

# Mossberg's Investor Digest

February 2014

Issue #68

## From the Editor...

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I've been traveling a lot to the east coast, Denver, and other areas where it is abnormally cold and a lot of snow. I've ruined some nice shoes and dealt with plane delays and cancellations and had to spend more time than I would like in airport lounges. Spring is almost here and thank goodness.

**Buffett Watch** – Warren publishes his annual letter tomorrow. This week, he released an excerpt with the following rules of investing paraphrased below...

- 1) You don't need to be an expert, but understand your limitations and keep it simple
- 2) Invest based on the productivity of the asset, not based on the hope that the price of the asset changes
- 3) Games are won by players who focus on the field, not those whose eyes are glued to the score board
- 4) Listening to others who forecast markets is a waste of time and can be dangerous as it may blur your vision of the facts that are truly important.
- 5) Focus on evaluating the future productivity of an asset. If you don't feel comfortable making a rough estimate of a particular investment, then move onto the next one.

Thank you for your interest in Mossberg's Investor Digest. I welcome your feedback.

Dave Mossberg

## February 2014 Issue

**A.H. Belo Corporation (NYSE:AHC)** \$7.90, February 5, 2014, Page 3 – A.H. Belo Corporation owns and operates three daily newspapers and related websites: The Dallas Morning News, Texas' leading newspaper and winner of nine Pulitzer Prizes; The Providence Journal; and the Denton Record-Chronicle. Management is well respected and is capable of effectively evaluating new investment opportunities. The balance sheet alone makes this company an interesting investment, and the dividend makes the risk/reward profile even better.

**O2Micro International (NASDAQ:OIIM)** - \$3.36, February 12, 2014, Page 4 – O2Micro designs, develops and markets high performance integrated circuits for power management and power saving applications for the computer, consumer, industrial, automotive and communications markets. Given the current stock price and asset value, investors in O2Micro are basically paying for the assets and getting the potential of the ongoing business for free. O2Micro represents one of the purest plays in the LED business and LED continues to take over the revenue and earnings contribution of the company.

**DEQ Systems Corp. (TSX:DEQ.V)** - \$0.24, February 25, 2014, Page 5 – DEQ specializes in progressive and random bonusing technology for table games. What this means is it supports side wagering when players playing a principal game may, in addition to their wager on the principal games, place a side wager in order to have the chance to win additional prizes or jackpots independent of the outcome of the principal game. DEQ's market capitalization of only \$21 million makes this an investment for risk-tolerant investors.

**Dresser-Rand (NYSE:DRC)** - \$54.30, February 28, 2014, Page 6 – Dresser-Rand Group products and services are used for a wide range of applications, including oil and gas production, high-pressure field injection and enhanced oil recovery, pipelines, refinery processes, natural gas processing, and petrochemical production. The stock took a large hit related to the adjusted guidance opening up a good opportunity to invest in the ongoing growth of this solid and profitable company.

## Mossberg's Investor Digest Idea Performance

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# Mossberg's Investor Digest

The table below shows the relative change in the value of the ideas published since February 2013 and the Russell 3000. **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.

