

# Mossberg's Investor Digest

## Best Idea Profile:

## Ballantyne Strong, Inc. (NYSE:BTN)

### DESCRIPTION:

Ballantyne Strong, Inc. provides digital cinema projection equipment and services, as well as custom lighting solutions, premium large format screens, and video security solutions. Its Managed Services segment provides end-to-end digital signage and video communication services. It targets multiple vertical markets: retail, financial services, cinema, hospitality, healthcare and secondary education. It provides end-to-end services; such as building hardware, creating and managing content, developing media strategy, design and constructs. For example, it provides Sony's new retail stores with large interactive screens and displays that enhance the selling experience. It also provided the internet protocol television systems that were used in two of the key stadiums hosting the 2014 World Cup soccer. Ballantyne, founded in 1932, is headquartered in Omaha, Nebraska.

### KEY INVESTMENT CONSIDERATIONS:

**Evolving with Industry** – The media industry moved to digital projection systems which required Ballantyne to evolve from a manufacturing and sales model to a distribution model. After a three-year period of significant cash flow generated by cinema's conversion to digital, management developed a strategic plan to redeploy its cash to acquire complementary companies with stronger growth opportunities and to capitalize on the dynamic industry. This plan is transitioning the company to provide theatres with management and monitoring of networked digital equipment, although it is still experiencing strong shipments of digital projectors internationally.

**Convergent Acquisition a Key** – The late 2013 acquisition of Convergent accelerated growth in Managed Services by adding more than 55,000 pieces of monitored networked equipment, and creating one of the largest and best capitalized providers of digital technologies for the Digital Out-of-Home and Enterprise Video Solutions markets. It provided entrance into many fast growing and profitable markets, which are highly fragmented and ripe for acquisition.

**Recurring Revenues** – A review of the history of Ballantyne's revenues can, on the surface, be perplexing. The peak came in 2011 as the cinema industry hit its peak of conversion to digital. Although smaller, the company's traditional business is becoming more predictable and the recurring revenue component of its Managed Services business should continue to build. Management hasn't

disclosed how much of revenue is recurring; however, it expects that stream to continue to grow as it rolls out an increasing number of significant projects, both large and small. Revenues should continue to reflect greater diversification with more recurring revenue.

**Higher Margin Product** – The revenue mix also represents a greater percentage of higher margin services. The increasing impact of Managed Services has generated lower revenues but higher gross margins for the company. In the first quarter of 2014, gross margin increased to 19%, from 14% in the first quarter of 2013.

**Strong Position for Growth** – At the end of the third quarter, Ballantyne had \$24 million in cash with full access to its \$20 million in credit facilities. Management believes its financial position supports its strategic growth initiatives, including internal growth and acquisitions.

### VALUATION:

BTN is trading at a discounted valuation that is below its current book value. The company is going through a transitional period that is not easily understood by investors, but will likely provide improved visibility into growing revenues and expanded margins that are benefitting from a changing product mix.

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Investment Data (as of 1/26/15)

<b>Recent Price</b>	<b>\$4.25</b>
52-Week Range	\$3.65 - \$4.95
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	14 M
Average Trading Volume (3 mos)	26 K
Market Capitalization	\$60 M
Cash	\$24 M
Long-term Debt	\$146 K
Enterprise Value (EV)	\$36 M
Book Value	\$4.64
TTM Revenue	\$99 M
P/ Revenue	0.6x
TTM EPS	\$(0.15)
P/ EPS	NA
TTM EBITDA	\$(0.6) M
EV/ EBITDA	NA

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