story right now? We highlight five reasons to be excited about Wolfspeed and its investment prospects.

Reason 1 – New Facilities Are Feeding a Pipeline of Future Growth

In anticipation of Wolfspeed's expanded production and manufacturing capacity, over the last two to three years, customers have begun shifting work from the design stage to the production stage – becoming actual revenue producing projects.

Design-Ins are what Wolfspeed calls formal customer commitments to purchase products at a specified price and timeframe. They represent a backlog of business that illustrates the sales activity to come.

Design-Wins are when Design-Ins move from the design phase to actual business that drives revenue and earnings. Up until recently, there has been little management disclosure about how Design-Ins translate to Design-Wins. Illustrated in the chart below are years of Design-Ins with only recently disclosed Design-Wins (annotated) provided in 2024.



From 2020 through the third quarter of fiscal 2024, we can easily find Design-In measures shown in the blue bars. In past years, management reported this progress during conference calls with shareholders and analysts. It did not report Wins however.

But in 2024, Wolfspeed began reporting both Ins and Wins in the earnings press release, making the measure of Ins becoming Wins more readily available. We believe this disclosure is important as it illustrates management confidence in future sales.

Two further observations about the above chart.

First, Design-Ins have grown significantly at an average 20% per quarter from 2020 through the third quarter of 2024. This is the result of diligent progress that management has made with its massive infrastructure expansions – customers are designing products to benefit from Wolfspeed's increased capacity.

Second, management has begun to report Design-Wins quarterly as well. In the fiscal year to date, \$4.8 billion in Design-Wins have been harvested from \$7.1 billion of Design-Ins. That equates to a conversion rate of 68%. Since management just started reporting the rate at which Ins become Wins, we have nothing to compare this to. Is it good, is it bad? We don't know. The only other mention of an In-Win conversion rate came from first quarter 2023 where management made reference to a 43% conversion rate.

However, if the conversion rate hovers somewhere around 50% going forward, Wolfspeed will have no trouble showing real revenue growth. Since 2020, Wolfspeed Design-Ins have totaled \$26 billion on a cumulative basis. At a 50% conversion rate, this means the company would generate \$13 billion in revenue over the next several years – a more specific time frame is impossible to say. Currently, analysts estimate about \$5.1 billion of total revenue between 2025 and 2027.

While the last five years have been tricky for the company, it appears that fruits of those labors are increasingly visible.

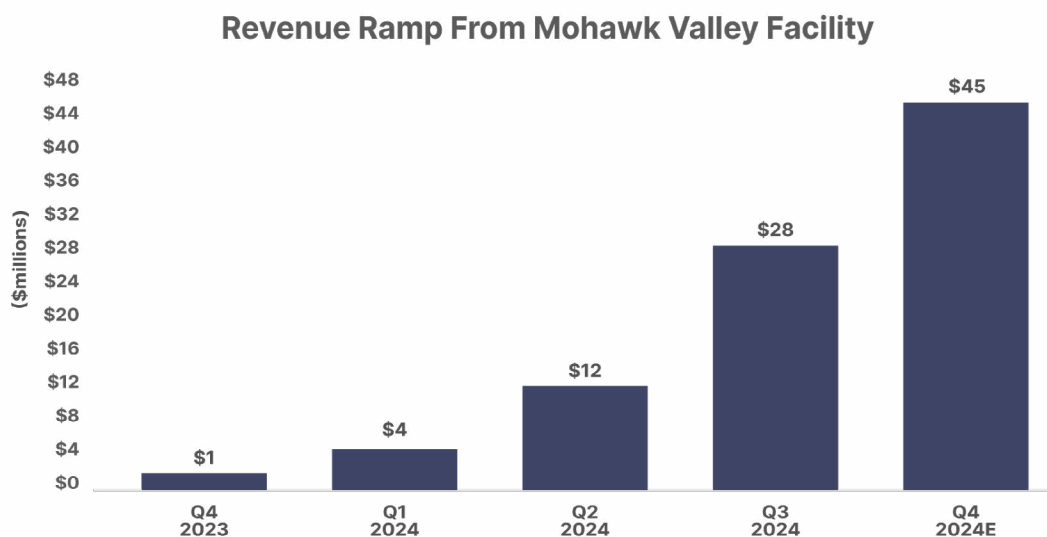
This outlook is made possible by the expansion projects being launched and then coming online over time as we discuss next.