## Subscription Information

Company	Pub. Date	Original Price	Recent Price	Change	Russell 3000 Change Since Pub. Date	Relative Perf. vs. Russell 3000
MVC Capital, Inc. (NYSE:MVC)	12-Feb-13	\$12.11	\$14.59	20.4%	24.3%	-0.8%
eGain Corporation (Nasdaq:EGAN)	15-Feb-13	\$7.50	\$8.38	11.7%	24.2%	-9.6%
DSP Group (NASDAQ:DSPG)	26-Feb-13	\$7.41	\$8.55	15.4%	26.3%	-7.5%
Unitech Corporate Parks (LSE:UCP.L)	28-Feb-13	\$35.25	\$38.00	7.8%	24.8%	-13.6%
Palomar Medical Technologies, Inc. (NASDAQ:PMTI)	6-Mar-13	\$11.91	\$13.65	14.6%	22.6%	-4.7%
Global Power Equipment Group Inc. (NASDAQ:GLPW)	7-Mar-13	\$16.84	\$18.76	11.4%	22.3%	-7.7%
NetSol Technologies, Inc. (NASDAQ:NTWK)	16-Mar-13	\$10.84	\$4.65	-57.1%	20.9%	-74.8%
Kofax Limited (NASDAQ:KFX)	22-Mar-13	\$4.47	\$8.11	81.4%	21.2%	63.5%
Tutor Perini (NYSE:TPC)	16-Apr-13	\$16.76	\$24.95	48.9%	20.4%	32.3%
Carbonite (Nasdaq: CARB)	17-Apr-13	\$10.00	\$10.32	3.2%	22.2%	-14.9%
GenCorp Inc. (NYSE:GY)	26-Apr-13	\$13.06	\$18.90	44.7%	19.7%	28.5%
Steinway Musical Instruments (NYSE:LVB)	26-Apr-13	\$24.67	\$40.00	62.1%	19.7%	45.9%
Axessstel (Nasdaq:AXST)	12-May-13	\$1.30	\$0.16	-88.1%	15.8%	-100.8%
Keweenaw Land Association (OTC: KEWL)	21-May-13	\$76.28	\$87.00	14.1%	13.3%	3.6%
Guidance Software, Inc. (NASDAQ:GUID)	24-May-13	\$9.23	\$11.25	21.9%	14.8%	10.3%
Micron Technology, Inc. (NASDAQ:MU)	29-May-13	\$11.83	\$24.04	103.2%	14.9%	91.5%
CafePress Inc. (NASDAQ:PRSS)	4-Jun-13	\$6.81	\$5.71	-16.2%	16.1%	-28.9%
Carrols Restaurant Group, Inc. (NASDAQ:TAST)	11-Jun-13	\$5.83	\$7.21	23.7%	16.4%	10.6%
Rackspace Hosting, Inc. (NYSE:RAX)	30-Jun-13	\$37.89	\$36.79	-2.9%	17.7%	-17.4%
Ducommon Inc. (NYSE:DCO)	30-Jun-13	\$21.26	\$27.10	27.5%	17.7%	13.0%
Syneron Medical Ltd. (NASDAQ:ELOS)	17-Jul-13	\$8.60	\$11.35	32.0%	12.2%	22.3%
BGC Parnters, Inc. (NASDAQ:BGCP)	22-Jul-13	\$6.44	\$6.84	6.2%	11.2%	-2.6%
Calamos Asset Management Inc. (NASDAQ:CLMS)	28-Jul-13	\$10.75	\$11.96	11.3%	11.4%	2.3%
Sunshine Heart, Inc. (NASDAQ:SSH)	29-Jul-13	\$7.37	\$8.45	14.7%	11.9%	5.3%
FelCor Lodging Trust (NYSE:FCH)	8-Aug-13	\$5.95	\$8.69	46.1%	10.9%	37.3%
Hydrogenics Corp. (NASDAQ:HYGS)	13-Aug-13	\$11.14	\$27.50	146.9%	11.1%	137.8%
BIO-key International, Inc. (OTCQB: BKYI)	29-Aug-13	\$0.33	\$0.16	-50.5%	14.6%	-63.3%
LRAD Corporation (NASDAQ:LRAD)	30-Aug-13	\$1.52	\$2.19	44.1%	15.1%	30.8%
Famous Dave's (NASDAQ:DAVE)	19-Sep-13	\$16.00	\$24.93	55.8%	9.0%	48.5%
Alteva, Inc. (NYSE:ALTV)	23-Sep-13	\$7.20	\$8.70	20.8%	10.2%	12.2%
Roundy's, Inc. (NYSE:RNDY)	24-Sep-13	\$9.19	\$6.14	-33.2%	10.4%	-42.2%
SMTC Corporation (NASDAQ:SMTX)	26-Sep-13	\$1.97	\$2.21	12.2%	10.2%	3.3%
Blue Earth Inc. (OTCQB:BBLU)	16-Oct-13	\$3.09	\$3.00	-2.9%	8.7%	-10.7%
EveryWare Global, Inc. (NASDAQ:EVRY)	24-Oct-13	\$10.87	\$5.48	-49.6%	6.8%	-55.8%
KapStone Paper & Packaging Corp. (NYSE:KS)	25-Oct-13	\$45.83	\$31.76	-30.7%	6.4%	-36.5%
Qumu Corporation (NASDAQ:QUMU)	29-Oct-13	\$14.09	\$15.90	12.8%	5.8%	7.7%
Winmark Corporation (NASDAQ:WINA)	10-Nov-13	\$74.13	\$79.05	6.6%	6.1%	1.6%
Regional Management Corp. (NYSE:RM)	18-Nov-13	\$32.04	\$30.26	-5.6%	5.0%	-9.4%
USA Technologies (NASDAQ:USAT)	26-Nov-13	\$1.75	\$2.13	21.7%	4.2%	18.6%
American Electric Technologies (NASDAQ:AETI)	29-Nov-13	\$9.33	\$9.48	1.6%	4.0%	-1.4%
Power REIT (NYSE:PW)	7-Dec-13	\$8.16	\$9.25	13.4%	4.1%	10.2%
Aggreko plc (OTC:ARGKF)	7-Dec-13	\$26.45	\$26.38	-0.3%	4.1%	-3.4%
Osage Exploration and Development, Inc. (OTCBB:OED)	9-Dec-13	\$1.07	\$1.14	6.5%	3.9%	3.5%
Capstone Turbine Corp. (NASDAQ:CPST)	26-Dec-13	\$1.22	\$1.82	49.2%	1.8%	48.4%
Spark Networks, Inc. (NYSE MKT:LOV)	15-Jan-14	\$6.07	\$6.02	-0.8%	1.3%	-1.3%
News Corporation (NASDAQ:NWSA)	21-Jan-14	\$16.76	\$18.17	8.4%	1.5%	7.6%
Emmis Communications Corp. (NASDAQ:EMMS)	27-Jan-14	\$2.98	\$3.20	7.4%	5.1%	3.0%
Brunswick Corporation (NYSE:BC)	30-Jan-14	\$41.23	\$45.05	9.3%	4.2%	5.5%
				<b>14.6%</b>	<b>12.6%</b>	<b>4.1%</b>

