



Mossberg's Investor Digest

February 2009

Issue #8

From the Editor...

Is the S&P overvalued or undervalued? With the S&P trading at a 12 year low of 735, it seems that it must be undervalued. However, based on the current estimates for 2008 and 2009 of \$26.23 and \$32.41, the S&P is trading at a multiples of 28x and 22x, respectively. These levels are consistent with the average multiple over the past 10 to 20 years and actually higher than the historical average of 16x. Some are also arguing that with the weak economy estimates are still too high. Downward revisions could make the S&P look even more expensive.

Jeremy Siegel, professor of Finance at Wharton recently argued in an opinion piece in the Wall Street Journal (*The S&P Gets Its Earnings Wrong, February 25, 2009*) that because the S&P ignores market weights when computing earnings, losses by smaller companies (or gains by larger companies), unfairly skew the earnings picture. According to Siegel, the market weighted earnings for the S&P for 2008 is \$71.10, which would mean the S&P is trading at 10x earnings...certainly a good value.

It is debatable whether the S&P is undervalued or overvalued. I would argue that unless you are buying the index itself, it doesn't really matter. At the end of the day, the S&P is just a benchmark...it doesn't really tell us whether stocks are cheap or expensive. The economic tide is out and there is little certainty as to when it will come back. In this environment, investors can't just buy the S&P index and expect the rising tide of an economic recovery will lift all boats. **Individual stock selection is key.** This is a common conclusion that I think many investors are coming to. I was recently at a dinner to hear former President of the Federal Reserve Bank of Dallas, Bob McTeer, speak to a large group of professional investors. During his presentation, Mr. McTeer brought into question efficient market theory, casting another vote in favor of the importance of stock selection in the current market environment.

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

Dave Mossberg

February 2009 Issue

Diana Shipping (NYSE: DSX) - \$13.81

February 17, 2009 Page 2 – Through its current fleet of 19 ships, Diana Shipping specializes in shipping dry bulk cargo, such as iron ore, coal, grain and other materials. Diana has one of the strongest balance sheets in an industry that is otherwise laden with debt. Combined with its stable base of high quality customers, Diana is in good position to buy ships at fire sale prices and accelerate its growth coming out of the bottom of the economic cycle.

DG FastChannel (Nasdaq: DGIT) - \$15.84

February 20, 2009 Page 3 – DG FastChannel offers a unique way to play the coming conversion to digital television. The company has a near-monopoly position in delivering Television ads and will capture a significant portion of the incremental revenue opportunity as advertisers take up HD as the platform to deliver commercials.

Savvis (Nasdaq: SVVS) - \$5.79

February 25, 2009 Page 4 – While the growth of the Internet is continuing to create demand for IP network and hosting services, the supply of internet infrastructure will be constrained due to its capital intensive nature and limited capital availability. The supply/demand picture should be good for infrastructure providers such as Savvis.

Anika Therapeutics (Nasdaq: ANIK) - \$3.42

February 28, 2009 Page 5 – Anika is trading below book value and has \$2.36 per share in net cash (cash – long term debt). The company is profitable and trades at less than 2x EV to trailing twelve months EBITDA. This is a puzzling valuation for a company that is profitable, has solid growth prospects, and a strong balance sheet.

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Idea Profile

Diana Shipping (NYSE: DSX)

DESCRIPTION:

Through its current fleet of 19 ships, Diana Shipping specializes in shipping dry bulk cargo, such as iron ore, coal, grain and other materials. The company has 13 Panamax, which can each carry about 75,000 tons of cargo (this is the largest size a ship can be and still fit through the Panama Canal). The company also has 6 Capesize, which are massive ships that on average can carry more than 175,000 tons of cargo. To put it in perspective, a Capsize vessel can carry enough iron ore to make steel to build 60,000 to 70,000 cars.

KEY INVESTMENT CONSIDERATIONS:

Market may have bottomed - The Baltic Dry shipping index has fallen from its peak of 12,000 to approximately 500 in December/January, and has now recovered to approximately 2,000.

High quality customers – Diana primarily charters its vessels to government-owned entities and major producers (such as Cargill and BHP Billiton) rather than to more speculative or undercapitalized entities. Customers like Diana because it owns its own vessels and they do not have to deal with multiple ownership chains.

