

Mossberg's Investor Digest

Best Idea Profile:

GSE Systems, Inc. (NYSE/AMEX:GVP)

DESCRIPTION:

Headquartered in Sykesville, Maryland; GSE Systems provides training simulators for nuclear power plants, as well as electric utility, chemical and petrochemical industries. With customers in over 50 countries, the Company has more than 1,005 installations and over 160 courses. GSE has developed a unique and highly effective educational approach incorporating high-end game technology with their educational programs. The Company reports with one operating segment and has a variety of subsidiaries. GSE has a 49% interest in GSE-UNIS Simulation Technology Co., Ltd. a Chinese limited liability company along with a 10% minority interest in Emirates Simulation Academy, LLC, a United Arab Emirates limited liability company.

KEY INVESTMENT CONSIDERATIONS:

Innovation – GSE's programs are highly effective. The Company's inclusion of high-end gaming technology is an innovative and proven medium of learning. The Company's "Learn-By-Doing-Experiential Style" is one of the most effective learning styles and generates a "75% retention rate" (NTL Institute for Applied behavioral Sciences)

Diversified Growth – GSE has grown and intentionally diversified its revenue stream. GSE's revenue had a CAGR of 21% since 2008; and during 2011, posted record revenue and operating income in more than a decade. As a percentage of total revenue, the nuclear related business is growing slower than other areas, and has decreased to 67% of revenue versus 73% during 2009 (part of an intentional diversification strategy). GSE has many potential opportunities worldwide in a variety of industries and has an opportunity to grow revenues 10%-20% over the next two years.

New Management – In November of 2010 the Company named James Eberle as CEO. Mr. Eberle has helped to restore profitability after several years of losses. GSE reported Net Income of \$2.8MM and Earnings-Per-Share of \$0.15 for FY2011 vs. a net loss of \$2.2MM and \$(0.12) respectively for FY2010

Clientele – GSE has a client base that includes well-known names such as GE, ExxonMobil, Emerson, Duke Power and the US Department of Energy.

Gross Margins – Gross margin expanded from 27% in FY2008 to 32% in FY2011 and has an opportunity to reach 35% over the next 2 to 3 years as additional revenues are leveraged its existing platform. Longer term 40% is possible.

Energy Demand Driver – The Company should continue to see strong demand for its legacy business and energy related businesses. Global energy demand is estimated to rise from 67 Quadrillion BTU's in 2010 to 85 Billion by 2025

Aging Population – An aging population is creating new opportunities in the high-end training market. This trend is especially true in mission critical functions. The nuclear industry will have to replace 42% of its workforce in the next 5 years due to an aging population and demographic trends (source: GSE systems)

Share Repurchase – The Company has reported repurchasing 974,661 shares of common stock from March 2011 through March 6th 2012 at an average price of \$1.95.

VALUATION:

Excluding the rather substantial cash balance over \$1 per share, the stock currently trades at less than 12x trailing twelve months earnings. Led by new management, the company's more diversified revenue stream, return to profitability, and growth of new and differentiated services should all be drivers of multiple expansion for the next several years.

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Investment Data (as of 4/27/12)

Recent Price	\$2.87
52-Week Range	\$1.50 - \$2..92
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	18.4MM
Average Trading Volume (3 months)	101k
Market Capitalization	\$53MM
Cash	\$20MM
Long Term Debt	NA
Enterprise Value (EV)	\$33MM
Book Value	\$2.10
TTM Revenue	\$51MM
P/ Revenue	1x
TTM EPS	\$0.15
P/ EPS	19x
TTM EBITDA	\$3.6MM
EV/ EBITDA	8.6x

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