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# Mossberg's Investor Digest

## Best Idea Profile:

## A.H. Belo Corporation (NYSE:AHC)

### DESCRIPTION:

A.H. Belo Corporation owns and operates three daily newspapers and related websites: *The Dallas Morning News*, Texas' leading newspaper and winner of nine Pulitzer Prizes; *The Providence Journal*; and the *Denton Record-Chronicle*. It also publishes niche publications that target specific audiences, and owns and operates commercial printing, distribution and direct mail service businesses. It also has an investment in the owner of cars.com. A.H. Belo was founded in 1842 and is headquartered in Dallas.

### KEY INVESTMENT CONSIDERATIONS:

**Transformation in Progress** – Belo is transforming itself from a newspaper-focused business into a multiplatform marketing business. Print ad revenues industry wide have been declining for almost a decade and the challenge is to find complementary businesses that add to revenue and EBITDA. In the third quarter, increases in revenues from new business offset just under half of the core print revenue declines. In late 2013 Belo launched a premium digital site with enhanced design and navigation, limited advertising, and access to unique subscriber benefits, such as tickets to public events. Early results are positive.

**Investment Strategy** – Last year Belo made two small acquisitions and started three new digital businesses. Belo recently sold an office building in California and sold one of its newspapers, *The Press-Enterprise*. It also announced in December its intent to sell the leading newspaper in Rhode Island, *The Providence Journal*. These sales add to the company's ability to diversify its businesses and reduce its reliance on the core print advertising revenues that are continuing to decline. Belo has \$40 million in potential property for sale, more than \$56 million in cash and no debt, which puts it in position to pursue businesses with a proven record, good management, and products that complement the marketing channels it already owns and operates. The businesses at which management is currently looking are locally or regionally based. Management recently outlined some categories of interest as outdoor marketing, website and app development, media services targeting the Hispanic population, direct mail, and video production.