Long-term Contracts – Diana won't escape the fall in shipping rates. However, 50% of the company's fleet is contracted for 2 years or more...20% for more than 3 years. These contracts were put in place at much higher rates than those quoted today, which provides the company the ability to maintain high rates of return on a significant portion of its fleet. In addition, contracts that have come up recently for renewal have been priced at rates that more than cover operating expenses. The company has contracted 5 ships (all Panamax) since November of 2008 at an average rate of \$11,500/day. While these rates range from 60% to 85% below previous levels, they are still more than enough to cover voyage and vessel operating expenses, which have averaged about \$6,500 per day.

DSX in position to consolidate other debt-laden shippers – Diana has one of the lowest debt loads in the industry with debt/equity of just 20%. Other major dry bulk shippers such as DRYS, EGLE, EXM, and GNK carry on average 7 times as much leverage on their balance sheet. Carrying peak-cycle debt loads with an 80% drop in shipping rates is causing many dry bulk shippers to violate debt covenants and several have already filed for bankruptcy. Additional bankruptcies are likely, which means shipping capacity will come down, which is good for shipping rates. With its minimal debt level, Diana is also well positioned to buy ships at fire sale prices.

Suspending dividend enhances liquidity – Management is making the right moves to preserve capital. In November, the company suspended the dividend to preserve its capital and further strengthen the balance sheet to take advantage of potential opportunities that may be available in the shipping industry. The company has also authorized a \$100 million share repurchase plan.

VALUATION:

Based on next year's consensus EPS estimate of \$1.70, shares are trading at a multiple of about 8x. At the low end of estimates, analysts are calling for \$1.20 in earnings and \$130 million in free cash flow. This equals an EPS multiple of 11.5x and a cash flow multiple of 10x. This appears attractive for a leading company that is in good position to maintain strong returns during the bottom of the cycle and purchase additional capacity at fire sale prices.

(NYSE: DSX)

Investment Data (as of 2/18/09)

Recent Price	\$13.81
52-Week Range	6.85 - 41.10
Fiscal Year End	December
Forward Dividend	N/A
Yield	N/A
Shares Outstanding	75.1 MM
Average Trading Volume (3 mos)	2.0 MM
Market Capitalization	1.0 B
Cash	\$4.7 MM
Long Term Debt	\$172 MM
Enterprise Value (EV)	1.2 B
LT Debt/ Equity	0.2
BV/ Share	\$10.54
TTM Revenue	312 MM
P/ Revenue	3.2x
TTM EPS	2.74
P/ EPS	5.0x
TTM EBITDA	234 MM
EV/ TTM EBITDA	5.1x

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Best Idea Profile

DG FastChannel (Nasdaq: DGIT)

DESCRIPTION:

Headquartered in Irving, TX, DG FastChannel electronically delivers advertisements, syndicated programs, and other video news releases to traditional broadcasters and other media outlets. Its proprietary distribution network has two network operating centers (in Irving and Atlanta) and allows more than 5,000 advertisers, advertising agencies and content owners to send video, audio, image and data content to more than 21,000 radio, television, cable, network and print publishing destinations in the United States and Canada.

KEY INVESTMENT CONSIDERATION:

Less economically sensitive – Since DG FastChannel is paid to deliver the advertisement, its revenue stream is less affected by a decline in advertising rates. Even though ad rates are likely to decline, the ads still have to be delivered.

Near-Monopoly position in the digital distribution of advertisements – Over the past five years, the company has made 8 acquisitions, eliminating competition and creating a near-monopoly position. The company boasts the only network of its kind in North America that has nearly 100% penetration into TV, cable, radio, print and online outlets. According to management, inside of the company's network, there is \$36 billion worth of media spending. With this market position, the company enjoys considerable pricing power.

