

Mossberg's Investor Digest

From the Editor...

Thank you for your subscription to Mossberg's Investor Digest.

Headquartered in San Diego, 37-year-old **LRAD Corporation (Nasdaq: LRAD)**, provides Long-Range Acoustic Devices and mass notification systems that use a unique technology that allows sound and voice messages to be clearly heard as far as 5.5 Km away.

Unlike conventional sound systems that broadcast waves of sound in every direction, LRAD's technology allows sound to be focused in a narrow 15-to-30-degree beam. The Company's mass notification systems can also be used to transmit sound over long distances in every direction.

First developed for military applications, the technology has is now being deployed as a law enforcement and public safety tool, as well as in a growing list of other applications. More than 250 U.S. cities, counties and states, as well as 70+ countries have deployed the company's technology.

Under the leadership of a new CEO, the Company is looking further expand its global presence as well as penetrate new and existing markets. We expect the company to add \$5 million in revenue in each of the next three years and return to significant profitability during the next 3 years.

Our model produces \$0.08 and \$0.15 EPS in 2018 and 2019 respectively and reflects the significant operating leverage in the Company's business model. Applying a 20x multiple to those numbers and adding the significant cash values yields share prices that are 45% and 140% above the current valuation. As the Company more firmly establishes its growth rate and demonstrates its earnings leverage, we expect shares will trade closer to our 2018 and 2019 valuations.

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Every month we hear ideas suggested from our large network of professional investors. Here are a few of the ideas we heard this month, but have not reviewed in detail...

Hudson Technologies Inc. (Nasdaq: HDSN) - Hudson operates as a refrigerant services company in the US and internationally. It sells reclaimed and virgin refrigerants, and industrial gases; provides refrigerant management services, such as reclamation of refrigerants and laboratory testing, as well as re-usable cylinder refurbishment and hydrostatic testing; and separates crossed refrigerants. The company serves commercial, industrial, and governmental customers, as well as refrigerant wholesalers, distributors, contractors, and refrigeration equipment manufacturers; and customers in petrochemical, pharmaceutical, industrial power, manufacturing, commercial facility and property management, and maritime industries.

NV5 Global, Inc. (NASDAQ: NVEE)- NV5 is a leading provider of professional and technical engineering and consulting solutions for public and private sector clients in the infrastructure, construction, real estate, and environmental markets. The company primarily focuses on five business verticals: construction quality assurance, infrastructure, energy, program management, and environmental.

Steel Partners Holdings L.P. (NYSE: SPLP)- is a global diversified holding company that engages in multiple businesses through consolidated subsidiaries, associated companies and other interests. It owns and operates businesses and has significant interests in leading companies in various industries, including diversified industrial products, energy, defense, supply chain management and logistics, banking and youth sports. They work with companies to increase long term corporate value for all their stakeholders and shareholders utilizing Steel Partners Operational Excellence Programs, the Steel Partners Purchasing Council, Steel Partners Corporate Services, balance sheet improvements, capital allocation policies and growth initiatives.

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Best Idea Profile:

LRAD Corporation (Nasdaq: LRAD)

DESCRIPTION:

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LRAD Corporation (Nasdaq: LRAD) Investment Data (as of 4/28/17)

Recent Price	\$1.51
52-Week Range	\$1.30 - \$2.18
Fiscal Year End	September
Dividend	\$0.04
Yield	2.8%
Shares Outstanding	32 M
Average Trading Volume (3 mos)	40,000
Market Capitalization	\$48 M
Cash	\$20 M
Long-term Debt	N/A
Enterprise Value (EV)	\$28 M
TTM Revenue	\$16.5 M
EV/ Revenue	1.7x
TTM EPS	(\$0.05)
EPS	N/A
Book Value Per Share	\$1.08

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KEY INVESTMENT CONSIDERATIONS:

Change of Leadership

In June of last year, following the settlement with an activist investor, LRAD's former CEO, who had been in place for the prior 10 years, resigned and two new board members were appointed. The disgruntled investors were critical of the former CEO and disappointed with the company's lack of progress in developing new end-markets, such as university campuses and public schools.