Reason 2 – Domestic Expansions Are Coming Online

On April 25, 2022, Wolfspeed's state-of-the-art Mohawk Valley, New York, SiC fabrication facility opened to much fanfare.

On hand for the ribbon cutting was the state's Governor Kathy Hochul, Oneida County executive Tony Picente, and Lucid Motors Chief Engineer Eric Bach. These leaders talked much about New York as a business-friendly state that seeks to create new jobs and about its presence as a national hub for semiconductor production.

During the fourth quarter of 2023, the company announced \$1 million of revenue from this new Mohawk Valley facility, putting out new 200-mm wafers instead of the standard 150-mm wafers. While \$1 million is small, revenue would ramp in subsequent quarters, to \$45 million in Q4 2023, as shown below. Eventually, we expect the revenue contribution to approach \$1 billion as the facility becomes fully operational and exponential growth becomes a reality over time.



Source: Wolfspeed reports, Porter & Co.

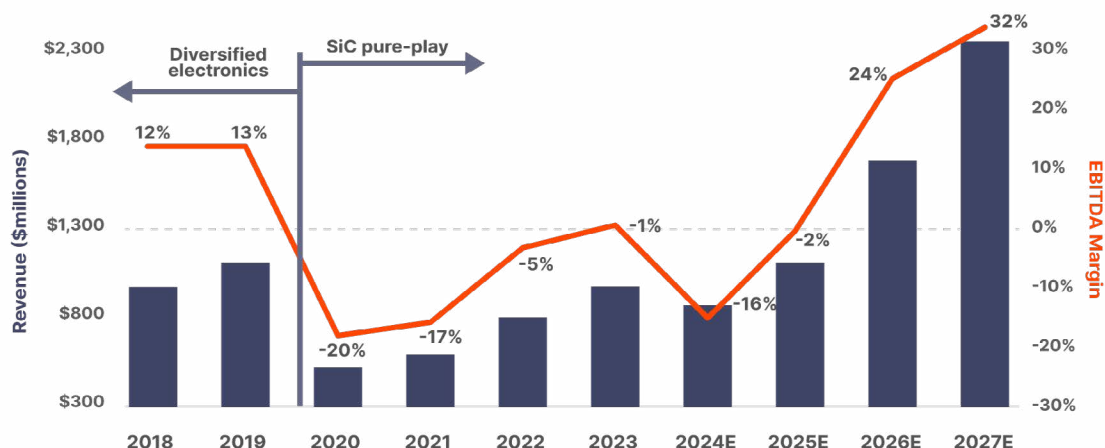
If progress like this can happen, leading to robust future revenue and earnings growth, a tipping point is at hand for the company and the stock.

Reason 3 - Analysts and Investors Have Started to Notice

From 2019 to today, Wolfspeed has transformed itself from a diversified electronics company to a pure-play semiconductor manufacturing firm. In that time, revenue has grown but profitability has not – given the massive amount of investments made to additions and expansions.

The analyst community has begun to notice the transformation to pure-play in semiconductors. And now, both revenue *and* profitability forecasts are beginning to capture what management has been saying for the past five years. The shift to a pure-play along with big infrastructure expansion have led to strong revenue growth. As the expansions come online and the expenses related to those expansions go away, more profit will begin to materialize. That is showing up in analyst forecasts.

Wolfspeed Transition to SiC Pure-Play



Source: Factset, company reports, Porter & Co.