Migration to HD advertising creates hockey stick growth opportunity – By this point, most everyone has heard of the switch from analog to digital television. It was scheduled to happen earlier this month, but was delayed by Congress until June. Along with the conversion to digital, advertisers are quickly taking up HD as a platform to deliver advertising. DG FastChannel has already seen significant growth in this area and this secular trend should drive growth for the company for the next several years. HD revenue grew from \$1.6 million in 2006, to \$34 million 2008, and a projected \$55 million by 2009. In the next five years this could be a \$300 million business for DG FastChannel, twice current run rate of the company. It's also important to understand the margin for delivering HD ads is much higher...70% versus approximately the 60% DGIT earns on its standard deliveries.

Strong Insider Ownership – About 1/3 of the company is owned by insiders and the CEO is the largest holder (owns 11%).

RISK:

It is possible that a competing technology could provide an attractive substitute for the company's proprietary distribution network. Given that the company is carrying \$156 million in net debt, a drop in revenue and/or cash flows created by a competitive technology could make it difficult for the company to refinance or repay its debt.

VALUATION:

Pro forma EBITDA (including the contribution from two recent acquisitions) was \$68 million during 2008, which yields an attractive EV/ EBITDA multiple of about 7x. The company has made significant improvements in profitability, integrating its acquired businesses and increasing EBITDA margin by more than 10 percentage points in the past two years. It appears the EBITDA margin, which was approximately 38% during 2008, has more room to grow. This business is very leverageable. Once the company covers the fixed cost of the network, a significantly higher portion of each incremental dollar in sales drops through to the bottom line. With the pending hockey stick growth of more profitable HD related revenue, the company is poised for significant revenue and margin expansion. Applying a 40% EBITDA Margin to a \$300 million revenue opportunity and using the current multiple, yields a stock price of \$40.

(NYSE: DGIT)

Investment Data (as of 2/20/09)

Recent Price	\$15.84
52-Week Range	11.66 - 24.40
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	20.8 MM
Average Trading Volume (3 mos)	180,000
Market Capitalization	329 MM
Cash	17 MM
Long Term Debt	173 MM
Enterprise Value (EV)	485 MM
LT Debt/ Equity	0.9
BV/ Share	12.95
TTM Revenue (pro forma)	187 MM
P/ Revenue	1.8x
TTM EPS (non-GAAP)	0.79
P/ EPS	20.1x
TTM EBITDA (pro forma)	68 MM
EV/ TTM EBITDA	7.1x

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Best Idea Profile

Savvis (Nasdaq: SVVS)

DESCRIPTION:

Headquartered in Town & Country, Missouri (suburb of St. Louis), Savvis provides IP network and hosting services to businesses and government agencies. IP network services (35% of revenue) include managing customer's network infrastructure. IP network services create a virtual private network that customers use to communicate to geographically dispersed locations in a more cost effective and secure environment. Hosting services (66% of revenue) provide facilities and network infrastructure to run business applications, provide data storage, and redundancy services. The company has a global network of 29 data centers with approximately 1.4 million square feet of space in the U.S., Europe and Asia.

KEY INVESTMENT CONSIDERATION:

Collocation supply and demand trends are favorable –

Supply – Due to the capital intensive nature of the collocation business, it's becoming more challenging to finance construction of new capacity. Construction is being delayed and new projects are far and few between. In addition, it's likely that supply will trail demand in an economic recovery, as it takes 18 months to build a new facility.

Demand – Even though the Internet is maturing and the pace of growth may be slowing, the Internet will continue to grow. It is replacing how we get our information and taking share from traditional media outlets like newspapers, radio and television. It is also changing how we communicate, how we educate, how we transact, and how we entertain ourselves. All of these areas will create ongoing secular demand for the Internet and hosting services. The credit crunch will also fuel the demand for outsourcing, as companies will have less capital available to build data centers in house, but will still have a need to expand capacity to meet demand.

Recurring revenue from solid customers – The company has more than 4,000 customers including a significant portion of the Fortune 1000 such as ebay, Albertsons, Reuters, Raytheon, and others. With contracts that range from one to three years, these recurring revenue customers represent 90% of revenue.

RISK:

While no single customer makes up more than 10% of revenue, Reuters made up approximately 7% of revenue during 2007 and the financial services vertical represents approximately 20% to 25% of revenue (depending on how you classify Reuters).