**Guidance** – In December, management updated its full-year 2013 guidance to \$26-\$29 million in EBITDA. It will report year-end financial results next week and will give 2014 guidance at that time.

**Absence of Interest** – Investors are totally ignoring Belo, mostly because they only see the declining circulation numbers and not the rise in digital revenue. However, digital revenue increased 22% in the third quarter, despite the 4% decline in overall revenue from advertising and marketing services.

**Commitment to Capital Returns** – Management has indicated continuing desire to return capital to shareholders, primarily through a quarterly dividend. Belo increased its dividend in the third quarter to an annual rate of \$0.32 per share. It also intends to make modest share repurchases.

### VALUATION:

Investors may benefit from investor disinterest in a company that is determined to transform its operations to be more relevant, more lean, and more focused on generating non-ad related revenue. Management is well respected and is capable of effectively evaluating new investment opportunities. The balance sheet alone makes this company an interesting investment, and the dividend makes the risk/reward profile even better.

#### A.H. Belo Corporation (NYSE:AHC)

Investment Data (as of 2/5/14)

<b>Recent Price</b>	<b>\$7.90</b>
52-Week Range	\$5.00 - \$8.60
Fiscal Year End	Dec
Dividend	\$0.32
Yield	4.0%
Shares Outstanding	22 M
Average Trading Volume (3 mos)	61k
Market Capitalization	\$173 M
Cash	\$56 M
Long-term Debt	0
Enterprise Value (EV)	\$118 M
Book Value	\$4.37
TTM Revenue	\$433 M
P/ Revenue	0.4x
TTM EPS	\$0.03
P/ EPS	282x
TTM EBITDA	\$28 M
EV/ EBITDA	4.22 x

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## Best Idea Profile:

## O2Micro International (NASDAQ:OIIM)

### DESCRIPTION:

O2Micro designs, develops and markets high performance integrated circuits for power management and power saving applications for the computer, consumer, industrial, automotive and communications markets. The goal of its products is to enable manufacturers to build devices that run longer on battery power and are smaller, lighter and less expensive. It has LED solutions for general lighting and automotive/industrial applications. It also provides LED drivers for backlighting various screens such as televisions, monitors, GPS, digital frames, tablets and notebooks. Battery Management products are used for smart phones, notebooks, tablets, power tools and electric vehicles. And finally, Power Management products include gauges, battery monitors and DC/DC converter controllers. The company was founded in 1995 and has 490 employees. It is based in George Town, Grand Cayman.

### KEY INVESTMENT CONSIDERATIONS:

**Out With the Old and In With the New**— Sales of the legacy cold cathode fluorescent lamp products used in televisions have rapidly declined, and so have the sales of notebooks in 2013. CCFL sales were approximately \$1 million in the first quarter of 2013 but are now negligible. The new products driving O2Micro's 2013 growth were battery management and LED general lighting products. LED general lighting products have been growing very rapidly over the past year and are now expected to contribute approximately 15% to projected revenue in 2014. Additionally, battery management product revenues have had a steady growth over the past year in the industrial market and are expected to contribute approximately 10% of the company revenues by the fourth quarter of 2014.

**Cost Savings** — At the end of 2013 the company accomplished a major effort to cut costs. The company cost structure is now aligned with the uncertain demand and the macro environment. It is expected to achieve the breakeven point in cash in 2014 when quarterly revenue approaches \$20 to \$21 million.

**Company Assets Worth More than Book Value** — O2Micro currently has \$2.75 in cash per share and \$4.50 in book value.

**Transparency of Results** — Management has become more transparent with its results, as well as with the guidance it provides investors. It was heartening to see that fourth quarter results, although not stellar, were at the upper end of the guidance provided. Management predicts sequential quarter revenue will be flat to down in the first quarter because this quarter reflects seasonal weakness, as well as fairly weak, but gradually improving end market demand.

**Share Repurchase** — In the fourth quarter earnings call management indicated it has been active in repurchasing shares and plans to be active going forward. At quarter end, it had 18.3 million remaining in its share buyback authorization and returns to shareholders are "very much on our mind."

