

Mossberg's Investor Digest

Best Idea Profile:

MOCON, Inc. (NASDAQ:MOCO)

DESCRIPTION:

MOCON, Inc. products include a wide variety of specialized instruments that are used for gas detection, measurement and analysis. These products are used in the barrier packaging, food, pharmaceutical, industrial hygiene, air quality monitoring, oil and gas, and other industries. The company is divided into three segments: 1. Permeation products (38% of revenue) - measure rates at which gases transmit through materials; 2. Package testing products (44% of revenue) test for leaks and gasses in packaging; and 3. Industrial analyzers (18% of revenue) measure hazardous gases and contaminants for the oil and gas industry and the beverage industry. MOCON is headquartered in Minneapolis, with operations in Texas, Colorado, Germany and China. It has 250 full-time employees.

KEY INVESTMENT CONSIDERATIONS:

Developing Countries Fueling Growth – As living standards and personal income in developing countries grow, the demand for packaging of goods follows. Approximately 10,000 new packaged consumer products are launched worldwide every year. MOCON's package testing business, which is more than 40% of sales, helps packaging companies improve their products' shelf life and distribution, particularly where refrigeration is limited. Its leak detection can determine whether gases and liquids will permeate packaging and spoil food and beverages or contaminate sterile packages.

Margin and Cash Flow Recovery – MOCON acquired Dansensor in 2012 and is steadily integrating it into its systems. Dansensor was the market leader in the packaging segment and brought expanded product lines and geographical markets to the company. This has been a long, but expected, process, and has impacted margins. The acquisition was very strategic and long-term focused. Although it is now accretive, investors with short-term focus have depressed the stock. MOCON has been paying down its debt and should be cash flow positive going forward. As the acquisition becomes fully integrated over the next year, investors will see margins and cash flow approach pre-acquisition levels.

Market Leader – MOCON has 90% market share in permeation and packaging, with only two minor competitors, and remains dominant because of its research and development efforts and strong patent positions. This appears to be a secure position for MOCON. Its industrial analyzer segment has a more modest position, but also expects a higher rate of growth

as oil and gas prices and fracking activity continue to explode. This is driven by the oil and gas industry's need to examine contaminants and toxicity levels. Management believes the potential for this market is \$100 million and that this segment will grow at 15% to 20%; hence, more rapidly than its other segments.

Steady Dividends – MOCON recently declared its 104th consecutive quarter of cash dividends, and prior to that time, it had been paying dividends on a semi-annual basis since 1984. The current yield of almost 3% is an attractive incentive for investors.

VALUATION:

MOCO has been largely absent from investor attention, in large part due to management's decision and because of the longer term focus on growth and margins. Management is beginning to meet with investors and show interest in telling the company's story, which is likely to be a good one over the next 18 months. Assuming a return to historical margin levels following the integration of Dansensor, and the continuation of double digit growth, MOCON conservatively has \$1.80 to \$2.00 in earnings power over the next couple of years.

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Investment Data (as of 6/09/14)

Recent Price	\$15.21
52-Week Range	\$13.25 - \$17.49
Fiscal Year End	Dec
Dividend	\$0.44
Yield	2.9%
Shares Outstanding	5.7 M
Average Trading Volume (3 mos)	6k
Market Capitalization	\$86.0 M
Cash	\$4.5 M
Long-term Debt	\$7.2M
Enterprise Value (EV)	\$88.3 M
Book Value	\$6.69
TTM Revenue	\$58.0 M
P/ Revenue	1.5x
TTM EPS	\$0.59
P/ EPS	25.8x
TTM EBITDA	\$7.2 M
EV/ EBITDA	12.4x

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