VALUATION:

When looking to value Savvis, it is not possible to use a net income multiple because the company does not generate profits. Due to the capital intensive nature of its business, the company generates significant depreciation and amortization expense, which are non-cash charges. Therefore, to value the company we have to look at cash flows (\$146 million in operating cash flow during 2008) or a proxy such as EBITDA. An enterprise to EBITDA value of 4.4x appears attractive for a market leader with a strong base of recurring revenue.

(NYSE: SVVS)	
Investment Data (as of 2/25/09)	
Recent Price	\$5.79
52-Week Range	4.61 - 20.52
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	53.5 MM
Average Trading Volume (3 mos)	444,000
Market Capitalization	309 MM
Cash	121 MM
Long Term Debt	618 MM
Enterprise Value (EV)	806 MM
LT Debt/ Equity	N/A
BV/ Share	2.77
TTM Revenue	857 MM
P/ Revenue	0.3x
TTM EPS	-0.17
P/ EPS	N/A
TTM adjusted EBITDA	185 MM
EV/ TTM EBITDA	4.4x

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Best Idea Profile

Anika Therapeutics (Nasdaq: ANIK)

DESCRIPTION:

Founded in 1983, Massachusetts-based Anika Therapeutics develops and commercializes treatments for tissue protection, healing and repair. All of the company's products are based on Hyaluronic Acid (HA), which is a naturally occurring, biocompatible polymer found throughout the body. The company has been successful in commercializing the product for use in treating joint pain and in helping tissue recover after eye surgery. All sales are done through distribution partners such as J&J and Bausch & Lomb.

KEY INVESTMENT CONSIDERATION:

Stable ophthalmic business – The company's ophthalmic product is the "gold standard" for use in helping tissue recover after cataract eye surgery. This product category is over 20 years old, represents about 30% of sales, and generates a stable base of recurring revenue.

Growing joint health franchise – The company's joint health products, which represent about 50% of sales, are primarily used in curing knee pain. According to the company, patients claim a 40% reduction in pain for a duration of up to (and maybe exceeding) six months. The product's localized treatment is becoming much more popular than

systemic treatments like pain medications, which offer similar efficacy. The treatment is also becoming more popular because it is less disruptive and less expensive than surgery or joint replacement. This product category has been the major growth driver for the company, which has now shown 7 consecutive quarters of growth. Continued growth will come from adding distribution partners in the U.S. and internationally. In addition to added distribution, the product has promise to be used in other joints, such as the ankle, shoulder and wrist.

POTENTIAL CATALYSTS:

Botox substitute offers promise – The company recently introduced a new cosmetic filler (gets rid of wrinkles or make fuller lips) named ELEVESS, which is the first HA based product with a pain reliever approved in the U.S. The product is similar to Botox, but is less prone to allergic reactions and is longer lasting. The launch of the product has been disappointing due to difficulties and the ultimate bankruptcy of ANIK's distribution partner Artes Medical. The company is actively seeking a partner for the product in the U.S. and has identified several reasonable prospects.

RISK:

The company sells through its channel partners, which gives it less control over its success. The disappointing launch of its ELEVESS product is a good example. In addition, the company is competing against larger pharmaceutical companies that have greater resources to develop and bring competitive products to market.

VALUATION:

The company is trading below book value and has \$2.36 per share in net cash (cash – long term debt). The company is profitable and trades at less than 2x EV to trailing twelve months EBITDA. This is a puzzling valuation for a company that is profitable, has solid growth prospects, and a strong balance sheet. Most likely, shares are depressed due to the disappointing launch of ELEVESS and tax loss selling at the end of 2008.

(NYSE: ANIK)

Investment Data (as of 2/27/09)

Recent Price	\$3.42
52-Week Range	2.96 - 12.94
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	11.4 MM
Average Trading Volume (3 mos)	38,000
Market Capitalization	39 MM
Cash	35 MM
Long Term Debt	8 MM
Enterprise Value (EV)	12 MM
LT Debt/ Equity	0.1
BV/ Share	5.22
TTM Revenue	36 MM
P/ Revenue	1.1x
TTM EPS	0.37
P/ EPS	9.2
TTM adjusted EBITDA	6.5 MM
EV/ TTM EBITDA	1.8x

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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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