As the chart above shows, EBITDA margins will grow substantially beginning in 2025. The negative 16% forecast for the end of fiscal year 2024 is expected to expand 40 percentage points over the next two years – hitting 32% EBITDA margins by 2027. That equates to \$500 million in profit over that time.

Reason 4 - Valuation Is Reasonable For Now

Shares of Wolfspeed have declined 84% from its highs in 2021. They hit \$142 in November 2021 and bottomed in April 2024 at \$23. Jana Partners was building its position during the first quarter and currently has a \$30 average price. We would not be surprised to see that Jana has bought more shares, when ownership filings are released later this year.

While shares were falling due to the confusion over its aggressive expansion plans, valuations remain reasonable in our view for a semiconductor stock.

The table below illustrates valuation measures for Wolfspeed and four key comparable companies. Shares are cheaper than the median of these other companies on price-to-sales (P/S) and roughly in line with enterprise value (EV) to EBITDA.

Wolfspeed Shares Are Currently Cheap

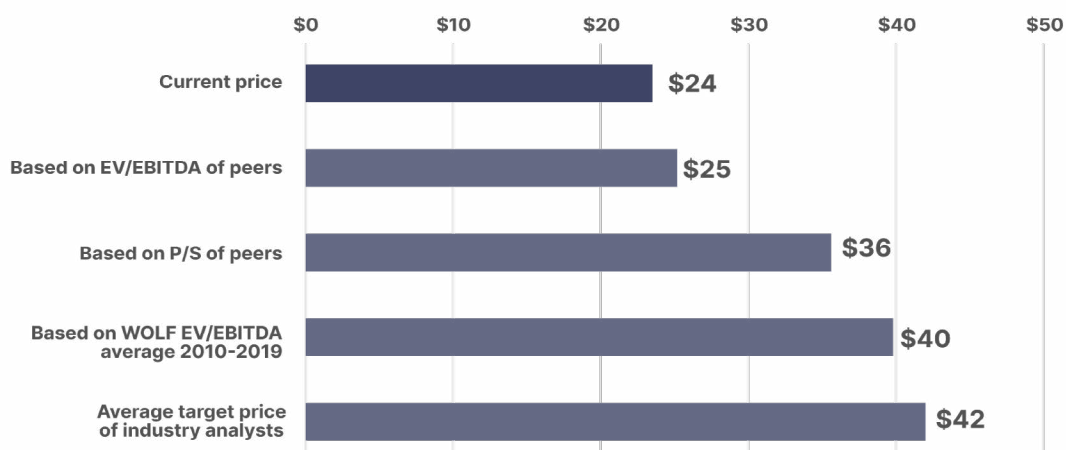
Company	Ticker	Share Price	Market Cap (\$millions)	2025E	
				P/S	EV/EBITDA
Diodes	DIOD	\$72.01	\$3,322	2.2	11.4
Synaptics	SYNA	\$87.61	\$3,460	3.2	17.3
Silicon Laboratories	SLAB	\$113.48	\$3,623	4.0	30.4
Semtech Corporation	SMTC	\$29.48	\$1,906	1.8	13.5
				2026E	
Median				2.7	15.4
Wolfspeed	WOLF	\$23.76	\$2,990	1.8	15.5
Discount to Median				-33%	1%

Source: Factset, Porter & Co. estimates

We show Wolfspeed multiples based on 2026 expectations since its fiscal 2024 year ends in June 2024 and a forward view is most relevant to investors. The comparable companies are based on 2025 expectations and capture a range of multiples we would expect Wolfspeed to grow into in the coming 12 months.

Given this, let's look at where the stock should trade within 12 months.

Wolfspeed - Target Price Scenarios



Source: Factset, Porter & Co. estimates.

Using the comparable company multiples, Wolfspeed would trade at \$25 and \$36 using the median measure for EV/EBITDA and P/S in the coming 12 to 18 months.

We also look at where the market valued the stock during 2010 to 2019 before expansion efforts caused its decline. At this average of 20x, we can value Wolfspeed stock at \$40 per share.