New CEO - Richard S. Danforth, was appointed to the CEO in August of Last year. Mr. Danforth has 30 years of experience with two of the world's largest defense contractors, which is the primary market for LRAD's products. He spent two decades at Raytheon and held the CEO position at DRS Defense Solutions, \$1.4 billion revenue defense contractor that is part of the Finmeccanica Group.

New Board Members – The Board has expanded from five to seven members and the Company has elected two of the activist shareholder's nominees, Scott L. Anchin and Daniel H. McCollum. Mr. Anchin is a restructuring professional and Mr. McCollum helps manage investments for Brown University in Providence, R.I.

Results – Since taking over as CEO, the outlook of the company is improving nicely. During the December quarter, bookings increased 44% to \$5.2 million and bookings for mass notification applications increased 5-fold to \$2.2 million. RFP activity in the mass notification market was also up sharply, with 12 proposals, up 71% from the same period a year ago.

Well-positioned to resume significant growth in 2017 and the next several years

By expanding the awareness of its products among potential customers both in the U.S. and overseas, as well as expanding the awareness of the potential use of its products in new end-markets, the company is well-positioned to resume growth in 2017, and deliver double-digit growth for the next several years.

Entry into the Mass Notification (MN) Market - According to industry research, the global mass notification systems market is estimated to be around \$4 billion and expected to grow at a mid-teens rate for the next 10 years. LRAD's product currently address about 10% of the market. A key growth driver for this market is the rising concern towards public safety, especially at large events and/or in schools and universities. Business continuity and technological advancement that allows better management of events is also fostering demand. LRAD has an opportunity to replace a large portion of the loudspeakers and/or sirens that have been typically been deployed in these applications. In 2012, LRAD introduced its omnidirectional ONE VOICE® speakers, that project sound from 60 to 360 degrees to meet the needs of the global mass notification marketplace.

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The Acoustic Hailing Device (AHD) Market – LRAD essentially created this market, as without its proprietary technology, the applications would not exist. While there is no third-party research data describing market size, the market is still relatively small and under-penetrated.

- **Military Applications** - The Company currently is working under two multi-year IDIQ (Indefinite Delivery, Indefinite Quantity) contracts with the U.S. Navy and has had a program of record with the U.S. Army since 2015. The Company is expecting the U.S. Army to place a large order, soon after the passing of the 2017 appropriations bill.
- **New US ARMY Program** - A new 5-year program with the Army is expected to be awarded in Summer of 2017 for delivery during FY18-FY22. This program could include 800 to 3,500 systems, be worth \$5 to \$10+ million in annual revenue and provide a significant boost to revenue for the next several years.
- **Law Enforcement & Public Safety** – LRAD systems are currently in use in more than 250 U.S. cities, counties and states.
- **Increased spending on defense and homeland security** - The Trump administration has asked for \$30 billion in incremental defense spending and \$3 billion in incremental homeland security spending. If passed, this could provide a strong tail wind for spending on the company's systems.
- **Border Security** – While little details are available about the U.S./ Mexico Boarder wall, LRAD's systems can add significant capabilities to a boarder wall and electronic surveillance systems. In the most recent conference call, management said that they are actively engaged with senior leadership on prospective LRAD procurement and recently completed two successful sixty-day operational demos with the border patrol.
- **Other applications** include protecting infrastructure such as utilities, mining operations, industrial facilities, airports, seaports, solar farms, wind farms, from wildlife-related damage, as well as humanely protect wildlife.