### VALUATION:

Given the current stock price and asset value, investors in O2Micro are basically paying for the assets and getting the potential of the ongoing business for free. O2Micro represents one of the purest plays in the LED business and LED continues to take over the revenue and earnings contribution of the company. The fact that the legacy business continues to cramp profitability, although at a declining rate, keeps the multiples on this stock below where its growth business would suggest.

#### O2Micro International (NASDAQ:OIIM)

Investment Data (as of 2/12/14)

<b>Recent Price</b>	<b>\$3.36</b>
52-Week Range	\$2.66 - \$3.80
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	27.8 M
Average Trading Volume (3 mos)	73 k
Market Capitalization	\$93.5 M
Cash	\$75.9 M
Long-term Debt	0
Enterprise Value (EV)	\$16.5 M
Book Value	\$4.55
TTM Revenue	\$73.8 M
P/ Revenue	1.3x
TTM EPS	\$(0.67)
P/ EPS	NA
TTM EBITDA	\$(16.5) M
EV/ EBITDA	(1.0)x

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## Best Idea Profile:

## DEQ Systems Corp. (TSX:DEQ.V)

### DESCRIPTION:

DEQ specializes in progressive and random bonus technology for table games. What this means is it supports side wagering when players playing a principal game may, in addition to their wager on the principal games, place a side wager in order to have the chance to win additional prizes or jackpots independent of the outcome of the principal game. DEQ's patents and products include side bet bonus with progressive and random jackpot prizes and slot machine-style mystery bonus, multiple credit betting on the player's and dealer's hand, denomination betting flexibility, electronic credit bank, electronic rake, as well as baccarat and blackjack hand tracking systems that provide players with statistical data. DEQ products use multimedia animation and sound effects and are found in more than 275 casinos in more than 30 countries. DEQ is an intellectual-property-focused company with more than 20 patents recognized in 50 countries. It is headquartered in Levis, Canada.

### KEY INVESTMENT CONSIDERATIONS:

**Recurring Revenue** – The number of DEQ's installations has grown by over 35% since 2009. All five DEQ product lines are focused on table game accretive revenue. The 2,050 units installed in more than 275 casinos generate over \$7 million in annual recurring revenue on a go-forward basis. In the fourth quarter 2013, recurring revenue increased by 31% year over year.

**New Opportunities** – DEQ's technology is attractive to casino owners as it has the ability to add to the revenue generated per table, as well as increasing player retention to the tables. DEQ has only 10% share of the addressable gaming market and has multiple new products and technologies to take advantage of this strengthening market. In particular, Asia, Canada and the U.S. all represent solid growth markets for DEQ. With the introduction of new products, such as the first Hawk Electronic Baccarat Shoe that was installed in September 2013, and the new EZ Baccarat Online, DEQ will likely be able to capture some additional market share.

**Stable Operating Costs** – The latest reported year showed only a 2% increase in operating costs over the previous year, on a 25% increase in total revenue. EBITDA increased by \$1.1M to \$605K during the same time period compared to a loss of \$(496)K. Operating costs going forward are expected to remain stable.

**Strong Cash Position** – DEQ had \$1.6 million in cash at the end of the fourth quarter with an EBITDA of \$330K.

### VALUATION:

DEQ's market capitalization of only \$18 million makes this an investment for risk-tolerant investors. There is further uncertainty generated by the vacancy in the chief executive position, although that is mitigated by the strong temporary guidance provided by the former chief financial officer. Despite these risk factors, the company is growing rapidly with additional patents and products in the works, or recently introduced. EBITDA and cash flow are turning positive, and there is an attractive pile of cash.

