

Mossberg's Investor Digest

Best Idea Profile:

Compass Diversified Holdings (NYSE: CODI)

DESCRIPTION

Compass Diversified Holdings lives up to its name as an owner of a diversified mix of middle market businesses (average \$100 million in revenue) that focus on niche products or services that are not facing obsolescence, that have good management, and that have room for improvement in revenue and/or efficiencies. Compass currently owns majority interests in the following eight companies, most of which are market share leaders in their niche businesses.

- **Advanced Circuits** - Manufactures printed circuit boards in the U.S. It's quick turn business gives competitive moat vs. Asian manufacturers. Produces approximately \$80 Million in revenue with 40% EBITDA margins.
- **CamelBak** - Market leader in personal hydration products such as the back packs popular with outdoor enthusiasts. Produces approximately \$140 in Revenue with 22% EBITDA margin.
- **Fox Racing Shox** - Designs and develops high performance shock absorbers and racing suspension products for mountain bikes and off-road vehicles. Approximately \$200 million in revenue with 16% EBITDA margin.
- **Arnold Magnetic Technologies** - Manufactures engineered permanent magnet and magnet assemblies. Approximately \$130 million in revenue with 13.2% EBITDA margin.
- **Ergobaby** - Manufactures premium baby carriers. Produces approximately \$45 million in revenue with 26% EBITDA Margin.
- **Liberty Safe** - Manufactures home and gun safes. Approximately \$82 million in revenue with 14% EBITDA Margin.
- **Tridean Medical** - Produces medical support surfaces (specialty beds, mattress replacements). \$60 million in revenue with 14% EBITDA Margin.
- **American Furniture** - Manufactures low-cost domestic upholstered furniture. Approximately 105 million in revenue and lost \$4 million during 2011.

Compass has no direct employees as it is operated through its management company, CGM, based out of Connecticut.

KEY INVESTMENT CONSIDERATIONS:

Dividend Yield - The stock is paying a \$1.44 per share annualized dividend, which yields more than 10% return. The company has a history of increasing dividend payouts and has paid out \$7.80 in dividends since its IPO in May 2006.

History of Success Since IPO - Compass employs a strategy to pursue businesses that can benefit from its management expertise. Compass looks for companies that have opportunities in organic or external growth or operating efficiencies. It also provides ongoing strategic and financial support to its businesses. Compass has sold five businesses since its IPO for approximately \$198 million. Sales of these businesses for a profit increase cash flow and help to ensure that Compass meets its distribution plans in the short term and its realized gains in the longer term.

RISK AND VALUATION:

CODI offers a unique public vehicle for investing in what is essentially a private equity fund. The company has good liquidity and reasonable debt, making further acquisitions an almost certain expectation. The stock appears reasonably priced based with a P/E of less than 10, and a 10% payout makes it fairly easy for investors to wait out anticipated stock price improvement.

Compass Diversified Holdings (NYSE: CODI) Investment Data (as of 7/06/12)

Recent Price	\$14.06
52-Week Range	\$17.29 - \$11.21
Fiscal Year End	December
Dividend	\$1.44
Yield	10.2%
Shares Outstanding	48 M
Average Trading Volume (3 m)	325 K
Market Capitalization	\$680 M
Cash	\$22 M
Debt	\$298 M
Enterprise Value (EV)	\$954 M
Book Value/share	\$9.90
TTM Revenue	\$833 M
P/ Sales	0.8x
TTM EPS	\$1.49
P/ EPS	9.5x
2011 EBITDA*	\$139 M
EV/ EBITDA	6.7x
* Proforma 2011	