Overall, we believe a conservative target price for the company over the next 12 months is \$36, providing 52% upside from the current price of \$23.76.

Important to note, shares could rise further as the artificial-intelligence ("AI") and U.S.-based semiconductor industry boom over the next decade.

Reason 5 - U.S. Semiconductor Companies Will Be Coveted

In its April 22, 2024, letter to the Wolfspeed board, Jana Partners highlighted the company's U.S. status as one of the keys to value for shareholders.

Wolfspeed, it said, is an "American supplier supporting the energy transition giving it significant intrinsic value."

In our view, being a U.S. company makes Wolfspeed a safer investment in the semiconductor sector because it is a natural hedge against geopolitical risk across Asia, as we detailed above.

Again, look at the 30x performance of Nvidia shares over the last few years.

Recommendation

If Jana Partners' influence can jumpstart Wolfspeed into producing billions of revenue and EBITDA, shares should rise dramatically.

This is an interesting activist story in that Jana Partners is not being confrontational, as is often the case with activist investors. The Jana team acknowledges some success on the part of Wolfspeed management, but believes a well-articulated plan with achievable financial goals will reinvigorate the narrative from a few years ago.

But Jana is not stopping there. It also asks for a full strategic review including the potential sale of the company to another semiconductor firm (perhaps Nvidia). While we have no knowledge of any pending discussions, this outcome could push shares much higher than our one-year target price forecasts.

Wolfspeed, Nvidia, and all of us should be in eternal gratitude to Edward Acheson and his electrical tinkering 130 years ago.

Action to Take: Buy Wolfspeed (Nasdaq: WOLF) up to \$36 per share

Portfolio Review

ActivistInvestor PORTFOLIO						
Ticker / Latest Update Link	Description	Entry Date	Cost Basis	Latest Close	Total Return ▼	Status
Open Positions						
OSPN OneSpan - Registered	Cybersecurity	04/17/2024	\$9.86	\$12.54	27.18%	Buy Under \$22
WOLF Wolfspeed	Semiconductor Devices	06/20/2024	\$23.76	\$23.76	0.00%	Buy Under \$36
OFIG ORTHOFIX MED	🔗 Medical Devices	01/17/2024	\$13.30	\$12.70	-4.51%	Buy Under \$22
VFC VF	🔗 Apparel & Shoe Brands	02/14/2024	\$17.20	\$13.91	-18.08%	Buy Under \$30
MRCY Mercury System	🔗 Defense Technologies	11/15/2023	\$34.78	\$26.61	-23.49%	Buy Under \$60
SPWH Sportmans Wrhs H	🔗 Sporting Goods Stores	09/22/2023	\$3.53	\$2.61	-26.06%	Buy Under \$15
ActivistInvestor CLOSED POSITIONS						
Ticker	Entry Date ▲	Entry Price	Exit Date	Exit Price	Total Return	
Closed Positions						
CTLT Catalent	09/25/2023	\$45.79	02/05/2024	\$59.82	30.64%	

Note: This is a model portfolio based on hypothetical holdings. Please consult with a financial advisor before investing. You buy, hold, and sell at your own discretion and your own risk.

We cannot offer individual investment advice... but we can recommend TradeStops. TradeStops, which I (Porter) have used for many years, offers a customized suite of tools that can help you determine how much of a stock to buy... when to sell... when to buy more... and how much of your portfolio to dedicate to each position. As you know, I can't personally tell you how to handle your investments, but I can, and do, advise you to get TradeStops. [Learn more here.](#)

The Ups and Downs of Sportsman's Warehouse

Since early June, shares of **Sportsman's Warehouse (Nasdaq: SPWH)** have been very volatile – ultimately dropping about 40% in a few weeks to \$2.50, sitting at a very attractive price given the rationale for these moves.

What happened? Two things.