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Valuation

(in \$ millions)	2016	2017	2018	2019
Revenue	16.5	21.5	26.8	32.2
Revenue Growth		30%	25%	20%
Gross Margin	47%	45%	46%	47%
Gross Profit		9.7	12.3	15.1
Operating Expenses	9.3	9.0	9.8	10.4
Net Profit		0.6	2.6	4.7
Net Margin		3%	10%	15%
Shares Outstanding		31.8	31.8	31.8
EPS		\$0.02	\$0.08	\$0.15
Earnings Multiple			20	20
Enterprise Value per Share			1.62	2.97
Cash Flow		0	1.3	3.5
Cash Balance		17	18	22
Cash Per Share			0.58	0.68
Per Share Valuation			2.20	3.65

In our back of the envelop calculation above, we make the following assumptions for growth and improvement in profitability:

- **Revenue Growth** – Supported by the increase in federal government spending, as well as growth in the mass notification market, we believe LRAD can add approximately \$5 million in revenue during each of the next two years. On average this equals a 25% growth rate through 2019.
- **Gross Margin** – We believe gross margin will increase approximately one percentage point during each of the next two years as the Company gains efficiencies of scale and leverages some of its fixed production costs.
- **Operating Expenses** – Our model shows that operating expenses will grow at approximately 1/3 of the rate of revenue growth, mostly to support increases sales and market expenses related to higher sales levels.
- **Cash generation** – Due to the large NOL, we expect cash flow will approximate net income, less dividend payments.

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Mossberg's Investor Digest Idea Performance

The table below shows the relative change in the value of the ideas published since September 2015 and the Russell 2000. **Performance data quoted represents past performance and does not guarantee future results.** Current performance of ideas may be lower or higher than the performance quoted.

Company	Pub. Date	Original Price	Recent Price	Change	Russell 2000 Change Since Pub.	Relative Perf. vs. Russell 2000	
Calloway Golf Company (NYSE: ELY).	30-Sep-15	\$8.39	\$11.84	41.1%	28.7%	12.4%	
New Gold (NYSE: NGD).	31-Oct-15	\$2.47	\$2.82	14.2%	22.0%	-7.8%	
Townsquare Media (NYSE: TSQ)	30-Nov-15	\$11.43	\$12.12	6.0%	18.3%	-12.2%	
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	\$11.72	\$10.43	-11.0%	24.8%	-35.8%	
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$106.01	70.5%	36.9%	33.6%	
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$32.00	48.6%	37.1%	11.5%	
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$4.11	147.6%	27.2%	120.4%	
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$8.57	34.1%	25.3%	8.8%	
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$2.40	50.0%	23.2%	26.8%	
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$16.89	111.4%	23.0%	88.4%	
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$21.13	48.0%	16.2%	31.8%	
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$14.60	31.3%	14.3%	17.0%	
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$30.95	37.5%	13.2%	24.3%	
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$13.81	4.9%	18.9%	-14.0%	
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$7.06	-2.6%	7.2%	-9.8%	
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$9.90	-35.1%	4.4%	-39.5%	
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$6.05	4.3%	4.1%	0.2%	
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$6.07	-8.0%	2.2%	-10.2%	
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$14.65	2.8%	2.3%	0.6%	
				Average	31.3%	18.4%	13.0%

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The value proposition of the digest is essentially an "Idea Generator". During the course of my 18-year career in capital markets, I've had the chance to meet and work closely with some very smart professional investors who have consistent track records of outperforming the market indexes. Some of these investors, which include mutual fund managers, hedge fund managers, and other professional investors, are kind enough to share their best ideas with me. I conduct my own analysis of their ideas and publish summaries of those ideas I think represent timely investment opportunities. Over time, I trust the majority of these ideas will pan out and help subscribers generate index-beating returns.

The goal of the Best Idea Profiles in this newsletter is to briefly describe the most relevant investment merits and risks of a company. It is not intended to be an exhaustive report including every detail. With limited space available, I am forced to include only those data points that I feel are most important for subscribers to know before they begin their own due diligence. Thank you for your interest in Mossberg's Investor Digest.

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