### DEQ Systems Corp. (TSX:DEQ.V)

Investment Data (as of 2/25/14)

<b>Recent Price</b>	<b>\$0.24</b>
52-Week Range	\$0.23 - \$0.43
Fiscal Year End	Nov
Dividend	NA
Yield	NA
Shares Outstanding	71.7 M
Average Trading Volume (3 mos)	18 k
Market Capitalization	\$17.9 M
Cash	\$1.6 M
Long-term Debt	0
Enterprise Value (EV)	\$16.3 M
Book Value	\$0.13
TTM Revenue	\$7.0 M
P/ Revenue	2.7 x
TTM EPS	\$(0.03)
P/ EPS	NA
TTM EBITDA	\$600 K
EV/ EBITDA	27.2 x

# Mossberg's Investor Digest

## Best Idea Profile:

## Dresser-Rand Group Inc. (NYSE:DRC)

### DESCRIPTION:

Dresser-Rand Group products and services are used for a wide range of applications, including oil and gas production, high-pressure field injection and enhanced oil recovery, pipelines, refinery processes, natural gas processing, and petrochemical production. Beyond oil and gas, it serves the environmental markets that use renewable energy, reduce carbon footprint, and recover and/or increase energy efficiency. It has 8,000 employees, 13 manufacturing facilities in seven countries, and 49 service centers, covering more than 150 countries. Dresser-Rand has the largest installed base in the U.S. and a 100-year-plus history of operations. It has principal offices in Paris, France and Houston, Texas.

### KEY INVESTMENT CONSIDERATIONS:

**Global Demand Increasing** – Global primary energy demand is expected to grow by more than a third through 2035. Fossil fuels continue to meet the bulk of the world's energy needs. Investments in infrastructure are driving increased bookings in all segments of oil and gas: upstream, midstream, downstream and environmental. Dresser-Rand in particular has a great deal of room for growth given it has expanded the market it serves. In 2005 its addressable market was the \$2.5 billion traditional oil and gas market. In 2012 it has expanded its addressable market to also include additional markets that result in a potential market of \$22 billion. This evolution into a more aggressive company with new products, expanded services and aftermarket services has widened the company's opportunities.

**Flexible and Profitable Model** – Dresser-Rand has a flexible manufacturing model as it can increase capacity without significantly increasing its footprint. Approximately 75% of its operating income is tied to its installed based, resulting in an extremely dependable high-margin aftermarket business. This also contributes to its strong relative performance in both up and down cycles in the industry.

**Strong End Markets** – One-third of revenues come from North American, and one-quarter from Europe. By business segment, 48% of revenues are almost equally split between new units and aftermarket parts and services. These products and services help clients reduce project costs and cycle time in order to operate more efficiently or be more competitive and reduce the environmental footprint.

**Strong 2013** – Dresser-Rand will announce its full-year 2013 results in mid March. It expects it will be a record year with eight-year compound annual growth in revenue of more than 13% and operating income of more than 17%. Demand is solid with new unit bookings at their highest level in more than a decade. It is experiencing expansion in its new unit margins and increased free cash flow. The aftermarket revenues have grown 10% compounded annually since 2000 with 2013 bookings expected to be greater than \$1.6 billion. However, the company did release information adjusting expectations. It put out a release on February 17 regarding plans to suspend an operation in Spain because of a new Spanish regulation related to tariffs. It also updated guidance based on "two items previously . . . included in its guidance for the fourth quarter that did not occur. First, it did not sell the three photovoltaic power plants. Second, the Company was unable to recognize revenue in the fourth quarter on its shipment of equipment for a pipeline project in Central Asia due to pending contractual and administrative matters. The impact of these two items is approximately \$19 million of operating income."

### VALUATION:

The stock took a large hit related to the adjusted guidance opening up a good opportunity to invest in the ongoing growth of this solid and profitable company.

#### Dresser-Rand (NYSE:DRC) Investment Data (as of 2/28/14)

<b>Recent Price</b>	<b>\$54.30</b>
52-Week Range	\$51.46 - \$67.38
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	76 M
Average Trading Volume (3 mos)	892k
Market Capitalization	\$4.2 B
Cash	\$174 M
Long-term Debt	\$1.3 B
Enterprise Value (EV)	\$5.3 B
Book Value	\$16.13
TTM Revenue	\$3.1 B
P/ Revenue	1.4 x
TTM EPS	\$2.82
P/ EPS	19.4 x
TTM EBITDA	\$465 M
EV/ EBITDA	11.4 x



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The goal of the Best Idea Profiles in this newsletter is to describe all of relevant investment merits and risks of a company in one page. It is not intended to be an exhaustive report including every detail of a company. 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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