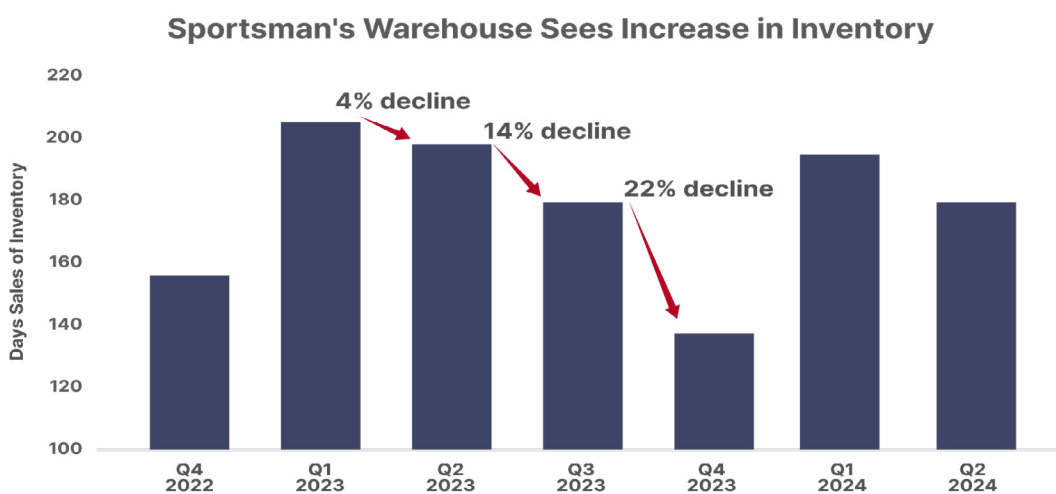
First, on June 4, investment bank Roth MKM announced coverage of the company with a buy rating and \$5 target price. Roth believes Sportsman's is on the mend and now is the time to get back into the stock. This news drove the shares up 17% to about \$4.30 a share on the day the firm announced its buy rating.

Second, the next day, Sportsman's reported its 2024 first-quarter earnings (for the 13 weeks ending May 4). The numbers were not great relative to expectations. Revenue, gross margin, and adjusted EBITDA all came in slightly below expectations.

Despite this weak quarter, management repeated its view for the full year of \$1.2 billion in sales and about \$55 million in adjusted-EBITDA – which would represent flat sales from 2023 but a doubling of profitability. This is happening with no new store openings, which have fueled growth in prior years. This supports our view that operating improvements are underway.

The market reacted negatively to this news, sending the stock down 9%, eventually dropping another 24% in the days that followed.

After three consecutive quarters of falling inventory levels, levels rose for the quarter, spooking some investors. Rising inventory levels suggests that products are not selling and that the company will have to offer discounts to move merchandise. The chart below shows Days Sales of Inventory (“DSI”) – a financial ratio that indicates the average time in days that a company takes to turn over its inventory. The lower the number, the better, with exceptions.



Source: Factset, company reports, Porter & Co.

Important to note - while inventory levels have risen, they represent fresh new products that should be more attractive to customers and that will also be sold at higher prices.

The inventory levels of a year ago were made up of older products that had been sitting on shelves. The company moved those products out the door through sales and promotions quite successfully.

Like Roth MKM, we too believe Sportsman's and its primary activists have made progress. Roth's target price suggests a 92% return in the coming year. We believe shares could rise even further.

Action to Take: Buy Sportsman's Warehouse (Nasdaq: SPWH) up to \$15 a share

V.F. Corporation's CEO Puts More Money Where His Mouth Is

On June 10, **V.F. Corporation (NYSE: VFC)** CEO Bracken Darrell purchased almost \$1 million of company stock at the market price of \$13.26 per share. This is exactly the kind of leadership support we want to see in a company turning itself around.

This purchase increased his holdings by 52%. He now owns about 220,000 shares aligning a portion of his own wealth with that of all shareholders.

Action to Take: Buy V.F. Corporation (NYSE: VFC) up to \$30 per share